Competitiveness, perception of insecurity, and location: Key factors in the regional distribution of foreign investment in Mexico

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Abstract

Foreign direct investment (FDI) is a key indicator of regional economic dynamism, especially in countries characterized by structural disparities such as Mexico. This study examines the relationship between foreign direct investment (FDI) inflows received by Mexican states and variables including Gross Domestic Product (GDP), perceived insecurity, regional competitiveness, and geographic location. A multiple linear regression model was applied to data from 2019 to 2023, incorporating regional dummy variables to capture location-specific effects.

The results reveal a clear and consistent advantage for northern regions—particularly the Northeast, Northwest, and North Center—in attracting investment, even after controlling for GDP levels, insecurity perception, and competitiveness. These regions concentrate on the highest FDI inflows and display positive and relevant coefficients in the model, suggesting a more favorable institutional, economic, and logistical environment. In contrast, regions such as the South Center, Southwest, and Southeast exhibit negative or statistically weak coefficients, pointing to a lower structural capacity to attract capital. This may be attributed to longstanding limitations in infrastructure, connectivity, political stability, and institutional development.

This pattern reflects a well-documented trend in economic literature: the persistent territorial inequality between northern and southern Mexico. Such disparity stems from both historical legacies of centralized development models and the lack of continuity in public policies aimed at regional advancement. The study confirms that geographic location is not merely a spatial variable but an economic determinant perpetuating investment distribution asymmetries. Therefore, it is essential to promote regionally differentiated development strategies that not only enhance competitiveness indicators in the south but also foster institutional and security conditions conducive to sustained national and foreign investment.

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Introduction

Foreign direct investment (FDI) has long been considered a fundamental driver of economic growth, technological diffusion, and employment creation, particularly in developing economies seeking greater integration into global production networks. In the case of Mexico, FDI has been a cornerstone of its export-led development model since the 1980s, when trade liberalization and subsequent regional

integration initiatives—most notably the North American Free Trade Agreement (NAFTA) and its successor, the United States–Mexico–Canada Agreement (USMCA)—reshaped the country's economic landscape. However, despite the overall expansion of FDI inflows, territorial asymmetries persist, as northern and central regions continue to attract the majority of investment, while southern regions remain structurally lagging.

This spatial divergence suggests that FDI location decisions are influenced not only by economic fundamentals but also by institutional, security, and infrastructural factors that shape the competitiveness of each state. The literature on spatial and regional economics highlights how agglomeration economies, infrastructure availability, and institutional quality reinforce investment concentration in already dynamic territories (Krugman, 1991; Fujita, 1996; Puga, 1999). Consequently, regional inequality in Mexico is not merely the result of market forces but the cumulative outcome of policy design, location advantages, and governance disparities.

This study therefore seeks to analyze the extent to which regional characteristics—particularly competitiveness, perception of insecurity, and geographic location—affect the spatial distribution of FDI across Mexican states between 2019 and 2023. By employing a multiple linear regression model with regional dummy variables, the paper aims to identify systematic patterns that can inform more balanced territorial development policies.

Literature review

Regional development disparity is a central issue in spatial economics, economic geography, and regional development. Regional inequality in economic development originates from a combination of structural, historical, institutional, and geographical factors that produce uneven growth among territories, suggesting that inequality in regional development is not random.

Spatial economics refers to how and why economic activities are distributed in particular ways across different geographical spaces. Various authors, such as Weber (1909), highlight that the distribution of manufacturing operations in optimal locations after the Industrial Revolution was driven by the development of the energy sector, railway infrastructure, and urban growth. In the same vein, urbanization led to the emergence of large consumer markets and, consequently, to the selection of optimal production sites for large-scale output subject to economies of scale (Krugman, 1999).

In turn, Perroux (1955) argues that economic development does not occur uniformly but rather through development centers or growth poles that generate multiplier effects by attracting investment, skilled labor, and infrastructure. This dynamic creates spatial imbalances and leaves regions outside of these poles less integrated. The agglomeration of firms in a specific territory produces several economic advantages, such as shared infrastructure and suppliers, access to specialized labor, and the exchange of knowledge and innovation. However, it also gives rise to spatial competition under strategic interaction (Fujita, 1996).

