

**Economic Analysis**

# Foreign Direct Investment: positive performance, but more significant growth is feasible

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Recently, the Ministry of Economy published preliminary data on the Foreign Direct Investment (FDI) flows that entered the country during the first half of the year. Once again, an encouraging piece of information: in said period, Mexico has received 29 billion dollars in FDI (an amount that will probably increase in the final figure). This implies a growth of just over 5% compared to the same period of the previous year. However, without considering two atypical operations of 2022 (the restructuring of Aeroméxico and the merger between Televisa and Univisión), the growth of the indicator in the first six months of this year stands at a spectacular 40% (comparing preliminary data).

However, if we break down these figures, we observe that of the 29 billion dollars of direct investment in the country, 78% corresponds to the reinvestment of profits, 15% to transactions between companies, and only 7% to new investments. These data suggest that the companies already operating in the country are confident to continue doing so. These companies know the risks, the country's potential, and the dynamics of working with the authorities, in addition to understanding the opportunities to supply the domestic market and export to the United States and our other trading partners. Likewise, they can discern between political rhetoric and concrete actions in economic matters, a precious skill at the present juncture. In any case, it is positive that these companies perceive an adequate environment to expand their investments.

Could the relocation of value chains or nearshoring explain this increase in the reinvestment of profits from foreign companies? It is a possibility, although it is premature to state it categorically. This trend could be explained by companies that operate in both Mexico and China and choose to move part of their operations from the Asian country to Mexico due to the higher tariffs that the United States applies to Chinese imports or for geopolitical reasons: this would be nearshoring.

On the other hand, the low ratio and low levels of new investment should raise concerns. In previous years, the percentage of new investments was considerably higher: between 1999 and 2017, as a component of FDI, they represented an average of 45.7%, compared to 29.9% reinvestment of profits. The reality is that Mexico currently attracts considerably less new investment than it used to do a few years ago. Although nearshoring has yet to translate into higher numbers of new investments, it is foreseeable that this trend will change soon: announcements like Tesla's still need to be reflected in these numbers.

As I have mentioned on previous occasions, these amounts are likely to rise. Still, they could accelerate with a change in energy policy and strengthen the rule of law. Due to its proximity to the world's largest market, free trade agreement with the United States and Canada, high integration into North American value chains, and macroeconomic stability, Mexico should receive more FDI than Brazil or Vietnam. However, this still needs to happen. It is essential to address the causes mentioned above to improve this situation.

A relevant point in the publication of the data on FDI is that the United States is the country that invests the most (directly) in Mexico (43%), followed by Spain (15%). China is not even in the top ten (although we cannot rule out that Chinese companies operate through third countries). This indicates that, despite some anecdotal cases, a significant relocation of Chinese companies to Mexico due to nearshoring is not occurring

FDI in Mexico is significant (alone, it has financed the current account deficit for several years) and is increasing. However, the country still needs to attract new investment in a relevant way. It is necessary to rectify some public policies to maximize the opportunity presented to the country's growth potential.

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