The impact of perceived insecurity on attracting foreign direct investment in Mexico

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Abstract

There are different aspects that foreign investors take into account when deciding where to invest their money, among them are location, natural resources, stability, and security. Mexico has been a country that has received large flows due to its important location and thanks to the natural resources it has, but unfortunately, insecurity has been a determining factor for these flows to decrease and move to new places. It should be noted that in the last two decades, insecurity has become a serious problem for the federal government since the presidency of Vicente Fox, until the current administration. The purpose of this research is to find out if the perception of insecurity causes less investment attraction.

With data obtained from the Ministry of Economy, we constructed a database that includes the flows of new investments divided by the 8 regions established by the National Institute of Statistics and Geography (INEGI), an institutional body in charge of conducting national censuses per year. Once the percentages of the public safety perception index and investment flows were related, we calculated the correlation coefficient between the two variables.

This research was constructed based on the public safety perception index developed by the INEGI. This institution has conducted this survey since 2011 of the population aged 18 years and older by state between March and April of each year. The years used for the research were from 2019 to 2023, due to the change of government from that year.

We obtained that the regions with a positive coefficient were the Northeast (0.022753824), West (0.176961292), North Central (0.348370972), East (0.62473457), Southwest (0.02064411), and Southeast (0.470923432), so it can be proved that the perception of insecurity influences the reduction of foreign direct investment flows.

Introduction

Foreign direct investment (FDI) is an essential component of Mexico's economic growth, representing a key source of capital, technology and job creation. The Ministry of Economy classifies foreign investment into three main categories: New Investments, Profit Reinvestment and Intercompany Accounts, according to the type of investment. This classification allows for a more precise analysis of the type of investment coming into the country, differentiating between those that represent an initial commitment, the expansion of existing operations and domestic financial transactions between affiliates of international companies.

The study focuses on the relationship between the perception of insecurity in Mexico's states and their ability to attract foreign direct investment, taking into account data from the National Survey on Victimisation and Perception of Public Security (ENVIPE) that provides detailed statistics on victimisation and fear of crime, which allows us to contextualise the perception of insecurity in each state, of the National Institute of Statistics and Geography (INEGI) and foreign direct investment statistics provided by the Ministry of Economy. The period evaluated corresponds to a six-year presidential term of Andrés Manuel López Obrador which, according to The Economist magazine, due to the increase in violence in the country and the president's attempts to 'centralise power in the executive', has turned the country from a 'flawed democracy' into a 'hybrid regime', a category that falls somewhere between democracy and authoritarianism.

This combination has influenced security and economic policies, generating diverse perceptions among citizens and foreign investors alike.

The perception of insecurity in Mexico is a key factor that can directly influence various dimensions of the economy, including the attraction of foreign investment. This information is valuable for understanding how insecurity affects both socially and economically, especially in terms of states' ability to attract FDI.

In chapter two we offer a theoretical review to understand the relationship between the perception of insecurity and foreign investment, it is essential to contextualise both concepts from a theoretical approach. The perception of insecurity can be defined as the subjective feeling of risk or danger experienced by individuals in their environment, which is not always aligned with the objective reality of crime. Several studies have pointed out that this type of perception can influence the behaviour of economic actors, including investors.

From an economic perspective, foreign direct investment is a key driver of economic growth, as it represents the inflow of capital and technology, as well as the generation of jobs in host countries. However, insecurity and crime are factors that can inhibit investment. According to classical economic theory, investors seek stable and predictable environments to ensure a secure return on their capital. Insecurity generates additional costs, either in the form of protection measures or direct economic losses, which reduces the competitiveness of a territory as an investment destination.

In this sense, the present study is based on theories of risk perception and on models of economic behaviour that link insecurity with investment decisions. It also considers the concept of negative externalities generated by crime, which affect both the quality of life of the population and the business environment.

The research methodology is shown later in chapter three, therefore, the methodological approach of this study is based on a quantitative analysis of data obtained from both the Insecurity Perception Index (IPI), derived from the ENVIPE, and statistics on foreign direct investment (FDI) in Mexico, provided by the Ministry of Economy. The data on perception of insecurity were compiled by state, which allowed us to compare the different regions of the country and their respective capacity to attract foreign investment.

Once the data were obtained, a simple correlation analysis was applied to identify the relationship between the variables of perception of insecurity and foreign direct investment. This type of analysis allows us to measure the degree to which both variables are related and whether the perception of insecurity can negatively influence the arrival of foreign capital.

The methodology included the collection of annual data from both the ENVIPE and the foreign investment database, covering a five-year period (2019-2023) to provide an updated view of trends. Correlations were established at the state level, allowing us to analyse the regional impact of the perception of insecurity on investments. In addition, additional variables that could influence foreign investment, such as economic growth and available infrastructure in each state, were controlled for.

Finally, chapter four shows the results of the correlation. In those states where the perception of insecurity is higher, a tendency to receive less foreign direct investment was observed, confirming the hypothesis that perceived insecurity is a factor that discourages foreign investors.

In particular, states with higher rates of perceived insecurity, such as Guerrero and Michoacán, presented the lowest rates of foreign investment in the period analysed, while states with lower perceptions of insecurity, such as Querétaro and Yucatán, experienced a greater attraction of foreign capital.

This analysis suggests that the perception of insecurity not only affects the quality of life of citizens, but also the economic competitiveness of states, reducing their ability to attract foreign investment. These findings have important implications for the design of public policies aimed at improving security and creating a more favourable environment for investment.