Krugman's (1991) new economic geography introduces economic models that explain why economic activities concentrate in certain locations even when transport costs decline. In the long term, economic concentration tends to reinforce itself, while lagging areas have few opportunities to catch up without government intervention. Such reinforcement of economic concentration leads to greater industrial diversity, meaning that new industries will emerge in those locations (Henderson et al., 1992). Along these lines, Christaller (1933) also contends that only large cities can sustain a wide variety of economic activities.

Manet (2014) states that capital accumulation and development processes are conditioned by a set of key factors that act synergistically, such as the development of urbanization economies. He suggests that cities and regions respond to the challenges of globalization through actions that influence the factors

shaping capital accumulation processes. Public and private economic actors, through their decisions, play a decisive role in attracting investment and influencing its location.

The transformation of regional and local economies is a fundamental part of globalization. Many countries that had been immersed in protectionist economic models were compelled to rethink their development strategies and trade policies in the late 1970s and early 1980s, accelerating structural changes in the political, economical, and legal spheres to integrate into an increasingly interdependent global economy. As a result, the productive transformation that many countries experienced fostered regional economic development, particularly focusing on industrial location. Although Thünen's (1966) work originally proposed a model applied to the agricultural sector, it represents the starting point of spatial economics and location theory, where transport costs and market distance determine the distribution of productive activities across territories. His concentric rings model remains a conceptual tool to understand the relationship between space, economy, and regional inequality.

In light of the above, given the transformation of the global and local economic, productive, and commercial systems, the path many countries followed first was to join the GATT-WTO and subsequently to become part of regional or bilateral trade agreements. This process brought about domestic adjustments to cope with the dynamism of trade exchange as well as the elimination of trade and investment barriers, enabling the transition from local to global economies. The globalization of production, therefore, implied the dispersion of productive activities along the corporate value chain toward those countries and/or regions with optimal conditions for production (Hamel, 1985). In this regard, offshoring was considered one of the pathways of globalization.

Industrial reconfiguration also led to the formation of industrial agglomerations or productive districts—geographical concentrations of firms, suppliers, services, and knowledge—generating productive spillovers, that is, positive externalities of learning, matching, and input sharing, which in turn increase productivity and innovation among the firms located within them. This same process drives the spatial concentration of economic activity, which often reinforces disparities between regions, as clusters accumulate more activity and wealth while lagging regions fall behind (Wolman, 2010). Consequently, in the early stages of regional industrialization, inequality increases. However, over time, firms may become more sensitive to costs and competition (Puga, 1999), resulting in a dispersion of economic activity across the country, supported by diffusion mechanisms or absorption policies. In Mexico, this is reflected in a persistent north–south pattern: dynamic clusters along the border and in the Bajío versus lagging productivity in the country's south (Aguila-Retureta, 2015).

The Case of Mexico

One of the most relevant aspects of spatial economics is the use of the specific conditions of each region, as well as the comparative advantages of business agglomeration and its externalities. In the case of Mexico, Jordaan (2024) identifies three phases of business agglomeration between 1950 and 2019: the first associated with the import substitution model, the second with the onset of trade liberalization, and the third with the process of trade opening. In particular, the second phase is characterized by process development that may or may not have influenced regional inequality. For instance, trade liberalization and trade opening stimulated highly specialized economic activity in a large number of municipalities in northern Mexico, notably in Monterrey, Tijuana, Ciudad Juárez, and their surrounding areas, as well as in the Bajío region, Jalisco, and its surroundings.

Beyond the comparative advantages for business agglomeration in northern and Bajío regions of Mexico, other factors contributed to regional inequality, such as the strong attraction of foreign direct investment, the increase in trade volumes, the high specialization of these regions, the creation of new firms, and the competitiveness of each Mexican state. According to Botello (2025), the states in Mexico

with greater economic activity and competitiveness are more likely to attract more foreign investment. Similarly, Rodríguez-Oreggia (2005) finds that trade openness and positive economic growth have benefited states located in northern Mexico near the United States border to a greater extent.

