Composition and Path of Asian Direct Investment in Mexico: Scope and Limitations of the Nearshoring Process

Composición y Trayectoria de la Inversión Asiática Directa en México: Alcance y limitaciones del proceso de relocalización (nearshoring)

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Abstract

This paper analyses the patterns of FDI from Asian countries into Mexico trying to understand if the patterns in the last years can show the development of the relocating production facilities from China to North America to leverage lower labor costs and proximity to the U.S. market known as nearshoring. Through a review of existing literature on U.S.-China economic decoupling and its implications for nearshoring, we provide a comprehensive background on Asian investments in Mexico, emphasizing the critical role of the manufacturing sector, especially in automotive industries led by Japanese firms. By analyzing official data from the Mexican government, we compare Asian FDI trends with those from other regions, ultimately offering insights into the strategic choices of Asian companies in response to shifting global economic dynamics. This study aims to enhance understanding of the evolving investment landscape in Mexico and its implications for international trade relations.

Keywords: FDI – decoupling – China – North America – integration.

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Resumen

El presente artículo presenta un análisis de los patrones de inversión extranjera directa (IED) proveniente de Asia en México. El objetivo es comprender si las tendencias de los últimos años pueden confirmar la relocalización de la producción desde China a América del Norte, también conocido como nearshoring, para aprovechar menores costos salariales y la proximidad al mercado estadounidense. A través de una exhaustiva revisión literaria acerca del desacoplamiento económico entre China y Estados Unidos y sus implicaciones para el nearshoring, buscamos ofrecer un contexto más amplio para entender las motivaciones de las inversiones asiáticas en México, con especial atención a la industria manufacturera, y el sector automotriz liderado por empresas japonesas. Por medio de un análisis de cifras oficiales del gobierno mexicano, comparamos las tendencias de la inversión asiática con la proveniente de otras regiones, con el fin de ilustrar las decisiones estratégicas de firmas provenientes de Asia y sus respuestas a las dinámicas cambiantes de la economía global. Este estudio pretende contribuir con el entendimiento de un escenario de inversiones en México bajo evolución, así como las implicaciones que ello tiene para el comercio internacional.

Palabras Clave: IED – desacoplamiento – China – América del Norte – integración.

Introduction

In the summer of 2024, the governments of Mexico and the United States announced a joint imposition of tariffs on imports of steel products from China. It was an important event in which both countries acted in unison, taking the so-called trade war between the U.S. and China to a new level. This move can be placed in a larger picture, in which policymakers in Washington show concerns about Mexico turning into a "back door" for products coming from China (Reuters, 2024). Since Mexico became the U.S. top trading partner in 2023, and with the Mexican government reporting historic levels of foreign direct investment (FDI) landing in the country during 2024 (Forbes, 2024), it has been a common place to argue that Mexico has been one of the main beneficiaries of the U.S.-China economic decoupling and the resumption of nearshoring[1] trends.

In recent years, the concept of nearshoring has regained popularity and attracted the attention of experts in different sectors, going beyond business circles, and becoming a widely used term in academia and the media around the globe. Understood in this context as the "relocation of production facilities from China to North America, particularly Mexico where low-cost labor and proximity to the U.S. market are important" (Gantz, 2024), nearshoring can be approached to the official Graphs on FDI reported and updated by the

1 According to Reuters (2020) the concept of nearshoring is defined as the outsourcing strategy in which a company transfers part of its production to third parties who, despite being in other countries, are in nearby destinations with a similar time zone. As it has been noted by Ellerbeck (2023), nearshoring is only one of multiple terms that has been popularized in recent years, such as friendshoring, reshoring, offshoring (and even, allyshoring). The differences in the definitions of those terms are mostly concerned with geopolitical and geoeconomic considerations. Nonetheless, due to the shared border between Mexico and the US, and the complexities in their bilateral ties, we believe that nearshoring is a more suitable concept to use throughout our analysis.

Mexican authorities. Furthermore, we are particularly interested in finding the extent to which the nearshoring process is being utilized by companies in China and other parts of Asia. In this paper, we explore the patterns presented by Asian investors in Mexico and make a comparison with those coming from other regions in the world. Through the observation of those particularities, we also expect to find clues on the motivation behind the increasing FDI in Mexico, particularly from countries located on the other side of the Pacific Ocean.

To do that, we make use of one part of the theory known as the eclectic paradigm of FDI. Originally developed in the 1970s, following the product cycle theories of the previous decade, the eclectic paradigm is associated with the work of John Dunning, which identifies four primary motivations for FDI. The first motivation is seeking access to new markets, which is particularly related to the first phases of the product cycle theory. The second motivation refers to seeking access to the natural resources of the host country. The third motivation is related to the quest of efficiency in the production process, and the fourth motivation is that of seeking strategic assets in third countries (Dunning, 1977). For this paper, we advance the idea that the third motivation identified by this paradigm applies for the case of most Asian FDI in Mexico, which has increased after the U.S. began imposing tariffs to Chinese products in 2018.

In the 21st century, China has emerged as a leading global investment economy, transitioning from primarily attracting investments to becoming a major investor worldwide. While the first wave of Chinese investments focused on Southeast Asian countries beginning in 2005, significant dynamism in investments in Latin America has been observed since 2010

(Dollar, 2016). This provides a framework for analysis up to recent years.

