

# Construction of Mexico's geopolitical policy for strengthening the implementation of foreign direct investment in Mexico



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**Abstract** Mexico has a long history of bilateral policies that impact each other. Geographically, it is in a strategic location bordering the USA. In addition, the establishment of various international cooperation frameworks has increased the flow of foreign capital into Mexico. This study aims to 1) examine the international framework of FDI policy in Mexico and 2) determine the effect of FDI on increasing economic growth in Mexico. The methodology used is a combination method that combines qualitative analysis to construct an analytical framework and quantitative analysis by looking directly at statistical data related to increased capital flows, economic growth, and other indicators. This research provides results showing that the increase in foreign capital inflows in Mexico is part of the response to the global situation of the prepared policy scenario. The results of this study provide a framework of international strategies and policies undertaken by Mexico in preparing a response to foreign direct investment (FDI) entering the country.

**Keywords:** foreign direct investment, geopolitical, policy, strategy

## 1. Introduction

Mexico geographically has a strategic position as a country that borders the United States and is currently the largest economy in the world. This has had a major impact on the foreign policy measures taken by Mexico. The turmoil of the US–China geopolitical situation has caused several shifts and changes in global conditions that have led to an uncertain economic situation (Saleh, 2023). Many industries in China that originated from US investments have shifted their factories to other countries as a result of policies implemented by the US against banning some industries built in China. In addition, this large capital flow movement was responded to by several countries that have the potential to become the location of the relocation of factories in the industrial sector originating from America, one of which is Mexico. Mexico has been a strategic partner of the USA since the beginning of a series of bilateral agreements that became a forum for the entry of various foreign direct investment schemes in Mexico. Bussy and Zheng (2023) explain that this initiation began with the North American Free Trade Agreement (NAFTA), which became the entrance to the Foreign Direct Investment policy in Mexico. Gladstone et al. (2021) described these aspects, including several sectors affected by this NAFTA policy, namely, the agricultural sector, the automobile industry, and the financial sector. Additionally, Mexico's openness to the integration of several other economic cooperations is an indication that causes an increase in the flow of incoming FDI. This research was conducted to identify 1) the international framework of FDI policy in Mexico and 2) the effect of FDI on increasing economic growth in Mexico.

## 2. Methodology

This study focuses on a literature review and uses secondary data sources that are used in conducting descriptive-qualitative analysis by conducting an in-depth review of several previous studies. This study aims to ensure that the research conducted has a new perspective and contributes to understanding the FDI phenomenon that occurs in Mexico. In addition, the identification of relevant theories was carried out to construct a conceptual framework for understanding the research conducted.

The method of analysis used in this research is qualitative-descriptive analysis with a focus on emphasizing the results of reviews conducted thematically to provide new views and findings on the phenomenon of FDI that occurred in Mexico from the perspective of the geopolitical dimension.

## 3. Integration of World Economic Cooperation



Mexico's success in the world economic integration process has made it easier for foreign direct investment to flow in. This geopolitical policy construction is considered to have implications for the influx of investment in Mexico. (Held et al, 2000; Nye and Donahue, 2000) define globalization, which includes the integration of economic, social, political, and cultural aspects, as an important component of the role of Mexico's foreign policy framework in receiving foreign capital inflows due to Mexico's active role in a balanced and equal global community. Mexico is a member of various global economic organizations, such as the USMCA, OECD, G20, and Pacific Alliance. The horizontal and vertical integration of the global economy has made Mexico one of the most attractive countries for foreign capital inflows into the country. De Soysa (2003) argues that the role of globalization has great implications for increasing capital inflows from abroad.

Mexico's geopolitical constellation, which is considered capable of harmonizing and integrating membership in various world economic organizations, is considered to have major implications for the increase in foreign capital flows into Mexico. Grether et al. (2001) outlined several aspects of concern in increasing foreign direct investment in Mexico, including 1) sources of comparative advantages, 2) effects on the region both locally and regionally, and 3) impacts on specific industries. These aspects are prepared to support the inflow of foreign capital into Mexico. In addition, Mexico's geographical support, which is considered strategic, greatly supports geopolitical reviews.