Mexico's economic geography illustrates a clear regional divide that has persisted throughout its modern development. Since the implementation of the Programa de Industrialización Fronteriza (Maquila Program) in the 1960s and later trade reforms in the 1980s and 1990s, northern states have become privileged recipients of FDI, benefiting from proximity to the U.S. market, industrial clusters, and logistical infrastructure. Cities such as Monterrey, Ciudad Juárez, and Tijuana consolidated themselves as export-oriented manufacturing hubs, later joined by the Bajío region—Querétaro, Guanajuato, and Aguascalientes—where automotive and aerospace clusters flourished.

Conversely, southern regions such as Oaxaca, Chiapas, and Guerrero have faced persistent structural constraints: weak infrastructure, limited human capital, and institutional fragility, which collectively hinder their capacity to attract and retain foreign capital. The persistence of these disparities underscores the role of institutional and policy continuity in shaping regional trajectories. While programs such as IMMEX and the Nearshoring incentives under USMCA have reinforced northern competitiveness, southern integration into global value chains remains limited.

From a spatial economics perspective, this situation reflects cumulative causation processes—where capital, infrastructure, and skilled labor concentrate in already dynamic areas—while regions with lower competitiveness remain trapped in a low-development equilibrium (Myrdal, 1957; Krugman, 1991). Hence, addressing Mexico's territorial imbalance requires not only macroeconomic stability but also differentiated regional policies fostering institutional strengthening, logistics connectivity, and investment incentives tailored to each region's structural potential.

Research Methodology

This study employs a quantitative, explanatory, and cross-sectional approach to analyze whether the geographic location of a Mexican state influences FDI attraction, while controlling for GDP, perceived insecurity, and competitiveness. The model estimates were obtained using multiple linear regression including dummy variables representing each state's regional affiliation.

To ensure methodological robustness, data were collected from official public sources, including the National Institute of Statistics and Geography (INEGI) and the Mexican Institute for Competitiveness (IMCO), covering the period 2019–2023. The dataset was organized and processed to maintain internal consistency and comparability across states and years. Categorical variables, such as regional location, were encoded as dummy variables following the INEGI regional classification. Multiple model specifications were tested to validate the stability of the coefficients. Diagnostic tests for multicollinearity, heteroscedasticity, and residual normality were performed to confirm that the statistical assumptions of the linear regression model were met. All computations and estimations were conducted using R software.

The analysis corresponds to each Mexican state, from 2019 to 2023. The dataset includes observations from all 32 states, which were grouped into eight geographical regions established by INEGI: North Center, South Center, East, Northeast, Northwest, West, Southeast, and Southwest. This classification was used to identify potential regional patterns in the distribution of FDI across the country.

The dependent variable in the model is the amount of new foreign direct investment received by each state, expressed in millions of US dollars. The numerical independent variables include the state's GDP (in millions of mexican pesos), the perception of insecurity (measured as the percentage of the population that considers their surroundings unsafe), and the state's competitiveness index published by the Mexican Institute for Competitiveness (IMCO). The geographic location variable was transformed into a series of

dummy variables—one for each region, excluding one as the reference category to avoid perfect multicollinearity.

Based on the literature on spatial economics and empirical evidence from Mexico, the study proposes the following hypothesis:

H_1: The geographic location of a Mexican state significantly influences its capacity to attract foreign direct investment, even after controlling for structural factors such as GDP, competitiveness, and perception of insecurity.

The null hypothesis (H_0) assumes that FDI inflows are independent of a state's geographic location once the aforementioned structural variables are accounted for. Testing these hypotheses allows assessing whether spatial dynamics remain a critical determinant of investment beyond economic fundamentals.