This type of motivation applies to companies looking for places with cheaper labor, as well as tax incentives, land or other important factors that can help them lower their costs and become more competitive. In Latin America, different from the case of Brazil and other countries in South America, where FDI from Asia is usually motivated by the first (access to domestic market) and second (access to natural resources) types, the case of FDI in Mexico is mostly related to the third type (efficiency-seeking) (Gomes de Castro et al., 2013, pp. 234-238). After the combined process of economic liberalization and integration to North America, Mexico became an important destination for companies interested in improving their access to the U.S. market.

To present a more complex picture of the Asian FDI and how it connects with nearshoring in Mexico for the past few years, we delve into the existing literature on those issues that can be seen as correlated. In the following section, we review works on U.S. and China economic decoupling and the multiple effects that had been identified and proceed to explore the way scholars have linked this topic with the impact of nearshoring in Mexico. In the third section, we present the background of Asian investments in Mexico, offering a glimpse to the relevance of the manufacturing sector, and particularly, the historical importance of the automotive sector and the role played by Japanese firms. In the fourth section, we present our analysis with official data from the Mexican government, comparing Asian FDI with that from other parts of the globe, before moving to the closing remarks.

U.S.-China economic decoupling and its impact on nearshoring

Decoupling from China and its multiple effects

Decoupling is a term popularized after a series of decisions taken by the U.S. government since 2018, to address what it considered as an unfair behavior from their Chinese counterparts in their bilateral trade. Starting from the late 1970s, but more notoriously since the 1990s, the U.S. China policy was characterized by a combination of engagement and containment elements, designed to socialize the People's Republic of China (PRC) into a liberal international order, supporting its transformation into a "responsible stakeholder" (Brands & Cooper, 2019, p. 70). By encouraging China's accession to the World Trade Organization (WTO), American policymakers endorsed the economic liberalization of China and its integration into the world economy and were willing to overlook the more protectionist elements in Beijing's industrial policy. The interest of multiple MNCs to invest and partner with Chinese companies and their contribution to the development of global supply chains based in China led to a scenario of complex interdependence between the United States and the PRC (Nye, 2020).

Nonetheless, with the successful industrial and technological progress that China achieved, an increased strategic competition with the United States became more visible (Cha, 2020). The signs of engagement that characterized the U.S. China policy since the Clinton era were being replaced by what scholars have called "comprehensive containment," and were maintained despite the change of government in 2021 (Park, 2024). This turn towards a more protectionist stance from the United States, and the use of trade as a political tool in the handling of Sino-American bilateral ties have therefore

been described as a new type of "competitive interdependence" (Hass, 2021) or a "cooperative rivalry" (Nye, 2023).

Moving away from that concept, which suggests a higher risk of unnecessary damage for the global economy, Schell & Shirk (2019) proposed that it would be more prudent to talk about "smart competition." This view was shared by Nye (2020), who warned about avoiding the so-called "Thucydides Trap" in relations between China and the U.S. (Allison, 2018), and also cautioned against a "Kindleberger Trap," understood as a reluctance from China in contributing to the sustenance of a world order it did not help to create (Nye, 2020, p. 16). Therefore, despite the warnings about the risks associated with decoupling, an important number of scholars in the West have acknowledged that decoupling might be an irreversible trend.

The disruption to global supply chains brought by the different responses to the Covid-19 pandemic, further deepened the sense of urgency among policymakers and firms around the world to find new partners and sources, hence making more evident the move towards decoupling. However, other studies have used different tools of analysis to measure the impact of decoupling, particularly from scholars in Asia, who have warned about the negative effects it could have on the future of the global economy, particularly those sectors and MNCs that heavily rely on Chinese suppliers (Hu et al., 2021; Lee et al., 2022; Han et al., 2024). Decoupling, as measured by the different sanctions imposed by Washington and the retaliatory measures adopted by Beijing, has had the effect of making Chinese upstream sectors less dependent on U.S. technology, but it has not necessarily resulted in more productive or innovative Chinese firms (Han et al., 2024).

On the other hand, another work also illustrates the negative impact that the use of the term decoupling in media has had over the expansion plans of MNCs, particularly those based in the United States, which could also end up harming the future growth prospects of the overall economy (Liu, 2023). At the same time, when the term decoupling is associated with that of nearshoring, then we can find that a smaller group of economies, in which Mexico is included, have been identified as the main beneficiaries of this trend. In a detailed analysis, Alfaro and Chor (2023) argue that China's share in total U.S. imports peaked in 2017, and then it began to irreversibly decline. This did not occur for Mexico, which continued to grow since 2012. Together with Vietnam, it signals a growing trend of U.S. intra-firm investments reallocation away from China and into these countries. Nevertheless, these works also suggest that, despite the combination of decoupling and nearshoring, the dependence that many MNCs have on China will not end anytime soon, but instead, will now be enlarged to include those countries in which nearshoring is taking place (Alfaro & Chor, 2023, pp. 26-29).

Promoting nearshoring and its impact on Mexico

Although the arrival of Donald Trump to the White House is considered a critical juncture in the decoupling process (Park, 2024), it was not translated into immediate benefits for the Mexican economy. Since the beginning of his nomination-seeking process, in 2015, Trump employed a very severe rhetoric against Mexico, constantly threatening to impose tariffs on Mexican imports and finishing NAFTA. Those warnings, repeated throughout the Trump campaign, were important to explain how overseas investors decided to put on hold their expansion plans in Mexico, adopting a

more 'wait-and-see' attitude before resuming their investment projects in the country.