Kahn (2009) reviewed the aspects of reform carried out by Mexico on the Dimensions of Economic and Political Reform Areas marked by two important indications that occur at the local level in response to economic reform, followed by the localization and globalization of the world economy. This condition plays a role in Mexico's ability to adapt and be accepted by the global community. This intuition becomes even more interesting in an economy that emphasizes the territorial dimension of growth. Growth and productivity differ widely across countries, reflecting regional heterogeneity in terms of levels of human and physical capital and access to key economic infrastructure (Kanbur and Venables 2005; Breinlich et al. 2014). The successful integration of the global community has had a significant impact on the development and increase of foreign-origin capital flows into Mexico.

The integration of economic cooperation frameworks on an international scale has an impact on how Mexico plays a role in its foreign policy in mobilizing the interest of foreign investors to enter and play a role in Mexico's economic development.

#### 4. External Factors

Mexico has emerged as a key player in the global economy, attracting foreign direct investment (FDI) from various corners of the world. The decision-making process for foreign investors is influenced by a myriad of external factors, ranging from global economic conditions to the specific characteristics of the Mexican market.

The construction of geopolitical policies built by Mexico has also focused on how to balance the power of super power domination between the USA and China. This condition provides an adjustment of how Mexico plays a balanced role in the influx of foreign capital to Mexico. The balanced contours of globalization (Baghwati & Srinivasan, 2002) have made Mexico the country with the largest foreign capital inflows in the Latin American region.

In general, external factors that influence fluctuations in the increase in FDI flows in Mexico are caused by the global situation, which has implications for economic growth, economic stability, and price changes (De Soysa, 2003; Pineli and Narula, 2023; Saleh, 2023).

Economic growth, economic stability, and price changes (De Soysa, 2003; Pineli and Narula, 2023; Saleh, 2023). Access to markets is also due to Mexico's strategic geographical location, as it borders the United States, providing a great advantage in penetrating markets in the North American region at a low and affordable cost (Bussy and Zheng, 2023).

Supported by international treaty mechanisms, Mexico's strong role in several bilateral global trade relationships has become a legitimate entry point for support and commitment to increasing FDI in Mexico (Kahn, 2009). This role indirectly has implications for the internal steps taken by Mexico in providing support for strengthening and increasing capital flows through FDI schemes into Mexico. Through a series of international agreements, such as the North American Free Trade Agreement (NAFTA) and the United States-Mexico-Canada Agreement (USMCA), Mexico has been able to increase its FDI inflows (Bussy and Zheng, 2023).

As Mexico continues to position itself in the global economic stage, understanding and effectively navigating these external factors are essential. Policymakers, businesses, and investors must collaborate to create an environment that not only attracts but also sustains foreign investment. By carefully managing these external factors, Mexico can further solidify its position as a prime destination for FDI, contributing to economic growth and development in the years to come (Samford, 2022).

#### 5. Internal Factors

The implications of external conditions have an impact on adjusting how the regulatory framework used in the country and factors that exist internally also experience adjustments to conditions that affect the increase in FDI capital flows coming to Mexico. (De Soysa, 2003; Minns, 2006; Pineli and Narula, 2023) outlines some of the internal conditions that

influence the increase in FDI flows in Mexico: 1) labor; 2) political stability and security; 3) infrastructure; 4) domestic policies; and 5) ease of doing business. All of these internal conditions in the country are dynamic, so the management of these factors has a major influence on increasing FDI capital flows into Mexico.

The existing labor structure in Mexico is an important role and economic factor that must be fulfilled in moving production (Escobar and Muhlen, 2018). The availability of large amounts of labor is also an important capital of a country that needs to be provided, and the entry of FDI provides a gradual change in the composition structure and labor sector in Mexico as an implication of FDI, which has an influence on qualifications and changes in the labor sector. The change in the labor sector from the agricultural sector and the increasing shift toward the manufacturing and service sectors are indicators that influence the increase in capital flows and diversification of economic activities at a higher level both in terms of qualifications and competencies met.

