Dynamic of foreign direct investment in the states of Mexico: An analysis of Markov’s spatial chains

Dinámica de la inversión extranjera directa en los estados de México: un análisis de cadenas de Markov espaciales

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Abstract

The aim of this investigation is to analyze the evolution of the spatio-temporal distribution of foreign direct investment (FDI) across Mexican states. The literature that analyzes foreign direct investment in Mexico is numerous and diverse; however, it is argued that the analysis of the spatio-temporal distribution of FDI conditioned to spatial interaction effects in Mexico is still absent. In this sense, by applying the spatial Markov chain approach as proposed by Rey (2001), we found a divergence process in the FDI inflows among Mexican states that seem to get stronger over time. In particular, during the period from 2006 to 2013, the process of divergence toward higher-FDI inflows quantiles occurs among states spatially associated with neighbors in lower-FDI quantiles.

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Resumen

El objetivo de esta investigación consiste en analizar la evolución de la distribución espacial y temporal de la inversión extranjera directa (IED) en las entidades federativas de México. La literatura que aborda el análisis de la IED en México es abundante y diversa; sin embargo, se argumenta que el análisis de la distribución espacio-temporal de la IED condicionada a la interacción espacial en México, aún está ausente. En este sentido, mediante la aplicación del enfoque de cadenas de Markov espaciales propuesto por Rey (2001), se encuentra que la divergencia regional en la captación de IED es un proceso que parece afianzarse cuando se analizan diferentes cortes en el tiempo. En particular, durante el periodo entre 2006 y 2013 el proceso de divergencia hacia estratos de mayor captación estaría impulsado por las entidades federativas que interactúan con entidades contiguas ubicadas en estratos de captación de IED menores.

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Introduction

In the case of Mexico, diverse economic reforms and their legislative changes have been implemented in order to promote foreign direct investment (FDI) in the country. Even though the policies implemented during the last few decades of the 19th century allowed the participation in economic sectors such as mining, textiles, transport and even electricity and banking, these led to a significant increase of the available infrastructure in the territory; the main change that boosted an important flow of foreign direct investment occurred with the implementation of the NAFTA and the modifications to the foreign investment law that came along with it (Dussel, 2000). Since the NAFTA, the Mexican government has followed different strategies to promote the liberalization of commerce and favor the attraction of foreign investment; these include the new agreements and treaties for free trade such as the one signed with the European Union in the year 2000 (FTA EU-MX), the subscription of the Acuerdos para la Promoción y Protección Recíproca de las Inversiones (APPRI) (Agreements for the Promotion and Reciprocal Protection of Investments), as well as the improvements in matters of procedures and transparency.

At a regional level, a legislative modification with relevant implications for the economic process of the federative entities consisted in allowing foreign direct investment to go to any region of the country. This modification, which eradicated all geographical-type barriers for foreign investment, also proved to be a fair access to this type of investment for the different states of the country, and is a situation which has led to an increase in the regional competition in order to attract FDI and strengthen the efforts of the state governments in the implementation of regional policies for their attraction. However, some states have been more successful than others with regard to their ability to attract foreign investment; for example, only Mexico City and Nuevo León achieved 60% of the FDI accumulated between 2009 and 2013.

In this context of governmental efforts to increase the flow of FDI in the country, different investigations have focused on analyzing the effect of foreign direct investment in the Mexican economy. In this regard, the empirical evidence suggests that the FDI exerts limited positive effects, and that there is room for improvement for the conditions needed to benefit from the potential of the FDI and reverse the negative effects (Dussel, Galindo, Loría, & Mortimore, 2007). For
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