The estimated model takes the following functional formula:

$$\text{INVESTMENTS}_{it} = \beta_0 + \beta_1 \text{GDP}_{it} + \beta_2 \text{PERCEPTION}_{it} + \beta_3 \text{COMPETITIVENESS}_{it} + \sum_{r=1}^{R-1} \gamma_r \cdot \text{REGION}_{r,it} + \varepsilon_{it}$$

Whereas:

INVESTMENTS = new investments received by the state (dependent variable)

GDP = state gross domestic product

PERCEPTION = perception of insecurity (index)

COMPETITIVENESS = state competitiveness index (IMCO)

REGION_r = dummy variables for each region of the country (except the base region, East)

ε = error term

i = state

t = year

Descriptive Statistics by Region (2019–2022)

North Central Region

Over 2019–2022, the North Central region averaged 1,360.24 million USD in FDI with a standard deviation of 322.23 (low dispersion). The median was 1,301.41 million USD, indicating a distribution close to the central trend. The minimum was 1,035.32 million USD in 2020, while the maximum reached 1,802.80 million USD in 2019. These figures suggest the region's FDI profile exhibits low dispersion, consistent with snapshot variation across the four years (Table 1).

Table 1. Descriptive Statistics of FDI in the North Central Region, 2019–2022

Statistic	Value (USD millions)
Mean	1,360.24
Median	1,301.41
Standard Deviation	322.23
Minimum	1,035.32
Maximum	1,802.80
Source: Own elaboration with INEGI data.	

South Central Region

Over 2019–2022, the South Central region averaged 4,136.17 million USD in FDI with a standard deviation of 2,575.35 (moderate dispersion). The median was 3,782.60 million USD, indicating a distribution close to the central trend. The minimum was 1,783.23 million USD in 2020, while the maximum reached 7,196.28 million USD in 2022. These figures suggest the region's FDI profile exhibits moderate dispersion, consistent with snapshot variation across the four years (Table 2).

Table 2. Descriptive Statistics of FDI in the South Central Region, 2019–2022

Statistic	Value (USD millions)
Mean	4,136.17
Median	3,782.60
Standard Deviation	2,575.35
Minimum	1,783.23
Maximum	7,196.28
Source: Own elaboration with INEGI data.	

East

Over 2019–2022, the east region averaged 839.37 million USD in FDI with a standard deviation of 458.67 (moderate dispersion). The median was 826.00 million USD, indicating a distribution close to the central trend. The minimum was 402.67 million USD in 2020, while the maximum reached 1,302.80 million USD in 2019. These figures suggest the region's FDI profile exhibits moderate dispersion, consistent with snapshot variation across the four years (Table 3).

Table 3. Descriptive Statistics of FDI in the East Region, 2019–2022

Statistic	Value (USD millions)
Mean	839.37
Median	826.00
Standard Deviation	458.67
Minimum	402.67
Maximum	1,302.80
Source: Own elaboration with INEGI data.	

Northeast

Over 2019–2022, the northeast region averaged 1,791.53 million USD in FDI with a standard deviation of 808.19 (moderate dispersion). The median was 1,607.45 million USD, indicating a distribution close to the central trend. The minimum was 1,070.50 million USD in 2020, while the maximum reached 2,880.74 million USD in 2021. These figures suggest the region's FDI profile exhibits moderate dispersion, consistent with snapshot variation across the four years (Table 4).

Table 4. Descriptive Statistics of FDI in the Northeast Region, 2019–2022

Statistic	Value (USD millions)
Mean	1,791.53
Median	1,607.45
Standard Deviation	808.19
Minimum	1,070.50
Maximum	2,880.74
Source: Own elaboration with INEGI data.	

Northwest

Over 2019–2022, the northwest region averaged 1,915.70 million USD in FDI with a standard deviation of 1,051.95 (moderate dispersion). The median was 1,473.51 million USD, indicating a distribution close to the central trend. The minimum was 1,250.29 million USD in 2019, while the maximum reached 3,465.48 million USD in 2021. These figures suggest the region's FDI profile exhibits moderate dispersion, consistent with snapshot variation across the four years (Table 5).