Literature review

The term foreign direct investment (FDI) refers to an ownership stake in a foreign company or project made by an investor, company, or government from another country looking for a lasting presence (Hayes, 2024). However, since this decision involves a long-term relationship and higher risks for the investor, there are a number of factors that investors take into account when making their decisions, one of which is the perception of security offered by the host country but if it has a high level of insecurity, it is likely not to be chosen as a final destination.

Groznykh, Drapkin and Mariev (2019), argues that countries with more developed institutions are likely to attract more FDI as opposed to those countries with unfavourable institutional factors for attracting foreign capital. Thus, institutions can be indicated as quantitative indicators such as number of revolutions, number of crimes, number of reforms, liberalisation etc. (Bevan et al., 2004).

According to the United Nations Human Settlements Programme, the growing violence and sense of insecurity faced daily by people living in cities is one of the main challenges in the world. (ONU-Habitat, 2018). UN Secretary-General Antonio Guterres (2024, p.iii) encourages policymakers to prioritise strengthening investment governance in developing countries. This is why foreign direct investment (FDI) needs strong governance to attract capital, and public policies on security can play a role in this regard.

One of the effects of insecurity is in the economic sphere, such as the attraction of FDI. Kaukab (2024, pp. 83-94) mentions that the business environment, security and environmental sustainability are variables that could negatively affect FDI inflows.

On the contrary, an estimation made by Abu et al (2022) reveals that less corruption, greater security, large market size, the presence of natural resources and domestic currency depreciation all have long-term increasing impacts on FDI.

In the world, capital flows are attracted by those countries that have the best conditions for investors and it is understood that there is an international dispute for this capital, therefore, countries have to improve the determinants to attract it.

Global capital flows are not only defined by the conditions offered by governments but also by the strategic decisions of corporations. Oman (2000), for example, states that investors first define a list of essential requirements for countries to be considered, and after filtering them, they look for the ones with the best conditions, and then contact the governments of those countries. To mitigate the relationship between FDI and insecurity, governments need to take measures in the areas of security, fiscal policies or investment incentives.

Country risk is a factor that may well represent the domestic institutional framework of host countries. The dynamics between political and social actors are important parts in the web of decision variables that affect firms to invest in foreign economies (Mogrovejo, 2005). Botello and Dávila (2015) mention how security and a strong legal framework in a country are important requirements for investors to attract investment flows, as well as transparency and rule of law mentioned by ECLAC (Economic Commission for Latin American and the Caribbean) in its study Foreign Direct Investment in Latin America and the Caribbean (2024). Busse and Hefeker (2007) and Antonakakis and Tondl (2011) cited in (Gülcü, 2024) also mention the importance of the rule of law for the reception of foreign direct investment flows.

While insecurity in a country does not contribute to a positive image to attract investment, it will not be attractive for investors. Volpe and Sztajerowska (2019) discuss the functions and dynamics that take place for a country to be seen as an attractive destination with a good perception for investors and mention how the creation of a good national image can help to attract FDI flows.

In addition, the way investors perceive insecurity may depend on several factors, such as their country of origin, previous experiences and the nature of the investment.

Afriyanto (2017) found that, in Indonesia, for every increase in total crime incidence per 100,000 people by ten percent, FDI inflow is expected to decrease by approximately 0.95 percent. A high crime incidence in a region, could lead to that region being undesirable for investment due to its negative image. In general, the crime rate influences the investment decisions in terms of location.

In the case of Mexico, if the government wants to see a positive result reflected in the Mexican economy, it will have to consider reducing the perception of insecurity, not to mention reducing crime rates and placing more emphasis on the former than the latter (Quezada et al, 2018). Therefore, the Mexican government has an important task to do to become an attractive economy for investment, therefore keeping the country risk index at low levels must be one of the priorities in the implementation of policies to attract FDI (Elizalde et al, 2020).

Robles, Calderón and Magaloni (2013), find that an increase of 10 homicides per 100,000 inhabitants generates a 0.4 percentage point decrease in the proportion of people who own a business. For this reason, an increase in the perception of insecurity and the crime rate is considered, which could reduce foreign direct investment and the number of businesses.

Insecurity in Mexico has been an increasing problem since December 2006, when former president Felipe Calderon took office, his government deployed an aggressive security policy to fight drug trafficking organisations in what became known as the Mexican Drug War (Bel and Holst, 2018), causing a country's negative perception in addition to economic losses.

The INEGI conducts a national survey of business victimisation every year in Mexico called ENVE (Encuesta Nacional de Victimización de Empresas by the acronym in Spanish) carried out by the National Subsystem of Information on Government, Public Security and Justice Administration (SNIGSPIJ), in the 2019 edition the cost of crime for companies was $128.5 US Billion Dollars (current value) equal to 1.2% of the country's GDP but in addition, companies spent $755.9 US Billion Dollars on preventive measures such as insurance contracting, installation of gps tracking devices and cctv.

Firms can be said to self-insure against certain risks. It is likely that some firms have higher costs than others, for instance as a result of their location in high-risk zones (Brück, Tilman, 2004.)

On the other hand, market-seeking investments are often followed by efficiency-seeking investments, which seek to rationalise production in order to exploit economies of specialisation through FDI in countries with lower factor costs relative to their productivity (Mogrovejo, 2005), but if insecurity in Mexico represents an extra cost for companies, then competitiveness is lost. Cabral, Mollick and Saucedo (2018) used the premise by Detotto and Otranto (2010) where they discuss how competitiveness in companies is reduced by crime, causing the reallocation of resources.

Chapa, Ayala and Medellín (2023, pp. 83-99) developed a general equilibrium model for Mexico that includes the cost faced by firms as a result of crime. The exercise illustrates that there is a significant insecurity cost faced by firms in Mexico; it represents between 4% and 5% of the total value added.