Political stability and security conditions are among the important keys to the sustainability of an economic activity and are of interest to investors (Kahn, 2009). Security guarantees clearly provide certainty for continuity in the implementation of economic activities. The availability of infrastructure is a key factor in the increase in FDI in Mexico. Infrastructure is always associated with the geographical aspects of economic and investment activities that take place so that in the planning of an area, the provision of infrastructure is always related to aspects of location existence, which are business sectors that adjust to the needs of ongoing investment (Julio, B., Youngsuk, 2019).

Domestic policy is the provision of regulations that ensure that increased FDI into Mexico does not threaten or adversely affect national interests (De Soysa, 2003; Zimbalist and Kahn, 2020). However, it also does not adversely affect the investors who invest in Mexico. The formulation of domestic policies in response to increased FDI flows must be carried out to guarantee the protection of national interests, economic growth, and the provision of jobs that have an impact on the welfare of people affected by industrial growth and development originating from FDI flows (Minns, 2006).

Ease of doing business in general can be translated into the process of simplifying regulations in business activities. The support of this aspect provides great interest for investors to enter Mexico in the implementation of business activities, and the aspect of ease of process in doing business is also one of the internal factors that affects interest and increases in FDI entering Mexico.

The availability of variables from internal factors must be provided in a structured whole, in relation to FDI, and each variable needs and complements each other. This is to provide assurance and certainty of friendly investment support and provide certainty of protection so that they play a role of mutualism with each other.

### 6. Domestic Regulatory Framework

The regulatory framework in the country is a stage that is prepared in response to foreign capital flows in Mexico. This role is intended to provide protection to Mexico's national interests (Kahn, 2009; Samford, 2022). The components of the regulatory framework carried out in the implementation process of strengthening and increasing FDI capital flows to Mexico are carried out by considering aspects that are considered to have an impact on increasing FDI in Mexico. Kahn (2009) compiled a framework of arguments that can be used as a reference in preparing the necessary regulations as a basis for ensuring the sustainability of FDI in Mexico by taking into account the following factors: 1) structural conditions; 2) governance of political organizations of business and labor; 3) gubernatorial strategies; 4) government-business-labor relations patterns; 5) government-business-labor relations patterns; and 6) government-business-labor relations patterns. Patterns of government-business-labor relations; 5) policy outcomes, and 6) economic outcomes achieved.

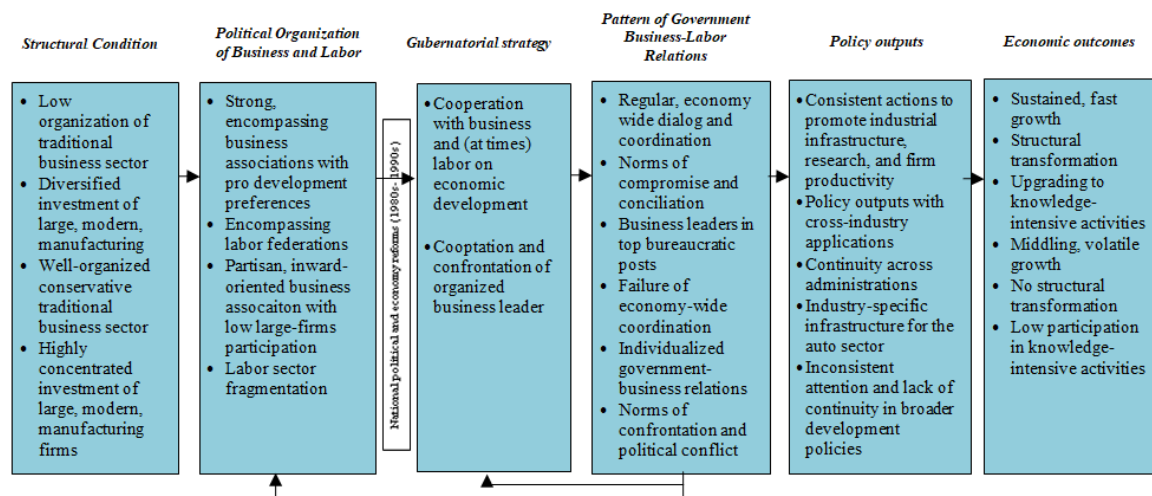


Figure 1 Diagram of the Argumentation Framework for FDI Regulation in Mexico (Kahn, 2009 with modifications).