Different works have paid attention to the nearshoring trends and its impact in Mexico. It was only after the conclusion of the USMCA negotiations, in 2018, that the Mexican economy began to show signs of receiving larger sums of FDI, which could be seen as a consequence of nearshoring. According to Alfaro and Chor (2023), many of those investments were found in more labor-intensive industries, and correlate to those goods in which the U.S. imposed higher tariffs for China. However, it has been suggested that the longer the American tariffs on Chinese goods remain in place, the likelier it is for more Mexican sectors to reap the benefits from nearshoring, moving beyond those demanding only low-skilled labor (Lovely & Xu, 2021). This is something that has been confirmed in recent years, in which despite the change of government in the United States, a sustenance and increase of tariffs over imports from China became the norm (Utar et al., 2023).

Another effect from nearshoring in Mexico has been perceived in how both Chinese and Mexican exports to the U.S. recovered quickly from the pandemic shock. Mexico was able to outperform its pre-Covid 19 levels and gain ground immediately after restrictions began to relax, as compared to China, up to the first quarter of 2023 (Stringer & Ramírez-Melgarejo, 2023). Nevertheless, a contrasting opinion comes from those scholars suggesting that nearshoring is not going to result in a major trade diversion or a replacement of Chinese for Mexican goods in the U.S. market. This has to do with the notion that the place of Mexico in global supply chains is still concentrated on low-skill activities or products, which makes it harder for U.S. firms to find substitutes of

high-skill products from China (Shi & Ouyang, 2023). Other works have focused in some of the variables that can have an impact on the arrival of more investments into Mexico as a consequence of nearshoring. Some studies argue that, in the absence of clear federal policies to favor the relocation of companies into the country, most of the government action and incentives to foreign investors have come from sub-national (state and local) governments (Álvarez-Medina, 2023; Martínez & Terrazas-Santamaría, 2024).

Other works have noted additional challenges that might limit a more efficient nearshoring process, consisting in the successful creation of spillover effects. Among them, one of the most relevant is the need to improve skills in human capital, and the due strategies to expand the integration of other Mexican local suppliers into the regional supply chains that are undergoing a reconfiguration (Martínez & Terrazas-Santamaría, 2024). Other pending issues comprise the question of public safety, as well as more investments in public infrastructure to tackle the problems associated with energy production, electricity transmission and access to water (Lovely & Xu, 2021; Fuentes et al., 2024).

On the other hand, another part of the research on this topic stresses some initial positive trends. In their work, Utar et al. (2023) indicate that U.S. firms are seen as the initiators of the nearshoring trend since 2018, but Mexico's domestic firms began to integrate themselves in the global value chains through important measures in place since the adoption of NAFTA, such as IMMEX, a policy allowing firms to easily import unfinished products that later were re-exported as final goods. Similarly, the imposition of counter-tariffs by the Chinese side had an impact on a more integrated U.S.-Mexico regional supply chain, due to the difficulties of North Ameri-

can firms to export their products to China (Hu et al., 2021; Utar et al., 2023). All these elements have been considered by Asian investors, who not only think about Mexico when weighing their responses to decoupling from China, but also places closer to home, like Vietnam, Indonesia and India (Alfaro & Chor, 2023). However, looking at the reported official Graphs, as we will do in the following sections, we can see that Asian firms are increasingly looking at Mexico as an important place to invest.

Asian direct investments in Mexico and the role of the automotive sector

The number of studies on the role played by FDI from multiple countries in the Mexican economy began to accumulate as a result of the implementation of liberalizing policies in the late 1980s, with an increased interest in the effects caused by Mexico's integration to North America. More comprehensive efforts to understand the main trends, causes, effects, benefits and challenges posed by the arrival of FDI coming from different regions in the world during the past few decades, as well as the efficiency factors, can be found in the works of Dussel-Peters (2007); Garriga (2022); and, Elizalde et al. (2022). When official data started to show the dominant position of FDI from the United States, which for some years account for as much as half of FDI captured by Mexico, comprehensive works have also been compiled to illustrate the characteristics, effects and limitations of North American FDI in Mexico (Contreras et al., 2020; Gove & Meza, 2022). Other works have also paid attention to other major foreign investors in the country, such as those coming from Spain (Pérez, 2009). Fewer works have paid attention to FDI coming from Asia, not to mention comparisons be-

tween Asian countries of origin, as well as between Asia and other regions.

When it comes to the analysis of FDI in Mexico coming from Asia, we can observe that the contemporary history of major investments from that region dates back to the 1960s, when Japanese firms landed in the country, motivated by the industrial policies in place. Protectionist measures designed to promote the creation of new industries in Mexico were combined with an increasing interest of Japanese firms to internationalize and increase their presence in new countries. This can be explained by the first motivation of FDI, according to the eclectic paradigm. A clear example came in 1966, when automaker Nissan chose Central Mexico to establish its first production plant outside of Japan, following the example of other major American MNCs that were producing cars in Mexico for decades (Covarrubias 2020, p. 326). Other major investments in Mexico before the 1980s were done through credits from Japanese banks. With the negotiation of NAFTA, Japanese investors were returning to Mexico in large numbers (Kuwayama, 2019). This time, they were following the third motivation, that of efficiency-seeking, to reduce costs and improve their access to North American markets.

The long recession that has characterized the Japanese economy since the 1990s, together with a higher technological development in its neighboring countries, contributed to a process in which companies from other Asian economies were now interested in following the path of their Japanese partners and invest in Mexico. Some works have studied the evolution of Japanese trade and investment in Latin America, including Graphs for Mexico (Kuwayama, 2019; Stallings & Horisaka, 2021). The bilateral relation increased its significance after Mexico became the first major economy

to negotiate an economic partnership agreement with Japan, in 2005, which has also been a widely studied topic (Solís & Katada, 2007).

