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Foreign Direct Investment in Mexico Down Sharply in First Half of 2014

by Carlos Navarro
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The amount of foreign direct investment (FDI) in Mexico fell drastically in the first six months of this year, but the decline was more closely related to the point of comparison than to any significant economic factors. In a report issued in October, the UN Economic Commission for Latin America and the Caribbean (ECLAC) said Mexico captured about US$9.7 billion in direct investment in January-June of this year, compared with US$28.8 million in the first half of 2013. The amount of investment in the first half of last year was unusually large because the multinational beer company Anheuser-Busch acquired Mexico’s Grupo Modelo for US$13.2 billion.

The figures on Mexico were part of an overall ECLAC report for the region, which indicated foreign investment in 13 Latin American and Caribbean countries totaled US$84.1 billion in the first six months of this year, down from US$110 billion in January-June of 2013. In addition to Mexico, Argentina experienced a sharp decline while Brazil recorded an increase.

Decline relative to large surge in January-June 2013

For Mexico, the absence of another major transaction like the one involving Anheuser-Busch in the first half of this year resulted in a decline of 66% relative to January-June of 2013, said the ECLAC report.

"In addition, there was an exodus of US$4.5 million in investment capital in the first quarter of 2014, when [US telecommunications company] AT&T withdrew as a stockholder in América Móvil," said ECLAC. América Móvil is a subsidiary of Grupo Telmex, owned by Mexican billionaire Carlos Slim Helu.

On balance, said ECLAC, investment levels in Mexico for the first half of this year was similar to the average for the previous five years, not counting the atypical increase recorded in 2013. A large amount of investment in recent years, including 2014, has gone to export-based sectors, particularly automobile assembly plants.

Some analysts criticized President Enrique Peña Nieto for making a big deal about the huge increase in the first half of 2013 and failing to do the same with the big drop in January-June of 2014. "In mid-2013, the occupant of Los Pinos was counting bills, because foreign direct investment had reached a ‘historic’ level," columnist Carlos Fernández-Vega wrote in the daily newspaper La Jornada.

At that time, the president attributed to the large increase to the growing confidence in Mexico, favorable macroeconomic conditions, institutional strength, and the political consensus to push through reforms that would transform Mexico.

"If that assessment were correct, why is the president not talking now about the lack of confidence in Mexico, weak macroeconomic factors, fragile institutions, and the absence of a political consensus?" asked Fernández-Vega.
Recent reforms, particularly in the energy and telecommunications sectors, are eventually expected to attract an increase in foreign direct investment to Mexico, but some economists have cautioned that the inflow of capital might be slow, depending on how the reforms would be implemented. It was only this summer that the Mexican Congress approved the secondary laws to implement telecommunications and energy reforms (SourceMex, July 9, 2014, and Aug. 6, 2014). Even with the rules for energy reform in place, some uncertainty remains pending a ruling from Mexico’s high court (Suprema Corte de Justicia de la Nación, SCJN) on whether a citizen referendum will be allowed to proceed.

Some Mexican states like highly industrialized Nuevo León reported an increase in FDI during the first half of the year. Rolando Zubirán Robert, the state’s secretary for economic development, reported foreign direct investment in the state at US$2.1 billion in the first six months of the year, an increase of more than 10% from the same period in 2013. Zubirán predicted that this year the state could surpass last year’s total of US$3.6 billion, thanks to strength in the automotive, energy, and service sectors, which continue to attract capital from the US and other countries.

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