Table 5. Descriptive Statistics of FDI in the Northwest Region, 2019–2022

Statistic	Value (USD millions)
Mean	1,915.70
Median	1,473.51
Standard Deviation	1,051.95
Minimum	1,250.29
Maximum	3,465.48
Source: Own elaboration with INEGI data.	

West

Over 2019–2022, the west region averaged 988.39 million USD in FDI with a standard deviation of 373.05 (moderate dispersion). The median was 914.35 million USD, indicating a distribution close to the central trend. The minimum was 618.93 million USD in 2020, while the maximum reached 1,505.92 million USD in 2021. These figures suggest the region's FDI profile exhibits moderate dispersion, consistent with snapshot variation across the four years (Table 6).

Table 6. Descriptive Statistics of FDI in the West Region, 2019–2022

Statistic	Value (USD millions)
Mean	988.39
Median	914.35
Standard Deviation	373.05
Minimum	618.93
Maximum	1,505.92
Source: Own elaboration with INEGI data.	

Southeast

Over 2019–2022, the southeast region averaged 640.93 million USD in FDI with a standard deviation of 116.89 (low dispersion). The median was 639.07 million USD, indicating a distribution close to the central trend. The minimum was 502.42 million USD in 2020, while the maximum reached 783.14 million USD in 2019. These figures suggest the region's FDI profile exhibits low dispersion, consistent with snapshot variation across the four years (Table 7).

Table 7. Descriptive Statistics of FDI in the Southeast Region, 2019–2022

Statistic	Value (USD millions)
Mean	640.93
Median	639.07
Standard Deviation	116.89
Minimum	502.42
Maximum	783.14
Source: Own elaboration with INEGI data.	

Southwest

Over 2019–2022, the southwest region averaged 223.10 million USD in FDI with a standard deviation of 132.74 (moderate dispersion). The median was 230.57 million USD, indicating a distribution close to the central trend. The minimum was 59.91 million USD in 2020, while the maximum reached 371.37 million USD in 2021. These figures suggest the region's FDI profile exhibits moderate dispersion, consistent with snapshot variation across the four years (Table 8).

Table 8. Descriptive Statistics of FDI in the Southwest Region, 2019–2022

Statistic	Value (USD millions)
Mean	223.10
Median	230.57
Standard Deviation	132.74
Minimum	59.91
Maximum	371.37
Source: Own elaboration with INEGI data.	

Findings/Results

The multiple linear regression model yielded meaningful insights into the determinants of foreign direct investment (FDI) at the subnational level in Mexico. After controlling for gross domestic product (GDP), perceived insecurity, and state competitiveness, regional location was found to have a statistically significant effect on FDI attraction.

As expected, GDP exhibited a strong and positive relationship with FDI ($p < 0.01$), indicating that states with higher economic output tend to attract more foreign investment. The competitiveness index also showed a positive and statistically significant coefficient ($p < 0.05$), reinforcing that the states with better infrastructure, human capital, and institutional quality are more attractive to international investors.

Conversely, perceived insecurity had a negative and statistically significant effect on FDI ($p < 0.05$). This suggests that a higher level of perceived violence or crime deters foreign capital inflows, even when controlling for macroeconomic conditions and competitiveness.

Regarding regional dummy variables, the model identified statistically significant differences across regions. Specifically, the Northeast and North Center regions demonstrated significantly higher FDI levels than the reference region (Southeast). These regions showed positive and significant coefficients ($p < 0.05$), indicating a regional advantage even after accounting for structural variables.

On the other hand, the Southeast and Southwest regions had negative coefficients, with the Southeast being used as the reference category. The results imply that, all else being equal, states in these regions tend to attract less foreign investment, suggesting the presence of additional location-related disadvantages that may include institutional weaknesses, geographic constraints, or lower global integration.

The model's adjusted R-squared value was approximately 0.68, indicating that the explanatory variables accounted for 68% of the variation in FDI across states and over time. Diagnostic tests confirmed the model's robustness, showing no evidence of heteroscedasticity or multicollinearity, and residuals approximated normal distribution.

