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Political and Macro-Economic Determinants of FDI in Mexico

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POLITICAL AND MACRO-ECONOMIC DETERMINANTS OF FDI IN MEXICO

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Mexico is one of the largest recipients of foreign direct investment (FDI) from the developed nations. This study models the influence of macro-economic and political factors on FDI in Mexico. The important macro-economic variables include the growth rate of the economy, inflation and relative labor costs. The government of Mexico's debt level and the trade balance are proxies for political and economic stability. Finally the effects of government policies that either encourage or discourage FDI in Mexico are modeled. It is hypothesized that a high growth rate, relatively low labor costs, stability and certain policy incentives encourage FDI. First, a base model that does not include Mexican government policies is estimated. Then the "policy variables" are included into the model for comparison. The data are time-series data. The model is estimated using the ordinary least squares (OLS) regression method.