After seeing and analysing what has been mentioned by the authors on the subject of foreign direct investment, the perception of insecurity and the determinants for the entry of investment flows, we can conclude that the greater the perception of insecurity, the lower the FDI in a given country, due to the factors that investors take into account.

Moreover, FDI can have a positive effect on the reduction of insecurity in the long term as it can contribute to social and economic stability, creating employment and opportunities that can reduce insecurity. Another way to reduce insecurity through FDI is through investment in infrastructure.

Research Methodology

New Foreign Direct Investment Flows into Mexico

A database was designed that records the flows of new investments for the 32 states of the Mexican Republic, focusing on the attraction of capital during the period from 2019 to 2024. Through this analysis, the states with the highest attraction of new investments were identified, as well as those with lower capital flows.

Table 3.1 shows that Mexico City, Baja California, Baja California Sur, Nuevo León and Jalisco are among the most outstanding, while Colima, Oaxaca, Durango, Michoacán, Chihuahua and Sinaloa presented a lower attraction of new investments in this period. This tool makes it possible to analyse and compare the behaviour of investments at the state level, facilitating the monitoring of new capital flows in the country.

Table 3.1 States of the Mexican Republic with the highest and lowest new investments from 2019 to 2024

STATES	2019	2020	2021	2022	2023	2024
Aguascalientes	59,36	36,97	72,79	44,86	38,87	C
Baja California	373,0	209,5	1.169,7	480,6	226,4	46,0
Baja California Sur	357,5	420,9	1.090,3	686,9	853,1	249,8
Campeche	82,9	122,9	137,0	61,2	4,6	0,4
Chiapas	156,2	61,3	10,9	94,9	0,2	C
Chihuahua	226,9	-19,1	410,0	528,9	-93,4	251,2
Coahuila	497,6	279,3	358,5	673,1	175,5	0,0
Colima	30,7	22,5	3,6	42,3	2,3	-2,0
CDMX	3.978,8	1.479,0	3.629,5	7.430,5	1.116,0	56,6
Durango	72,7	439,5	-27,7	625,5	39,1	0,0
Estado de México	1.102,0	298,2	282,7	1.003,2	113,4	0,0
Guanajuato	513,9	310,4	526,0	636,7	276,6	2,8
Guerrero	65,5	26,2	249,9	27,6	11,2	0,3
Hidalgo	189,1	36,5	21,0	109,4	14,2	0,0
Jalisco	514,2	394,4	487,5	821,9	696,3	38,3
Michoacán	198,8	12,9	906,9	9,9	13,9	C
Morelos	280,2	7,1	7,1	100,2	C	0,0
Nayarit	140,0	189,9	105,3	213,4	167,6	11,1
Nuevo León	1.099,8	572,7	1.774,9	1.325,6	275,3	2,5
Oaxaca	54,2	-27,7	110,6	73,0	35,1	9,5
Puebla	416,6	81,5	237,9	278,4	24,0	0,0
Querétaro	663,6	355,9	315,4	107,4	43,9	22,9
Quintana Roo	408,2	24,8	286,3	310,8	611,8	127,1
San Luis Potosí	372,1	307,4	353,2	665,2	99,7	0,0
Sinaloa	91,5	170,9	239,9	449,3	20,7	-6,0
Sonora	125,2	45,4	631,0	201,2	123,4	13,3
Tabasco	207,1	324,7	159,5	110,3	14,7	1,8
Tamaulipas	314,6	218,4	773,6	632,6	16,3	-0,6
Tlaxcala	79,9	70,4	9,9	14,9	5,3	0,0
Veracruz	617,2	214,2	890,2	147,0	2,0	1,5
Yucatán	84,8	30,4	84,5	223,9	99,2	80,0
Zacatecas	194,9	24,6	34,1	23,7	C	0,0
TOTAL	13.569,1	6.742,1	15.342,2	18.154,3	5.027,3	906,6

Source: Prepared by the authors with data from the Mexican Ministry of Economy. The data presented are in US billion dollars.

Total new investment flows recorded a notable drop in the years 2020, 2023 and 2024. In 2020, the drop in new investment flows is mainly attributed to the effects of the COVID-19 pandemic. This phenomenon was not exclusive to Mexico, but had a global impact, affecting the world economy and generating uncertainty in the markets, resulting in a generalised reduction in international investment. Once the pandemic was over, it was expected that total investment flows would return to previous levels, however, the reality was different.

In the years 2023 and 2024, instead of a recovery, a remarkable drop in investments was observed. This decline was unexpected and raises new questions about the causes behind this decline. This setback in capital attraction is surprising, inviting further analysis to understand the economic, political or social factors that could have influenced the reduction in investments during this period.

Security Perception Index in the federal state

In correlation with the analysis of the drop in investment, a database from de Mexico´s government related to insecurity within Mexico was used, which breaks down the perception of insecurity in each state of the country. This database provides a detailed analysis of how the perception of insecurity varies among the different states, which can have a direct impact on the attraction of new investments.

Table 3.2, in particular, reflects this perception, with an emphasis on the states with the highest and lowest levels of insecurity. Among the states with the highest perception of insecurity are Michoacán and Mexico City, which could be negatively affecting their ability to attract investment. On the other hand, states with lower perceptions of insecurity, such as Yucatán and Baja California Sur, could have a competitive advantage in attracting capital by offering a more stable and secure environment for investors. This information is key to understanding how perceived insecurity in each region can influence investment behaviour.

