Sector Analysis

Lack of FDI in energy has potential impact on nearshoring

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Several studies by BBVA Research Mexico have pointed out that one of the main challenges in attracting foreign direct investment (FDI) via nearshoring are the shortages of energy in the National Electricity System (SEN). In particularly, three factors stand out: i) the inconsistency in the energy policies promoted by the current government that mainly affects investors in renewable energies and private producers, causing national and international litigation; ii) lack of investment in generation and distribution that causes low reliability in the medium and long term in the electricity sector; and iii) service quality and trust indicators that are worsening, as well as the fact that high consumption seasons are becoming longer. Although these factors are differentiated among regions, it is a factor to be considered by investors when choosing the state or region in which they will invest.

In 2013, the electricity reform changed the industry with the introduction of the Electricity Industry Law (LIE) and the Federal Electricity Commission Law that created the Wholesale Electricity Market (MEM). Therefore, two of the activities were opened to private participation: electricity generation and commercialization. In contrast, transmission and distribution activities remained as exclusive activities of the State. The electricity reform meant moving from a monopolized industry to a multiple-player market where energy is traded under cost efficiency criteria and other products that allow the sector to operate in a more efficient and competitive manner.

Analyzing FDI in the Energy sector between 2006 and 2023, we can observe that FDI presented maximum levels between 2013 and 2018, with 55.3% of investment in this period. Between 2006 and 2023, this type of investment averaged $3,421 million USD at 2018 prices, with an average annual growth of 17.32%. The maximum FDI captured was in 2017, for a total of $6,796 million USD and the average FDI capture from 2019 to 2023 dropped to $2,787 million USD annually. FDI in Energy has plummeted between 2019 and 2023, being 50.1% lower if compared against the period from 2013 to 2017.

At the state level, in the same period of reference, the states with the highest FDI reception in energy have been Aguascalientes with 15.3% ($7,916 million USD), Veracruz 11.7% ($6,068 million USD) and Tamaulipas 10.1% ($5,245 million USD). FDI in the energy sector between 2018 and 2023 represents 11.6% of the total FDI that has entered Mexico. In its most recent Mexico Regional Sectoral Situation report, BBVA Research identified that the increase in industrial production attracts greater FDI in the energy sector with one or two years lag, which in turn has led to greater manufacturing production, primarily in those with an export profile.

The high levels of FDI in the energy sector observed between 2013 to 2018 are coincident with the regulatory changes in the electricity industry where the generation and supply of electricity was liberalized to private economic agents. Likewise, the drop in FDI in energy as of this 2019 means that the government has had to cover such investment to continue with the growth of the SEN, so the next government will have to re-generate the necessary conditions to attract FDI in the energy sector and thus maximize the potential for nearshoring.

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