

Economic Analysis

Foreign direct investment: evidence of nearshoring?

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Recently, the Ministry of Economy released the preliminary foreign direct investment (FDI) figure corresponding to the first quarter of this year. It is a good number: 18.6 billion dollars. In Mexico, for a long time, FDI could have been able to finance the current account deficit by itself, even if portfolio flows disappeared. To a significant extent, the relatively high amounts of FDI explain why Mexico has stability in external accounts and is less vulnerable to volatility events in portfolio flows than in the past or other emerging countries.

The amount of FDI received in the first quarter compares favorably with last year's period, in which the country attracted inflows of 19.4 billion dollars. (I also use the preliminary figure for comparability purposes); In Mexico, the FDI data usually adjust upwards as the information from companies that take time to report their investment figures is incorporated: the data for the first quarter of last year ended up being 22.8 billion dollars, and most likely that corresponding to the first quarter of this year will be higher than the one reported a few days ago. However, we should consider that in 2022, two atypical operations occurred that we can consider as one-time: the capitalization of Aeroméxico by foreign investors and the merger between Televisa and Univisión. If we exclude these two operations, FDI in the first quarter of 2022 would have been 12.5 billion dollars. In other words, the FDI received between January and March 2023, adjusting for atypical transactions, is 48% higher than that obtained in the same period of the previous year. As I mentioned, this is good news.

Several analysts assert that this results from the country attracting more investment due to the nearshoring phenomenon. We must analyze the data in greater detail. First, we must exercise caution in drawing conclusions and anticipating trends from a single observation. Reviewing the behavior of FDI in recent years, we see that, at the end of 2022, it had not exceeded the levels captured before this administration began. Although the nearshoring movement is indeed gaining more strength recently, we must consider that it started at least in 2017 due to the beginning of the trade war between the United States and China. Therefore, so far, it is difficult to affirm that nearshoring has meant a structural change in the behavior of FDI received by Mexico. An example of a country that has had a structural change due to this nearshoring phenomenon is Vietnam, whose FDI has doubled in the last five years.

Another factor to consider in the FDI data corresponding to the first quarter of this year is that 90% is composed of reinvestment of profits. The fact that these reinvestments are growing is positive news: foreign companies that already operate in Mexico show that they have confidence in the country by reinvesting profits. It may also be that part of this investment is explained by nearshoring: it is reinvested in the country to increase the production of exportable goods and take advantage of China's diminishing market share in the United States. But this means that new investments represent only 10% of FDI. In the January-March period, they captured 932 million dollars, which,

compared to the 1.9 billion (adjusting for atypical operations) received in the same period last year, represents a 47% drop in new direct investments. In other words, nearshoring has not implied, until now, a significant change in terms of the country's ability to attract new investment. As I have pointed out before, this would require a shift in energy policy and sending stronger signals of certainty that make it clear that Mexico is a country where contracts are respected and the rules do not change in the middle of the game. If this happens, the country will maximize the opportunity presented by the nearshoring phenomenon.

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