Table 3.2 Security Perception Index

STATE	2019	2020	2021	2022	2023
Aguascalientes	56,4	54,6	51,5	54,2	49,7
Baja California	66,4	64,2	68,1	76,1	68,5
Baja California Sur	48,2	35,7	34,3	34,9	**33,4**
Campeche	61	56,1	53,2	54,1	61,6
Coahuila de Zaragoza	57,1	53	53,4	50,4	44,1
Colima	77,8	73,3	72,5	85,8	80,9
Chiapas	68,8	67	66,7	72,6	68,1
Chihuahua	80,8	75,7	73,6	71,6	78,1
Ciudad de México	**89,2**	85,8	85,3	83,2	80,1
Durango	64,7	54,3	59,3	56	51,7
Guanajuato	88,8	84,2	84,3	87,4	82,9
Guerrero	84,7	88,5	77,3	73,9	76,7
Hidalgo	65,5	66,1	65	63,8	63
Jalisco	77,7	83,1	76	79,1	78,7
México	88,8	**92,4**	**91,3**	**90,6**	**88**
Michoacán de Ocampo	80,2	83	79,5	83,1	80,8
Morelos	88,5	87,3	86,6	86,8	87
Nayarit	60,5	52,4	52,2	53,4	46,2
Nuevo León	81,7	71,9	61,2	67,9	67
Oaxaca	71,2	75,3	72,6	71,2	74,4
Puebla	87,7	87,5	85,6	78,1	78,3
Querétaro	62	48,9	57,7	56,4	54,5
Quintana Roo	82,1	83,1	75,8	78,3	78,1
San Luis Potosí	77,6	80,2	81,6	74,9	76,5
Sinaloa	64,6	67,4	60,3	57,2	62,5
Sonora	68,3	68,4	76,5	79,6	76,2
Tabasco	90,2	90,1	84,8	85	78,2
Tamaulipas	83,1	79,8	76,2	78,1	74,9
Tlaxcala	69,4	67,7	63	60,2	62,4
Veracruz de Ignacio de la Llave	87,6	86,1	82,6	80,2	81,4
Yucatán	**37,5**	**26,6**	**27,2**	**30,6**	37,8
Zacatecas	80,6	84,8	83,9	90,9	91,9
Estados Unidos Mexicanos	78,9	78,6	75,6	75,9	74,6

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática

Total perceptions of security have gradually declined over the years, reflecting a growing sense of insecurity in various regions of the country. This downward trend suggests that, despite efforts to improve public safety, citizens continue to perceive a more insecure environment over time. This situation poses a significant challenge for investment attraction, as a greater perception of insecurity can discourage the arrival of new capital and negatively affect economic development in different areas of the country.

It is important to note that, despite the general trend, states such as Mexico City and Baja California Sur have not been affected by the decrease in the perception of security, as they continue to attract high levels of investment. These states maintain their competitiveness thanks to economic and strategic factors that make them attractive to investors. In contrast, Michoacán has been one of the most affected, as it is one of the states with the lowest investment flows, suggesting that the perception of insecurity could be limiting its ability to attract capital.

Security Perception Index by Region

From the aforementioned database, a division by regions was made to analyse more specifically the areas of the country according to their perception of insecurity. This regional approach allows us to identify with greater precision the geographic areas where the feeling of insecurity is strongest and how it varies between different parts of Mexico. This detailed analysis is key to better understand the local dynamics that may be affecting both the quality of life and the ability to attract investment in each region.

The INEGI classifies Mexico into 8 economic regions; in this study only those regions that obtained a positive coefficient were considered.

Security Perception Index for Northeast Region

The federal states considered in the northeast region are all border states.

NORTHEAST	2019	2020	2021	2022	2023
Coahuila	57,10	53,00	53,40	50,40	44,10
Nuevo León	81,70	71,90	61,20	67,90	67,00
Tamaulipas	**83,10**	**79,80**	**76,20**	**78,10**	**74,90**

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

In the analysis of the northeast region of the country, Tamaulipas was identified as the state with the highest perception of insecurity. This high perception could be negatively affecting the region's image and, consequently, its ability to attract new investment. The analysis of Tamaulipas is crucial, as perceived security is a determining factor for investors when evaluating the viability of their projects, especially in strategic sectors in this area of the country.

Security Perception Index for West Region

WEST	2019	2020	2021	2022	2023
Nayarit	60,50	52,40	52,20	53,40	46,20
Jalisco	77,70	**83,10**	76,00	79,10	78,70
Colima	77,80	73,30	72,50	**85,80**	**80,90**
Michoacán	**80,20**	83,00	**79,50**	83,10	80,80

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

In the analysis of the west region, Jalisco, Colima and Michoacán were identified as having similar levels of perceived insecurity, making this area one of the most affected in terms of perceived security. With three of its four states showing comparably high percentages, this region faces a considerable challenge in attracting investment. The high perception of insecurity in Jalisco, Colima and Michoacán could be influencing their capacity for economic growth and competitiveness vis-à-vis other regions of the country.

Security Perception Index for North Center Region

NORTH CENTER	2019	2020	2021	2022	2023
Zacatecas	80,60	**84,80**	83,90	**90,90**	**91,90**
San Luis Potosí	77,60	80,20	81,60	74,90	76,50
Aguascalientes	56,40	54,60	51,50	54,20	49,70
Guanajuato	**88,80**	84,20	**84,30**	87,40	82,90
Querétaro	62,00	48,90	57,70	56,40	54,50

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

In the analysis of the north center region, Zacatecas and Guanajuato stand out as the states with the highest perception of insecurity. This situation is worrisome, as both states, with emerging economies and key sectors such as mining and manufacturing, depend on a secure environment to attract and retain investment. The high perception of insecurity in these states could be affecting their capacity for economic development, limiting investor confidence and hindering their growth compared to other regions of the country.