The identification of each problem needs to be performed as a stage in fulfilling regulations that provide protection to national interests both in terms of location reviews and regional development (Jordaan, 2011). These indicators can be used in examining the variables that are prioritized in the preparation of Mexico's domestic policy framework in response to increased FDI flows. Minss (2006) revealed that Mexico's success in increasing FDI inflows is supported by regulations that are flexible and friendly to business and trade activities.

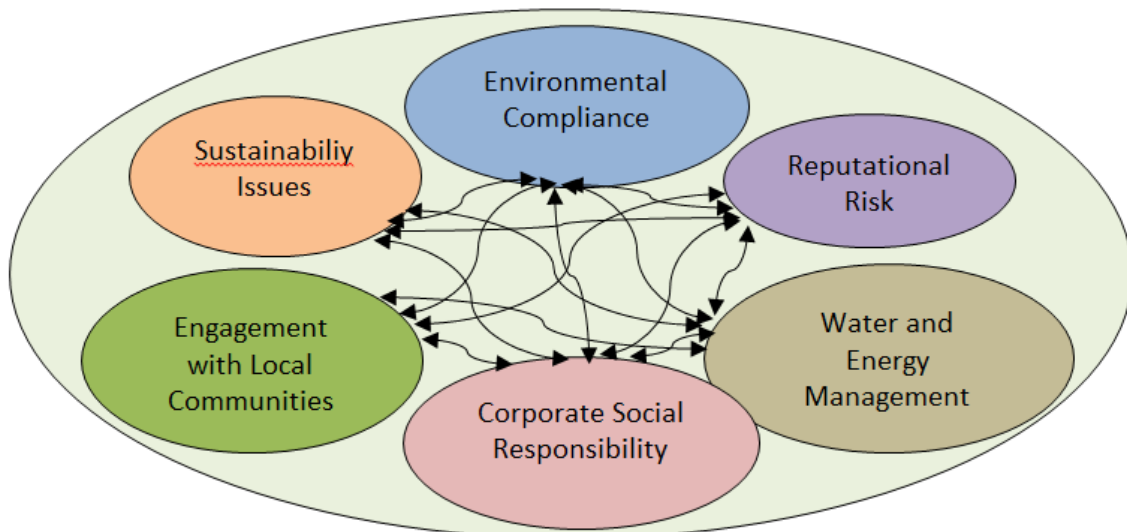
Mexico's domestic policymaking governance of the response to increased FDI as a form of response and adjustment to the structure and needs of the industry, regional reviews, and other mechanisms (De Castro et al, 2013) provides mutual benefits between foreign investors who invest in Mexico and the government that is obliged to ensure the continuity and welfare of the Mexican people affected by industry or other investment activities originating from the flow of FDI coming to Mexico. This national interest is carried out by Mexico through its geopolitical role, which provides strategic steps for supporting and protecting its national interests (Breinlich et al, 2014). Increased FDI is a trigger for national economic growth and has an impact on regional-scale development through the involvement of other parties outside the government in carrying out development and improving people's welfare through the development and increase of investment in various sectors in Mexico.

The formulation of domestic policies also needs to consider the location aspect, as each region in Mexico has development characteristics and different types of industries. These aspects respond to the needs and suitability of regional characteristics and regulations derived from agreed international policies and then derived at the regional level.

The preparation of regulations in the country is a process of developing a more detailed and targeted regulatory framework stemming from cooperation agreements in the economic field that have led to an increase and influx of capital originating from abroad to Mexico. The development of this regulation is carried out in accordance with the needs, regional characteristics, and other parameters that have a major influence on supporting regional development efforts originating from incoming industrial activities (De Castro, 2013). This confirms that the regulations built at the local government level are in line with the policies built by the government at the central level and by investors to create an efficient and synergistic tripartite collaboration model.