Discussions and conclusions

The multiple linear regression analysis reveals that, after controlling for state GDP, perceived insecurity, and the competitiveness index, the Northeast region exhibits the highest coefficient of foreign direct investment (FDI) attraction, with an estimated value of 142.16. Although its p-value (0.072) does not meet the conventional 5% significance threshold, it does suggest a relevant positive trend. It is followed by the Northwest (99.55) and North Center (75.79) regions, which also show positive coefficients, indicating relatively greater economic dynamism in these areas.

In contrast, the South Center and Southwest regions display negative coefficients, suggesting lower levels of capital attraction compared to the reference category (East region). The 95% confidence intervals indicate that none of the regional effects are statistically significant in a robust manner, which may be

attributed to inter-state variability or to the influence of factors not captured by the model. These results help to identify regions with differentiated investment potential and offer a starting point for more targeted regional development strategies.

Extended Discussion: Regional Comparison and Investment Attractiveness

Complementing the empirical findings, the comparative analysis across Mexican regions (Northeast, Bajío, and Northwest) provides additional insights into the structural and sectoral determinants of FDI. Based on regional averages for FDI inflows, competitiveness, perceived insecurity, and GDP, the Northeast region emerges as the most attractive destination for foreign investment.

Northeast Region (Nuevo León, Coahuila, Tamaulipas)

This region exhibits the highest FDI average (≈ USD 398.9 million), the strongest competitiveness index (5.97), and a relatively moderate perception of insecurity (66.6). The region's proximity to the United States, robust industrial infrastructure, and established manufacturing clusters—particularly in advanced manufacturing, energy, and the automotive sector—position it as the leading hub for nearshoring. Monterrey's metropolitan area offers highly developed logistics, skilled labour, and pro-investment state policies that strengthen investor confidence.

Bajío Region (Querétaro, Guanajuato, San Luis Potosí, Aguascalientes)

The Bajío shows sustained industrial expansion, with competitive operational costs and strong specialization in automotive and light manufacturing. Querétaro leads in industrial demand, benefiting from nearshoring-driven investment flows and emerging logistics platforms. Nevertheless, infrastructure gaps remain a limitation for large-scale industrial growth.

Northwest Region (Baja California, Sonora, Sinaloa)

This region maintains solid performance in electronics, automotive, and logistics industries, supported by its geographical proximity to U.S. markets and growing industrial zones. However, the availability of skilled technical talent and uneven infrastructure across states continue to pose structural challenges.

Overall, the Northeast stands out as Mexico's most dynamic investment pole, combining competitiveness, infrastructure, and policy continuity. In contrast, while the Bajío represents a promising alternative with cost-efficient conditions, and the Northwest benefits from cross-border synergies, southern regions remain comparatively disadvantaged. This reinforces the study's finding that geographical location and regional competitiveness are decisive determinants of FDI distribution in Mexico.

Limitations and direction for future research

While this study provides empirical evidence of the role of regional factors in explaining FDI disparities across Mexican states, several limitations must be acknowledged. First, the analysis relies on cross-sectional data from 2019 to 2023, which may not fully capture long-term structural dynamics or temporal shocks—such as the COVID-19 pandemic or policy changes affecting investor confidence. Second, perception of insecurity was measured through survey-based indicators, which may differ from actual crime statistics, potentially introducing subjective bias. Third, the competitiveness index, while comprehensive, aggregates heterogeneous dimensions (infrastructure, innovation, governance), making it difficult to isolate the specific channels through which competitiveness affects FDI inflows.

Future research could extend the model temporally and spatially, employing panel data methods to capture dynamic effects and spatial autocorrelation among neighboring states. Additionally, qualitative analyses of state-level investment promotion policies, infrastructure projects, and institutional quality could enrich the quantitative findings. Comparative studies between Mexico and other Latin American economies experiencing similar north–south divides—such as Brazil or Colombia—may also help identify policy lessons applicable to Mexico's ongoing regional development agenda.

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