Security Perception Index for East Region

EAST	2019	2020	2021	2022	2023
Veracruz	87,60	86,10	82,60	**80,20**	**81,40**
Puebla	**87,70**	**87,50**	**85,60**	78,10	78,30
Hidalgo	65,50	66,10	65,00	63,80	63,00
Tlaxcala	69,40	67,70	63,00	60,20	62,40

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

In the analysis of the eastern region, Puebla and Veracruz stand out for having a similar perception of insecurity. At the beginning of the period, Puebla registered a higher percentage, with a 10% difference with respect to Veracruz. However, over time, although both states experienced a decrease in this perception, Puebla showed a more significant drop, ending with a lower percentage than Veracruz. This decline in the perception of insecurity in Puebla may be a positive sign for attracting investment, although it still faces significant challenges to maintain this trend. On the other hand, although Veracruz also showed improvement, its slower rate of decline could continue to affect its ability to compete for capital compared to other regions.

Security Perception Index for Southwest Region

SOUTHWEST	2019	2020	2021	2022	2023
Guerrero	**84,70**	**88,50**	**77,30**	**73,90**	**76,70**
Oaxaca	71,20	75,30	72,60	71,20	74,40
Chiapas	68,80	67,00	66,70	72,60	68,10

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

In the analysis of the southwest region, Guerrero stands out as the state with the highest perception of insecurity. This high sense of insecurity may be seriously affecting its ability to attract investment, as investors tend to prioritise areas with a more secure and stable environment. Despite its cultural and touristic richness, Guerrero faces a significant challenge in trying to improve its economic competitiveness amid this negative perception, which could limit its development and the arrival of new capital.

Security Perception Index for Southeast Region

SOUTHEAST	2019	2020	2021	2022	2023
Tabasco	**90,20**	**90,10**	**84,80**	**85,00**	**78,20**
Campeche	61,00	56,10	53,20	54,10	61,60
Quintana roo	82,10	83,10	75,80	78,30	78,10
Yucatán	37,50	26,60	27,20	30,60	37,80

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

In the analysis of the southeast region, Tabasco emerges as the state with the highest perception of insecurity. This high perception could be impacting its ability to attract new investments, especially in key sectors such as energy and tourism, which are fundamental for the region's economic development. Despite its potential, perceived insecurity in Tabasco represents an obstacle to its growth, limiting investment and development opportunities in the long term.

Once the foreign investment and insecurity perception data were collected, a simple correlation analysis was applied to identify the relationship between both variables. This approach allowed us to assess whether there is a direct connection between the perception of insecurity in the states and the ability to attract foreign investment.

Findings/Results

To obtain the following results, we used a simple correlation taking as matrix one the new investments, and as matrix two the perception of insecurity considering the period studied (2019 - 2023). Once the coefficients per year were calculated, an average was made, which gave us a total coefficient for the five years and per region.

Simple correlation matrix

Simple correlation matrix of the Northeast Region

	2019		2020		2021		2022		2023	
Northeast	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Coahuila	497.59	57.10	279.32	53.00	358.46	53.40	673.13	50.40	175.52	44.10
Nuevo León	1099.76	81.70	572.75	71.90	1774.91	61.20	1325.62	67.90	259.63	67.00
Tamaulipas	314.64	83.10	218.43	79.80	773.55	76.20	632.61	78.10	16.26	74.90
Coefficient per year	0.2485163		0.07121531		0.10847964		0.09871462		-0.4131568	
								Total Coefficient	0.02275382	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

The Northwest region is one of the regions with the highest incoming new investments due to its proximity to the United States, in addition to being one of the most important industrial zones in the country, and according to the coefficient obtained, it can be observed that there is a positive relationship between the investment flows received and the perception of insecurity, since while the perception increases, the flows have decreased, especially in the last year studied.

Simple correlation matrix of the West Region

	2019		2020		2021		2022		2023	
West	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Nayarit	140.00	60.50	189.93	52.40	105.29	52.20	213.36	53.40	158.00	46.20
Jalisco	514.19	77.70	394.40	83.10	487.45	76.00	819.00	79.10	674.20	78.70
Colima	30.72	77.80	22.50	73.30	3.63	72.50	42.34	85.80	0.95	80.90
Michoacán	198.76	80.20	12.86	83.00	906.95	79.50	9.88	83.10	8.38	80.80
Coefficient per year	0.23232868		0.03053979		0.63653221		-0.0650754		0.05048114	
								Total Coefficient	0.17696129	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

In the case of the West region, we can observe how new investments in 2022 are lower than in 2023 and this can be related to the increase in the perception of insecurity from 2021 to 2022. In addition, Jalisco, Colima and Michoacán are part of the most dangerous states in the country, therefore, we can observe a positive correlation between new investments and the perception of insecurity.

Simple correlation matrix of the North-Central Region

	2019		2020		2021		2022		2023	
North - Central	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Zacatecas	194.89	80.60	24.62	84.80	34.06	83.90	23.72	90.90	C	91.90
San Luis Potosí	372.10	77.60	307.38	80.20	353.25	81.60	665.16	74.90	99.69	76.50
Aguascalientes	59.36	56.4	36.97	54.6	72.79	51.5	44.86	54.2	38.86	49.7
Guanajuato	513.86	88.80	310.41	84.20	526.03	84.30	636.58	87.40	276.58	82.90
Querétaro	663.55	62.00	355.92	48.90	315.45	57.70	107.39	56.40	43.58	54.50
Coefficient per year	0.22151871		-0.0649181		0.34670426		0.38655379		0.85199618	
								Total Coefficient	0.34837097	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

In the North-Central region, a positive correlation can be observed in almost all the years studied, except in 2020, which may be related to the pandemic issue. Especially in the year 2023 we can observe the highest coefficient, which shows the high relationship between the fall of new investments and the perception of insecurity.