## 7. Social and Environmental Issues

Mexico's geopolitical policy construction focuses on increasing FDI flows but also needs to pay attention to protecting and guaranteeing social and environmental issues. The analysis of investments sourced from FDI capital flows needs to emphasize and understand how social and environmental issues influence government policies, relationships with local communities, and the company's reputation for providing support and awareness and commitments that have a positive effect on doing business and attracting investment in Mexico.



**Figure 2** Policy Construction of Social and Environmental Issues in Increasing FDI Flows into Mexico.

In general, geopolitical policies regarding social and environmental issues in Mexico are reviewed in terms of 1) environmental compliance, 2) reputational risk, 3) water and energy management, 4) social and corporate responsibility, 5) local community involvement, and 6) sustainability issues (Julio and Youngsuk, 2016). All of these factors are key for Mexico in promoting various international cooperation schemes toward full attention to social and environmental issues (Noria, 2015). All these variables influence each other as an inherent unity. It is globally emphasized that FDI into Mexico is utilized

and developed in environmentally friendly industries. This provides a wider and more diverse spectrum of investment sourced from FDI with an emphasis on ensuring ecological and social protection.

Social and environmental issues promote Mexico's policies in receiving capital flows from FDI. The availability of instruments in the form of strong regulations or laws on the environment is a strong commitment of Mexico to investment activities in line with the sustainable development agenda, providing a major impact and contribution to environmental protection efforts. This approach gives strong legitimacy to Mexico as a country that has a strong commitment to environmentally friendly investment (Crespo and Fontoura, 2007), not only focusing on economic growth but also paying attention to ecological aspects that have an impact on changes and the perspective of partners or investors from abroad on Mexico's commitment to environmental sustainability efforts. These measures have contributed greatly to the diversification of FDI, and the investment activities undertaken in Mexico are increasingly varied according to the needs and vision of Mexico's development mission.

Strengthening social and environmental issues needs to be done synergistically with indications of increased FDI flows entering and investing in Mexico. This provides a function not only for business but also for strengthening ecological protection, which is a priority for investment policies carried out in Mexico (Banacloche, 2020). The policy instruments owned by Mexico for supporting green investment are among the important assessments that influence the increase in FDI inflows and the political role and implementation of international agreements in the Kyoto Protocol and the Paris Agreement.

Strengthening environmental issues in development is an important matter of urgency in the development process. Environmental issues involve the economic, social and environmental aspects of sustainability. These three parameters are considered to be one of the assessment indicators in the process of strengthening investment in Mexico. This role basically provides protection to national interests. Investments coming to Mexico can be a threat or a benefit. This interpretation will depend on how the government plays a role in providing regulations that are measurable, appropriate, and protect all stakeholders.

## 8. Industry Clustering

Industrial clustering needs to be prepared as a promotion and effort to build domestic readiness for FDI. The determination of clusterization is important because it is related to resources, accessibility, infrastructure availability, and manpower. These aspects are priorities that are prepared for building the developed clusterization. In addition, the geographical characteristics of the region are a major consideration for industrial clusterization (Douglas and Grosse, 2001). Some regions located on the border with the United States tend to have a large increase in investment because the target market clearly goes to the United States so that the development of industries located on the border tends to be high, sourced from foreign investment.

Mexico's free trade policy has several implications for increasing demand aggregation on the export side, as well as on the import side. The interconnection of each region implies a connected supply chain between each region, which has an impact on increasing the economic value of a region (Vidal and Correa, 2007). Clustering policy is needed as a response to the level of foreign policy that Mexico has in meeting and increasing investment opportunities derived from foreign capital flows or FDI. Thus, this becomes one of the important considerations in synchronizing and clustering to be developed in Mexico.