Subsequently, since the mid-2000s, an increased academic interest developed around the issue of Chinese investments in Latin America. Nonetheless, Mexico was usually considered as a country with fewer investments from firms in the PRC, and most of the studies tend to emphasize the complicated economic and political relations between the two countries (Meza-González & Sepulveda, 2019; Dussel-Peters, 2020; Morales-López, 2022). Lesser attention has been paid to the increasing presence of investments from South Korea (Kim, 2018) and Taiwan (Fonseca, 2018), which comprise an important percentage of Asian investors in Mexico, together with their counterparts from Japan, mainland China, Hong Kong and Singapore. The main motivation for most of those investments, as it was noted for Japanese firms, is to use Mexico as an export platform to the U.S. and the rest of North America.

This trend has been consolidated with the beginning of the decoupling process, and it has mostly been studied for the case of the automotive industry[2]. Since the implementation of NAFTA, when the industry was subject to rules of origin of a 62.5% regional value content, later increased to 75% under the USMCA, the new requirements in the automotive sector pushed U.S. firms to relocate operations to Mexico, starting from less complex parts and moving up the ladder (Hsu et al., 2022). This trend has been followed by European

2 The automotive industry has been usually seen as an example of how governments began using a rhetoric of "national security" to continue enhancing nearshoring trends, which for the case of Mexico has had an impact since 2018, after the imposition of tariffs on China and the negotiation of the USMCA (Gantz, 2021).

and Asian automakers alike. Covarrubias (2020) argues that Asian automobile producers have increased their footprint in Mexico since NAFTA. In the three decades following its implementation, Asian companies went from 12% to 42% of the total Mexican output in that sector. It has also been observed how Japanese original equipment manufacturers (OEM) and small and medium enterprises (SMEs) have successfully integrated themselves into North American supply chains in the automotive industry, particularly through their investments in Mexico, as a result of those changes (Falck-Reyes, 2023).

Although most of the investments came from Japanese firms, the increasing interest of South Korean and, above all, Chinese companies is also evident. Some authors insist that decoupling will not necessarily result in national economies separated from China but could make Chinese economic actors more willing to seek other alternatives to continue having access to the North American markets (Han et al., 2024). This seems to be what we are noting for increasing investments from Chinese firms in Mexico. Some examples include the investments made by the Chinese maker of autoparts Sanhua, and the partnership agreements signed between Chinese automakers FAW and JAC with the Mexican firm Giant Motors (Covarrubias, 2020; Martínez & Terrazas-Santamaría, 2024).

More recent studies incorporate the subject of the prospects for the transformation of the automotive sector in Mexico into an era of electric vehicles (EV), suggesting that the advantage that Chinese firms have in this industry at the global stage could result in beneficial investments for Mexico (Álvarez-Medina, 2023; Shi & Ouyang, 2023). The same works also warn about a potential increase of dependence on Chinese supply chains if the Mexican government fails to develop efficient strategies to maximize nearshoring (Shi

& Ouyang, 2023), and to create conditions for an effective adoption of the new technologies that are necessary to produce EVs (Álvarez-Medina, 2023). Therefore, after presenting the different trends in the study of the effects of nearshoring in Mexico and the motivations and role played by Asian investors, we find that there is a gap in the study of the overall trends of investments from Asia in Mexico, particularly compared with FDI from other regions, as well as the industries and sectors of destination. We hope to contribute filling that gap with our analysis in the following section.

Insights and Analysis of Asian Direct Investment in Mexico

For our analysis, we use official data published by the Mexican Secretariat of Economy (SE, 2024), focusing on the period 2017-2023, months before the critical juncture represented by the start of the trade war between the United States and China. We collected the data, grouped by geographical region, with the purpose to better understand the particularities of FDI coming from Asia, as compared to other regions of the world[3]. We followed the classification

3 The methodology for tracking Foreign Direct Investment (FDI) flows to Mexico, developed by the Secretariat of Economy (SE) and the Bank of Mexico (Banxico), is based on guidelines from the IMF and OECD. Data is sourced from the National Registry of Foreign Investments (RNIE) and includes only formally reported transactions, while excluding announced investments that have not yet materialized. FDI is categorized into new investments, reinvested earnings, and accounts between firms, excluding external financing or non-direct investor asset acquisitions. FDI is further broken down by country of origin, sector, and state of destination. The data is published quarterly, converted to US dollars at the official exchange rate, and includes updates from 1999 onward (For more details see SE, 2023). In recent years, the FDI official statistics published by the SE have come under closer scrutiny by experts and other institutions, who tend to question their utility and usefulness in producing meaningful analyses. Particularly for those concerned with the true extent of Chinese FDI in Mexico, the Rhodium Group's China Cross-Border Monitor has noted that SE figures have underreported FDI from China, since many Chinese companies investing in Mexico tend to use other offshore entities, either in Hong Kong or places in the Caribbean (Meyer et al., 2024). The same observation has been raised by the Chinese OFDI Monitor of the Red ALC-China and the Center for China and

made by Mexico's official agency, in which Asia is usually identified as the third largest source of FDI, after North America and the European Union. Among investments from Asia, we observe that, with the exception of Israel and India, the largest investors in the top 10 come from countries in East and Southeast Asia (Table 1). From them, Japan occupies a predominant position, being the fifth largest investor in the country. Measured by accumulated FDI (2010-2024), Japan comes behind the U.S., Spain, Canada, and Germany, in that order (SE, 2024).