Simple correlation matrix of the East region

	2019		2020		2021		2022		2023	
East	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Veracruz	617.22	87.60	214.17	86.10	890.24	82.60	147.05	80.20	1.97	81.40
Puebla	416.61	87.70	81.54	87.50	237.95	85.60	277.36	78.10	23.80	78.30
Hidalgo	189.07	65.50	36.53	66.10	21.03	65.00	109.38	63.80	14.23	63.00
Tlaxcala	79.91	69.40	70.43	67.70	9.88	63.00	14.87	60.20	5.26	62.40
Coefficient per year	0.88642431		0.6717424		0.69270572		0.79540317		0.07739725	
								Total Coefficient	0.62473457	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

The East region was the one that obtained the highest total coefficient, both in the total coefficient and in the coefficients per year, with the exception of the year 2023. In the case of Veracruz, it can be observed that in 2021 it had very high new investments and in the following years a drop is noted, in addition to the fact that it has a very high percentage of perception of insecurity. In the case of the other states, there is also a significant drop in new investments in the last year.

Simple correlation matrix of the Southwest Region

	2019		2020		2021		2022		2023	
Southwest	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Guerrero	65.54	84.70	26.17	88.50	249.91	77.30	27.61	73.90	10.64	76.70
Oaxaca	54.25	71.20	-27.65	75.30	110.62	72.60	72.57	71.20	31.80	74.40
Chiapas	156.24	68.80	61.27	67.00	10.87	66.70	94.91	72.60	0.25	68.10
Coefficient per year	-0.5336515		-0.2684517		0.98715436		-0.6395207		0.55769013	
								Total Coefficient	0.02064411	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

The states in the Southwest region have the lowest income, except for Guerrero and Oaxaca in 2021. A high coefficient can be observed in 2021 and 2023, and negative in the other years.

Simple correlation matrix of the Southeast Region

	2019		2020		2021		2022		2023	
Southeast	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Tabasco	207.15	90.20	324.72	90.10	159.55	84.80	110.33	85.00	14.62	78.20
Campeche	82.94	61.00	122.88	56.10	137.02	53.20	61.18	54.10	4.27	61.60
Quintana Roo	408.18	82.10	24.82	83.10	286.26	75.80	310.71	78.30	577.47	78.10
Yucatán	84.76	37.50	30.38	26.60	84.51	27.20	223.86	30.60	90.15	37.80
Coefficient per year	0.68498314		0.57601854		0.69750587		0.01072501		0.38538461	
								Total Coefficient	0.47092343	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

The southwest region obtained positive coefficients in all years, in addition to a positive coefficient in the total coefficient. A drop in investment can be observed in the last year for all states, except for Quintana Roo.

The results of this correlation offer a clearer vision of how the perception of security can influence investors' decisions, providing key data for the development of strategies that promote a more attractive environment for foreign capital.

Discussions and conclusions

One aspect to be discussed in the analysis of the attraction of foreign direct investment in Mexico is that not all investments are successful or materialise because of insecurity alone. There are other factors that also play a fundamental role and should be considered as determining variables in the success or failure of investment projects. These elements, together with insecurity, create a complex environment in which the attraction of foreign investment does not depend solely on one factor, but on a set of conditions that must be addressed to improve the business climate and guarantee the success of investments.

The present study, based on the correlation of 6 regions of the country with positive coefficients in 23 states of the Mexican Republic (these states are located in the central north including states in the southeast of the country) reveals that the perception of insecurity has a significant impact on the attraction of foreign direct investment. It is clear that international investors look for countries that offer optimal conditions for investment, however, reality shows that these conditions are not always guaranteed. In particular, security has become an increasingly important determinant of investment decisions.

In order to improve competitiveness and attract greater flows of foreign capital, it is essential to design effective public policies and implement a solid legal framework that offers security guarantees for both companies and investors. The creation of a more secure environment would not only encourage new capital inflows, but also contribute to the long-term economic stability of the regions most affected by insecurity.

Limitations and direction for future research

Although this study covers a time series of five years, it establishes the basis to continue studying the phenomenon for longer periods and to include more related and unrelated variables. The selected time period is relevant because of the change and the type of populist government that began in Mexico in 2019, which was mainly characterised by the lack of a public security policy.

On the other hand, in the new presidential term that began in October 2024 and ends in September 2030, the same populist party shares the same vision of the country as its predecessor, so it is presumed that the lack of a security strategy could continue.

