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The Mexican Economy: Its Point of Focus

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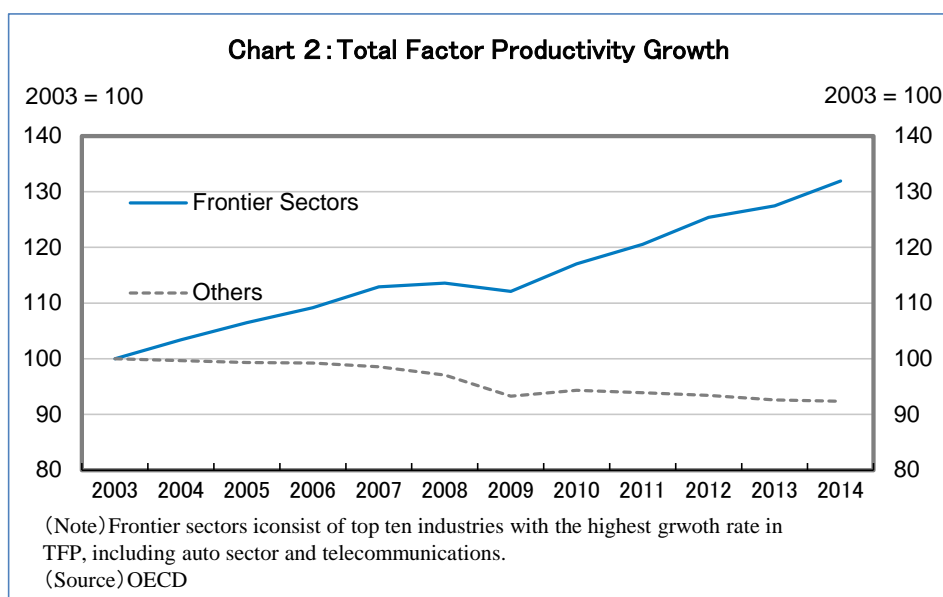
Mexico, which had sought for building an affluent nation based on its oil revenues in the 1970s, suffered a financial collapse of national budget due to a plummeted international oil prices in the 1980s, and fell into a country with accumulated debts. Learning on the lessons, Mexico changed its national strategy toward promoting manufacturing industry to become an export-oriented country. And the participation in the North American Free Trade Association (NAFTA) in 1994 marked an epoch-making event for Mexico.

Since then, Mexico became a production base for North American market. Exports to the U.S. increased by almost six-fold compared to those in the years before NAFTA implementation. Supporting the growth was the strong investment from overseas.

Chart 1 shows the net inflow of foreign direct investments over the past 30 more years. In 10 years prior to the implementation of NAFTA(1984~1993), the inflow of foreign direct investments averaged at about US\$3.1billion, but it increased to US\$16 billion in the decade after the implementation (1994~2003), then to US\$27.7 billion in recent years (2004~2016). As a result, the accumulated total of foreign investment since the implementation of NAFTA has amounted to US\$520 billion.



The industries for which investments are increasing include those of auto and related, telecommunications, and warehousing services. More recently, oil excavation is attracting investment due to the open-door policy on oil industry to foreign capitals. Such increase of investment has contributed not only to the strengthening of production power but also to the improvement of productivity with the introduction of production technologies and know-how working as a driving force. As compared to the level in 2003, the total factor productivity increased by 30 % among the top 10 industrial sectors with high growth rate, including auto sector and telecommunications, while it rather declined in the remaining 55 sectors. This highlights the fact that the improved productivity in Mexican industry is mainly achieved by the sectors that positively accepted foreign direct investment.(Chart 2)



So it is a serious situation for Mexico that the United States, under the Trump administration, started to require foreign companies to increase investment not in Mexico but in the U.S. If the foreign companies, giving “special consideration” to the Trump administration, tend to withhold investment in Mexico in the longer run to come, they will possibly have a huge blow to Mexico’s growth strategy.

It is to be carefully watched whether Mexico can maintain the high level of foreign direct investment flow or experience its decline, since foreign direct investment is really a critical factor that determines the future of the Mexican economy.