During the period from 2009 to 2023, Asia's flow of investment to Mexico followed a less volatile trend compared to North America and the European Union, the other regions where most of the FDI in Mexico originated (Figure 1). Asian investments in Mexico started at US$1,394.38 million in 2009, and reached US$3,887.57 million in 2022, after having its highest peak in 2016 with US$5,362.58 million. While investment amounts were lower compared to North America and the EU, the Asian region showed an increasing interest in the Mexican market over the years. Among other reasons, this increase can be explained because "Asian companies and those from other regions of the world that manufacture their products in Asia realized the importance of being close to the main markets, especially if that market is the United States," according to Nicolás Guiarte, foreign exchange and derivatives director of Grupo Financiero Base in an interview

Mexico Studies (Cechimex), which compiles and present very different results from those of the SE, doing a more exhaustive analysis on the reality of Chinese investments in Mexico and other countries of Latin America and the Caribbean (Dussel-Peters, 2023). Although these discrepancies can produce very different results when applying analytical tools, we decided to use official statistics from the SE, since they go beyond the figures of FDI from China, and also present figures for other Asian countries. Therefore, these numbers are more suitable to the main purpose of our article, which is to analyze trends of FDI from Asian countries as a whole, comparing them with those from other regions.

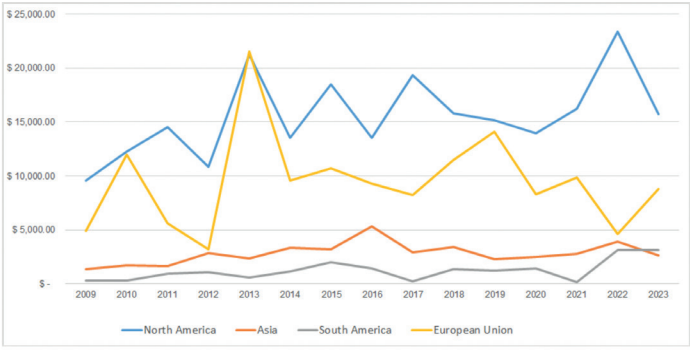
with Expansión México (Avila, 2023). This is in tune with the existing literature and observations in previous sections.

Table 1
Accumulated FDI from Asia in Mexico, per country (Jan. 2010- March 2024)

	Country	Place in Ranking	% of total FDI	Number of firms	FDI (billions USD)
1	Japan	5	5.3	1,015	30.83
2	South Korea	12	1.8	1,092	10.22
3	Israel	19	0.4	269	2.37
4	China	21	0.4	1,001	2.07
5	Taiwan	22	0.3	148	1.96
6	Hong Kong	26	0.2	153	1.37
7	Singapore	28	0.2	182	0.93
8	Malaysia	31	0.1	23	0.73
9	India	35	0.1	172	0.29
10	Philippines	42	0.02	11	0.1

Source: Based on Mexico's Secretariat of Economy, SE (2024).

Figure 1
Total FDI flows to Mexico by selected regions, 2009-2023 (millions USD)



Note. Own elaboration based on Mexico's SE (2024).

Mexico's trade with China has grown, but remains imbalanced, with Chinese exports to Mexico increasing faster than Mexican exports to China. The US-China trade war has benefitted Mexico, helping it surpass China as the US's

top trade partner in 2019 (Gachúz Maya, 2022). However, it is important to highlight that the United States has been historically a key social and economic partner for Mexico, especially in migration, security, and energy, while China's growing influence in Mexico's trade (Dussel-Peters, 2022).

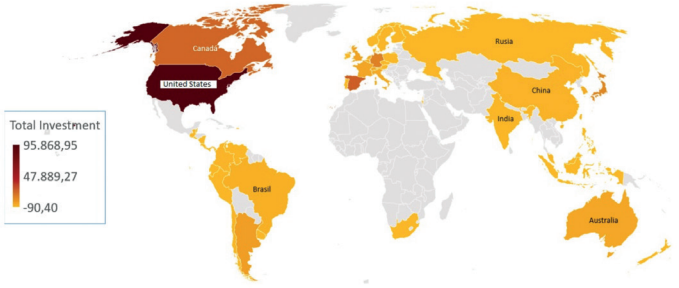
Although there are opportunities to strengthen ties with China and reduce dependence on the US there still challenges to strengthen the relation as China and Mexico compete in the US market, meaning there is little complementarity between their economies that would enable Mexico to export raw materials or low-value-added goods to China. Moreover, the trade between China and Mexico is influenced by global value chains, as many of the Chinese imports to Mexico are used to complete final goods that Mexico exports to the US (Montoya et al., 2022).

Another important feature is Mexico's participation in the United States-Mexico-Canada Agreement (USMCA) further shapes its trade relations with China. Besides, the potential impact of regional trade agreements like the Pacific Alliance (AP) and the Trans-Pacific Partnership (TPP) is debated, but Mexico's position in the US-Mexico-China triangle presents both challenges and opportunities for the future (Dussel-Peters, 2022; Gallagher & Dussel-Peters, 2013).