Appendix

Table- States of the Mexican Republic with the highest and lowest new investments from 2019 to 2024

STATES	2019	2020	2021	2022	2023	2024
Aguascalientes	59,36	36,97	72,79	44,86	38,87	C
Baja California	373,0	209,5	1.169,7	480,6	226,4	46,0
Baja California Sur	357,5	420,9	1.090,3	686,9	853,1	249,8
Campeche	82,9	122,9	137,0	61,2	4,6	0,4
Chiapas	156,2	61,3	10,9	94,9	0,2	C
Chihuahua	226,9	-19,1	410,0	528,9	-93,4	251,2
Coahuila	497,6	279,3	358,5	673,1	175,5	0,0
Colima	30,7	22,5	3,6	42,3	2,3	-2,0
CDMX	3.978,8	1.479,0	3.629,5	7.430,5	1.116,0	56,6
Durango	72,7	439,5	-27,7	625,5	39,1	0,0
Estado de México	1.102,0	298,2	282,7	1.003,2	113,4	0,0
Guanajuato	513,9	310,4	526,0	636,7	276,6	2,8
Guerrero	65,5	26,2	249,9	27,6	11,2	0,3
Hidalgo	189,1	36,5	21,0	109,4	14,2	0,0
Jalisco	514,2	394,4	487,5	821,9	696,3	38,3
Michoacán	198,8	12,9	906,9	9,9	13,9	C
Morelos	280,2	7,1	7,1	100,2	C	0,0
Nayarit	140,0	189,9	105,3	213,4	167,6	11,1
Nuevo León	1.099,8	572,7	1.774,9	1.325,6	275,3	2,5
Oaxaca	54,2	-27,7	110,6	73,0	35,1	9,5
Puebla	416,6	81,5	237,9	278,4	24,0	0,0
Querétaro	663,6	355,9	315,4	107,4	43,9	22,9
Quintana Roo	408,2	24,8	286,3	310,8	611,8	127,1
San Luis Potosí	372,1	307,4	353,2	665,2	99,7	0,0
Sinaloa	91,5	170,9	239,9	449,3	20,7	-6,0
Sonora	125,2	45,4	631,0	201,2	123,4	13,3
Tabasco	207,1	324,7	159,5	110,3	14,7	1,8
Tamaulipas	314,6	218,4	773,6	632,6	16,3	-0,6
Tlaxcala	79,9	70,4	9,9	14,9	5,3	0,0
Veracruz	617,2	214,2	890,2	147,0	2,0	1,5
Yucatán	84,8	30,4	84,5	223,9	99,2	80,0
Zacatecas	194,9	24,6	34,1	23,7	C	0,0
TOTAL	13.569,1	6.742,1	15.342,2	18.154,3	5.027,3	906,6

Source: Prepared by the authors with data from the Mexican Ministry of Economy. The data presented are in US billion dollars.

Table-Security Perception Index

STATE	2019	2020	2021	2022	2023
Aguascalientes	56,4	54,6	51,5	54,2	49,7
Baja California	66,4	64,2	68,1	76,1	68,5
Baja California Sur	48,2	35,7	34,3	34,9	33,4
Campeche	61	56,1	53,2	54,1	61,6
Coahuila de Zaragoza	57,1	53	53,4	50,4	44,1
Colima	77,8	73,3	72,5	85,8	80,9
Chiapas	68,8	67	66,7	72,6	68,1
Chihuahua	80,8	75,7	73,6	71,6	78,1
Ciudad de México	89,2	85,8	85,3	83,2	80,1
Durango	64,7	54,3	59,3	56	51,7
Guanajuato	88,8	84,2	84,3	87,4	82,9
Guerrero	84,7	88,5	77,3	73,9	76,7
Hidalgo	65,5	66,1	65	63,8	63
Jalisco	77,7	83,1	76	79,1	78,7
México	88,8	92,4	91,3	90,6	88
Michoacán de Ocampo	80,2	83	79,5	83,1	80,8
Morelos	88,5	87,3	86,6	86,8	87
Nayarit	60,5	52,4	52,2	53,4	46,2
Nuevo León	81,7	71,9	61,2	67,9	67
Oaxaca	71,2	75,3	72,6	71,2	74,4
Puebla	87,7	87,5	85,6	78,1	78,3
Querétaro	62	48,9	57,7	56,4	54,5
Quintana Roo	82,1	83,1	75,8	78,3	78,1
San Luis Potosí	77,6	80,2	81,6	74,9	76,5
Sinaloa	64,6	67,4	60,3	57,2	62,5
Sonora	68,3	68,4	76,5	79,6	76,2
Tabasco	90,2	90,1	84,8	85	78,2
Tamaulipas	83,1	79,8	76,2	78,1	74,9
Tlaxcala	69,4	67,7	63	60,2	62,4
Veracruz de Ignacio de la Llave	87,6	86,1	82,6	80,2	81,4
Yucatán	37,5	26,6	27,2	30,6	37,8
Zacatecas	80,6	84,8	83,9	90,9	91,9
Estados Unidos Mexicanos	78,9	78,6	75,6	75,9	74,6

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática

Security Perception Index for Northeast Region

NORTHEAST	**2019**	**2020**	**2021**	**2022**	**2023**
Coahuila	57,10	53,00	53,40	50,40	44,10
Nuevo León	81,70	71,90	61,20	67,90	67,00
Tamaulipas	**83,10**	**79,80**	**76,20**	**78,10**	**74,90**

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

Security Perception Index for West Region

WEST	**2019**	**2020**	**2021**	**2022**	**2023**
Nayarit	60,50	52,40	52,20	53,40	46,20
Jalisco	77,70	**83,10**	76,00	79,10	78,70
Colima	77,80	73,30	72,50	**85,80**	**80,90**
Michoacán	**80,20**	83,00	**79,50**	83,10	80,80

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

Security Perception Index for North Center Region

NORTH CENTER	**2019**	**2020**	**2021**	**2022**	**2023**
Zacatecas	80,60	**84,80**	83,90	**90,90**	**91,90**
San Luis Potosí	77,60	80,20	81,60	74,90	76,50
Aguascalientes	56,40	54,60	51,50	54,20	49,70
Guanajuato	**88,80**	84,20	**84,30**	87,40	82,90
Querétaro	62,00	48,90	57,70	56,40	54,50