The determination of clusterization can serve as an effort of readiness and willingness to accept the influx of capital from abroad to be invested in sectors of interest to foreign investors. In addition, industrial clustering is needed to determine what sectors can be invested in and the level of suitability and suitability for investment to be developed (Grether et al, 2001). Krugman and Livas (1992) related the relationship between trade policy and urban development by emphasizing domestic supply, import equipment mechanisms, protection, and support for the development of large urban areas.

The synchronization of policies toward the entry of FDI needs to be aligned with the industrial clusterization that will be built, which has implications for economic growth based on innovation, understanding of capacity, and knowledge of the development of production activities (OECD, 2001). Industrial development and clusters need to be seen as outcomes that will be obtained and seen from the results of investment activities to be carried out, the development and development of the region from the entry of foreign capital in support of the development of industrial activities built in an area.

Mexico, in strengthening and receiving capital from abroad, needs to identify what industrial activities and needs can be offered to investors. This is important for providing investors with certainty about Mexico's potential and resources. This mechanism has important implications for ensuring the availability and suitability of the industries being developed.

## 9. Economic and Social Balances

Mexico's geopolitical policy focuses on building economic and social balance within the country (Beazer and Blake, 2018). In reducing regional disparities, the role of parties other than the government is indirectly involved in regional development through economic growth derived from activities sourced from foreign investment.

Economic and social balance can be achieved with the influx of investment sourced from FDI, infrastructure development, and the availability of jobs that provide opportunities for poverty reduction. Intervention through FDI is considered to be one of the most appropriate instruments used in achieving public welfare (Banaloché et al, 2020).

The FDI instrument has specific implications for domestic policies in Mexico. The incoming capital indirectly provides support for economic growth through the growth of new industrial activities, and the expansion of employment has an impact on each other both from the government and businesses that invest in Mexico (De Castro et al, 2013). This approach is considered to have implications for the development and availability of available infrastructure for supporting economic activities built from FDI capital entering Mexico.

In addition to issues that generally plague all countries, including Mexico, such as poverty, social inequality, unemployment with the growth of industry or economic activity with FDI schemes, there is an influx of capital used to carry out economic activities. FDI has a strategic role in collaborative efforts for the country's development (Breinlich et al, 2014).

Foreign direct investment (FDI) plays a pivotal role in shaping the economic and social landscapes of nations and Mexico. The inflow of FDI into Mexico has brought about profound changes, influencing factors ranging from employment and economic growth to social inequality and cultural dynamics.

The function of economic and social balance through incoming FDI has great implications for the realization of these two important aspects. FDI has a major impact on economic transformation from the perspectives of job availability, high technology transfer, infrastructure development, and fluctuations in trade balance improvement (OECD, 2001). All of these economic transformations have an impact on the improvement and growth of the Mexican economy at the macro level. The social aspect of reducing regional economic interests, the precise redistribution of people's income, and social transformation in terms of work culture, skills, and education should be considered. The changes achieved indirectly have a major impact on regional development in Mexico. However, it must still pay attention to aspects of protecting and enhancing the role of labor rights that significantly affect the social level of a society.

## 10. Final Considerations

Synchronization of increased capital flows originating from abroad has made policy adjustments by taking into account geopolitical reviews by emphasizing aspects of geographical location in development and derived in various cooperation agreement framework schemes that are derived from the response and preparation of domestic policy frameworks to the responses and needs needed.

Strengthening regulations in every aspect of investment activities needs to be carried out to provide strong protection of national interests, and it is necessary to collaborate with various instruments both in terms of regulations and infrastructure readiness both at the national level and at the regional level.

The construction of geopolitical policies plays a major role in efforts to accelerate economic development and growth in the corridor of increasing foreign capital entering Mexico. Collaboration on various instruments that support the investment climate, as well as economic and social protection, is a strategic step that continues to be maintained in protecting Mexico's national interests.

### Ethical considerations

Not applicable.

### Conflict of Interest

This research does not have any conflict of interest in its purpose of scientific development, and the extraction of information based on Mexico's experience in managing FDI with a complete scheme and planning both in terms of foreign policy and also the readiness of infrastructure and supporting services in responding to the flow of FDI into Mexico.

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