Based on an analysis using a heat map of total investments into Mexico by country, we can observe a marked disparity in investment levels when grouping countries into quartiles. In the first quartile, we find nations such as Finland, registering a negative FDI of -US$90.40 million, followed by South Africa with -US$14.88 million. On the other hand, the second quartile hosts countries with more modest investments, such as Peru, Singapore and Russia. Meanwhile, the third quartile

presents Argentina, France, Australia and Italy, with investments that fluctuate between US$4,501.51 and US$7,027.67 million. However, it is in the fourth quartile where the main investors stand out, such as the United States, Spain, Canada, Germany and Japan, whose investments exceed US$13,000 million dollars. In this regard, as mentioned above, the largest economies from Asia are usually located between the second and third quartiles, with India, Singapore, Taiwan, China and South Korea occupying important positions. Nonetheless, Japan remains as the largest source of FDI to Mexico from Asia, particularly since the mid-1990s (Figure 2).

Figure 2
Total FDI inflows to Mexico by country of origin, 2017-2023 (millions USD)



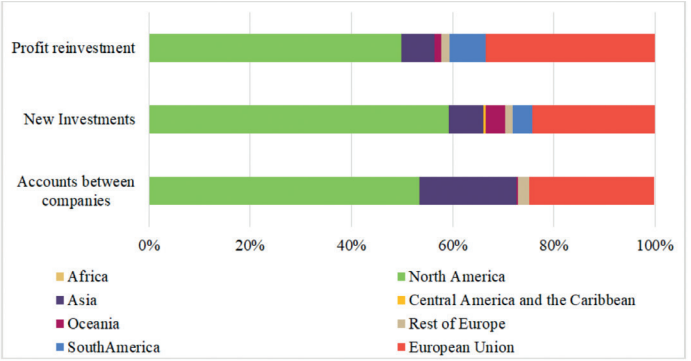
Note. Own elaboration based on Mexico's SE (2024).

Trends by type of investment

Broken down by type of investment, we can observe that most of investments made by Asian companies in Mexico corresponded to accounts between firms, which involves loans, collections and payments within the same corporations (19.36% of the total). This represents a big departure from practices of firms from North America and the EU. In other words, firms from Asia made less use of profit reinvestments and new investments (Figure 3).

When looking at Asia as compared to other regions, as well as a comparison with a previous period of analysis (2010-2016), we note a big difference, particularly with North America and the EU. For the latter, most of the growth was found in profit reinvestments and new projects. Nonetheless, for Asian investors, the largest increase (4.76%) was found in accounts between firms, with a smaller increase in profit reinvestments and a notable decrease in new investments. This situation can be a result of the long pauses in future investment plans that many companies from Asia reported, following the harsh anti-Mexican rhetoric that Donald Trump adopted during his presidential campaign.

Figure 3
Distribution of FDI in Mexico by type, 2017-2023 (%)



Note. Own elaboration based on Mexico's SE (2024).

For more than two years, Asian firms put on hold their plans for new investments in Mexico, adopting a wait-and-see attitude, which started to change after the imposition of US tariffs on Chinese goods and the conclusion of negotiations of the USMCA. The Covid-19 health contingency and the profound disruption of global supply chains that it brought,

could had an impact on the motivation of Asian firms to consider partnering in other existing projects in the country, through the form of accounts between firms.

This trend of Asian firms giving preference to investments in Mexico through the account between companies is coincidental with previous observations. In this sense, Asian firms decide to invest in Mexico motivated by other international partners, usually larger corporations based in the United States, in need of saving costs and time, hence asking their providers from Asia to relocate part of their operations to Mexico through existing subsidiaries (Fonseca, 2018). By investing in the form of accounts between companies, many firms from Asia might be strengthening their partnerships with existing producers, lessening the risks and stepping-in when some other companies are seeking to move away. The other trend, of profit reinvestment, follows a similar logic, hence making Asian investors in Mexico to differ from those of other regions, particularly North American firms, who are the initiators of nearshoring in the form of new investments in the country. Meanwhile, we have an Asian component following behind, in the form of credits, loans and payments. It also denotes a preference of Asian firms for cooperating and expanding their presence in already existing projects in Mexico.

In this regard, the high levels of Asian investments through accounts between firms can help us approach the nearshoring process in a more complex manner. For instance, our analysis indicates that there is an inverse relationship between new investments and reinvestment of profits, where the decrease in the former coincides with the increase in the latter for some periods. This phenomenon can be illuminated by the fact that, as foreign companies operate and become established

in the Mexican market over time, it is common for them to allocate a significant portion of their profits to strengthen and optimize their existing operations instead of starting new projects from scratch. Once established in the country, these companies can reinvest their profits to improve operational efficiency, develop new products or services, or expand their geographic presence.

Trends by type of sector

When analyzing the flow of FDI to Mexico according to economic sector, it stands out that for our main period of analysis, manufacturing industries received the largest amount, with a total of US$105,330.13 million. This sector represents a crucial part of the Mexican economy, as it is the sector that generates the most employment, boosts national production, and fosters technological development and innovation (Statista Research Department, 2024). It is the sector in which most of the Mexican exports to the U.S. are concentrated, hence making a direct link to the third motivation of FDI in the eclectic paradigm.

Financial and insurance services also received a significant amount of FDI, with US$35,758.63 million. This sector is key to economic growth, as it facilitates access to capital and financial services, thus promoting investment and consumption. Mining and transportation also received considerable investments, highlighting the importance of these sectors to the Mexican economy in terms of natural resources and logistics.