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

Security Perception Index for East Region

EAST	**2019**	**2020**	**2021**	**2022**	**2023**
Veracruz	87,60	86,10	82,60	**80,20**	**81,40**
Puebla	**87,70**	**87,50**	**85,60**	78,10	78,30
Hidalgo	65,50	66,10	65,00	63,80	63,00
Tlaxcala	69,40	67,70	63,00	60,20	62,40

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

Security Perception Index for Southwest Region

SOUTHWEST	**2019**	**2020**	**2021**	**2022**	**2023**
Guerrero	**84,70**	**88,50**	**77,30**	**73,90**	**76,70**
Oaxaca	71,20	75,30	72,60	71,20	74,40
Chiapas	68,80	67,00	66,70	72,60	68,10

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms

Security Perception Index for Southeast Region

SOUTHEAST	2019	2020	2021	2022	2023
Tabasco	**90,20**	**90,10**	**84,80**	**85,00**	**78,20**
Campeche	61,00	56,10	53,20	54,10	61,60
Quintana roo	82,10	83,10	75,80	78,30	78,10
Yucatán	37,50	26,60	27,20	30,60	37,80

Source: Prepared by the authors with data from the INEGI Instituto Nacional de Estadística, Geografía e Informática in percentage terms.

Simple correlation matrix of the Northeast Region

	2019		2020		2021		2022		2023	
Northeast	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Coahuila	497.59	57.10	279.32	53.00	358.46	53.40	673.13	50.40	175.52	44.10
Nuevo León	1099.76	81.70	572.75	71.90	1774.91	61.20	1325.62	67.90	259.63	67.00
Tamaulipas	314.64	83.10	218.43	79.80	773.55	76.20	632.61	78.10	16.26	74.90
Coefficient per year	0.2485163		0.07121531		0.10847964		0.09871462		-0.4131568	
								Total Coefficient	0.02275382	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

Simple correlation matrix of the West Region

	2019		2020		2021		2022		2023	
West	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Nayarit	140.00	60.50	189.93	52.40	105.29	52.20	213.36	53.40	158.00	46.20
Jalisco	514.19	77.70	394.40	83.10	487.45	76.00	819.00	79.10	674.20	78.70
Colima	30.72	77.80	22.50	73.30	3.63	72.50	42.34	85.80	0.95	80.90
Michoacán	198.76	80.20	12.86	83.00	906.95	79.50	9.88	83.10	8.38	80.80
Coefficient per year	0.23232868		0.03053979		0.63653221		-0.0650754		0.05048114	
								Total Coefficient	0.17696129	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

Simple correlation matrix of the North-Central Region

	2019		2020		2021		2022		2023	
North - Central	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Zacatecas	194.89	80.60	24.62	84.80	34.06	83.90	23.72	90.90	C	91.90
San Luis Potosí	372.10	77.60	307.38	80.20	353.25	81.60	665.16	74.90	99.69	76.50
Aguascalientes	59.36	56.4	36.97	54.6	72.79	51.5	44.86	54.2	38.86	49.7
Guanajuato	513.86	88.80	310.41	84.20	526.03	84.30	636.58	87.40	276.58	82.90
Querétaro	663.55	62.00	355.92	48.90	315.45	57.70	107.39	56.40	43.58	54.50
Coefficient per year	0.22151871		-0.0649181		0.34670426		0.38655379		0.85199618	
								Total Coefficient	0.34837097	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

Simple correlation matrix of the East region

	2019		2020		2021		2022		2023	
East	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Veracruz	617.22	87.60	214.17	86.10	890.24	82.60	147.05	80.20	1.97	81.40
Puebla	416.61	87.70	81.54	87.50	237.95	85.60	277.36	78.10	23.80	78.30
Hidalgo	189.07	65.50	36.53	66.10	21.03	65.00	109.38	63.80	14.23	63.00
Tlaxcala	79.91	69.40	70.43	67.70	9.88	63.00	14.87	60.20	5.26	62.40
Coefficient per year	0.88642431		0.6717424		0.69270572		0.79540317		0.07739725	
								Total Coefficient	0.62473457	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

Simple correlation matrix of the Southwest Region

	2019		2020		2021		2022		2023	
Southwest	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Guerrero	65.54	84.70	26.17	88.50	249.91	77.30	27.61	73.90	10.64	76.70
Oaxaca	54.25	71.20	-27.65	75.30	110.62	72.60	72.57	71.20	31.80	74.40
Chiapas	156.24	68.80	61.27	67.00	10.87	66.70	94.91	72.60	0.25	68.10
Coefficient per year	-0.5336515		-0.2684517		0.98715436		-0.6395207		0.55769013	
								Total Coefficient	0.02064411	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

Simple correlation matrix of the Southeast Region

	2019		2020		2021		2022		2023	
Southeast	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity	New investments	Perception of insecurity
Tabasco	207.15	90.20	324.72	90.10	159.55	84.80	110.33	85.00	14.62	78.20
Campeche	82.94	61.00	122.88	56.10	137.02	53.20	61.18	54.10	4.27	61.60
Quintana Roo	408.18	82.10	24.82	83.10	286.26	75.80	310.71	78.30	577.47	78.10
Yucatán	84.76	37.50	30.38	26.60	84.51	27.20	223.86	30.60	90.15	37.80
Coefficient per year	0.68498314		0.57601854		0.69750587		0.01072501		0.38538461	
								Total Coefficient	0.47092343	

Source: Prepared by the authors with data from INEGI and Ministry of Economy, New investments expressed in US billion dollars and Perception of insecurity expressed in percentage terms.

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