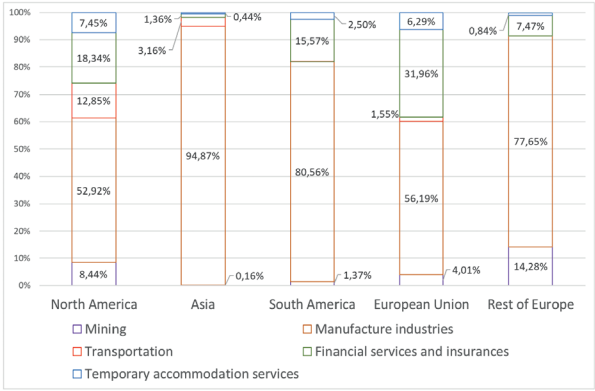
Manufacturing industries emerge as the economic sector of greatest interest for investments from different continents. Asia leads this panorama with a significant 94.87% of its

total investment flows in Mexico, followed closely by South America with 80.56%, the Rest of Europe with 77.65%, the European Union with 56.19%, and North America with a remarkable 52.92%. On the other hand, the financial and insurance services sector is particularly relevant for the European Union (31.96%), while temporary accommodation services show a more balanced distribution, albeit with a prominent interest from the EU and North America. In contrast, mining receives significant attention from North America (8.44%) and Rest of Europe (14.28%), underlining its importance in these regions. Transportation, although less representative, shows a diversity of interests, with North America leading with 12.85%, followed by the European Union and Rest of Europe (Figure 4).

On the other hand, FDI in Mexico's manufacturing industries has experienced different patterns according to the region of origin during the whole period 2009-2023. North America stands out as the main contributor, with a cumulative investment of US$105,889.67 million. However, some variability in investment flows is observed over the years. For example, in 2013, North America recorded a strong investment of US$10,616.00 million, followed by a decline in the following years, although it has remained relatively stable in recent years. The European Union has also shown significant participation, with a total investment of US$77,372.94 million, with notable peaks in 2013 and 2019. On the other hand, Asia has been a consistent investor, albeit with more modest amounts compared to North America and the EU, with a total investment of US$34,915.62 million. South America has had a more limited contribution, with fluctuations in investment flows over time, with a total investment of US$12,565.31 million (Figure 5).

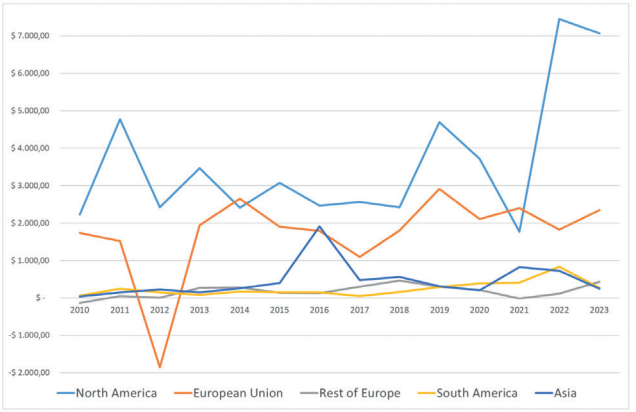
This important concentration of Asian FDI in the manufacturing sector also demonstrates that the main motivation from those firms is related to efficiency-seeking. Combined with the observations made in the previous sub-section, it helps us to better grasp the form in which Asian companies are inserting themselves in the nearshoring process. Most of the interest of firms from Japan, South Korea, China and Taiwan when investing in Mexico, would be to make use of the manufacturing sector in the country, particularly in those industries that export their production to the other North American markets, and mostly partnering with existing projects. As it was noted above, the automotive sector, together with other manufacturing industries in which MNCs based in Asia are highly competitive, are the main targets for Asian investors in Mexico.

Figure 4
Foreign Direct Investment Flows to Mexico by Economic Sector, 2017-2023



Note. Own elaboration based on Mexico's SE (2024).

Figure 5
FDI in Mexico City Manufacturing Industries by Region, 2009-2023 (million USD)



Note. Own elaboration based on Mexico's SE (2024).

Trends by Federal Entity

Existing works have paid close attention to the multiple factors that can influence the attraction of FDI and their effectiveness over the different states and regions in Mexico (Mendoza-Velázquez & Conde, 2019; Gómez-Zaldívar et al., 2021). These differences are also visible for investments coming from Asia. When breaking down FDI by state, it reveals an uneven distribution of investment flows throughout the country. Mexico City clearly leads, with a significant total investment of US$53,929.06 million, reflecting its position as the country's economic, financial and political center. It is followed by highly industrialized federal entities, such as Nuevo León, with US$22,441.01 million, and Baja California, with $10,848.64 million. Located next to the U.S., these states also benefit from a strategic geography, developed infrastructure and key industrial sectors. On the other hand, some entities such as Colima, Chiapas, and Michoacán, show lower levels

of investment, which could be attributed to a combination of factors such as availability of resources, infrastructure and local government policies (Figure 6).

Mexico's southern region shows the lowest levels of foreign direct investment (FDI) for the last 7 years cumulatively. To address this disparity, a series of measures are proposed: first, it is crucial to invest in training the local labor force and improving infrastructure and communication routes to foster an environment conducive to investment. On the other hand, in the north of the country, it emphasizes the need to strengthen export capacity, taking advantage of its strategic position and natural resources. As for the central zone, it is essential to increase the supply of industrial parks and promote the creation of business clusters to attract investment and foster regional economic development (Avila, 2023).

Figure 6
Accumulated FDI in Mexico by State, 2017-2023

Note. Own elaboration based on Mexico's SE (2024).

According to the available data, and completing with the analysis from the previous subsections, those states with the largest manufacturing production capacity in Mexico are

the ones that attract the largest amounts of FDI from Asian firms. Given the trend to invest in Mexico through the "accounts between firms" form, many of the FDI from Asia in the country is registered in Mexico City and the neighboring State of Mexico, being the financial center of the nation and a major industrial zone. Nonetheless, beyond that region, important investments from countries like China, Japan and South Korea are also located in entities with a vast experience in the construction and management of large industrial parks. In that sense, other major entities hosting Asian investments are those bordering the U.S. (Baja California, Chihuahua, Coahuila and Nuevo León), as well as those integrating the so-called Bajío industrial corridor (Aguascalientes, Guanajuato, Jalisco, Querétaro and San Luis Potosí). These are also the states that are expected to benefit the most from the nearshoring trend in the short-to-medium term.

Conclusions

In this article, we sought to analyze the particularities of FDI investment trends in Mexico, particularly from countries located on the other side of the Pacific Ocean, using the eclectic paradigm of FDI theory and statistical data from the SE of Mexico. The results show that the increasing presence of investors from Asia in Mexico, particularly Chinese investment flows, demonstrates that the current global trade scenario favors nearshoring as a trade policy approach being implemented in practice. Growth trends across several sectors, along with the emergence of strategic production locations in Mexico linked to U.S. supply chains, are also part of this phenomenon, which is likely to continue in the coming years. Despite the challenges derived from the political reconfigurations at the domestic and regional levels. Economic decoupling between China and the U.S. will likely

continue in the face of a new government in Washington, and a new administration in Mexico. For the nearshoring process, the analyzed data suggest that companies from different parts of East Asia have a role to play.

Compared to the other important regions from where FDI to Mexico is coming, most investments from Asia goes to manufacturing industries, which are at the center of near-shoring, and closely connected to the third motivation in the eclectic paradigm, that of efficiency-seeking. Furthermore, taking the form of accounts between companies, the preferred way of investment by Asian companies, it demonstrates their habit of minimizing risks, by partnering with other firms or expanding projects that already exist in the country.

This also suggests a picture in which Mexico could be integrated into the successful supply chains that for long time developed and had been based in East Asia. To do that, a more coordinated effort between the different levels of government in Mexico will be needed, as a way to make domestic firms to successfully insert themselves into those chains, becoming suppliers and producers of higher-skill products. Similarly, authorities need to continue working to address major challenges such as the quality and extent of public infrastructure, a sustainable development through access to (clean) energy and water, and public safety.

As demonstrated in Section 4, it was only during second decade of the 21st century highlighted China's emergence as a major global investor, including in Latin America, with Mexico being part of this trend. However, this growth faced significant challenges due to factors such as the COVID-19 crisis, which disrupted investment flows. In recent years, though, there has been a recovery in dynamism, particularly

driven by nearshoring policies that have attracted investment from various countries. Among these, China has solidified its position as one of the key investors.

Moreover, Mexico's FDI is largely concentrated in manufacturing and automotive sectors, especially in regions close to the U.S. border, limiting diversification into industries like technology and services. This concentration reinforces the country's reliance on the U.S. market. To foster a more diversified and resilient economy, Mexico should focus on attracting FDI in high-value sectors such as green technology, fintech, and digital industries.

Finally, further research venues include a deeper examination of the difference of investment practices between companies from Asia that have a presence in Mexico, particularly those from China, and the specific types of manufacturing industries, as a way to confirm and offer more details to those presented in this paper. Similarly, other works can pay attention to the common attitudes and challenges faced by Asian investors in the country, and what are the multiple effects that their investments are having in the overall development of the Mexican economy, in the communities where they are located, as well as in the ongoing regional integration process in North America.

This analysis highlights the evolving landscape of foreign direct investment (FDI) in Mexico, particularly from Asian countries, during the period from 2017 to 2023. Our findings indicate that while Asia is the third-largest source of FDI in Mexico, its investment patterns significantly differ from those of North America and the European Union. The predominance of Japan in this sector, alongside notable contributions from South Korea and other East and Southeast

Asian nations, underscores the strategic importance of the region in Mexico's economic framework.

The steady increase in Asian investments, particularly in the manufacturing sector, can be largely attributed to the growing trend of nearshoring, driven by the need for companies to maintain proximity to the U.S. market. This trend reflects a broader strategic pivot by Asian firms seeking to enhance their operational efficiency and mitigate risks associated with the global supply chain disruptions prompted by geopolitical tensions and the COVID-19 pandemic. Notably, our findings show that a significant portion of Asian investments is made through "accounts between firms," which reveals a preference for strengthening existing partnerships rather than establishing entirely new ventures.

Moreover, our regional analysis demonstrates a pronounced concentration of FDI in Mexico City and the northern states, highlighting the disparities in investment distribution across the country. To address the evident investment gaps in southern regions, targeted strategies are necessary, including infrastructure development, workforce training, and the establishment of industrial parks to create a more conducive environment for FDI.

Overall, the interplay between geopolitical dynamics, economic policies, and investment strategies suggests that Mexico is positioned to continue benefiting from the nearshoring trend. However, leveraging this potential will require concerted efforts to enhance the attractiveness of less-invested regions and support sustainable growth in the manufacturing sector. As global economic conditions evolve, further research will be essential to monitor these trends and their implications for Mexico's role in the international economic landscape.

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