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THE EFFECTS OF NEARSHORING AND U.S. FOREIGN DIRECT INVESTMENT ON MULTIDIMENSIONAL POVERTY IN MEXICO

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ABSTRACT

This study analyzes the effect of Foreign Direct Investment (FDI) associated with nearshoring and inflows from the United States on multidimensional poverty in Mexico during the period 2010-2024. The quantitative econometric approach is based on a state-level micro-panel dataset, allowing for the exploitation of both cross-sectional and temporal variation. A pooled ordinary least squares (OLS) model with fixed effects is estimated to control for unobservable regional heterogeneity and time-specific shocks that may bias the results. The findings indicate that labor income and state-level GDP growth are the most robust and consistent determinants of poverty reduction, highlighting the central role of domestic economic dynamics and structural conditions. However, there is no robust empirical evidence that FDI linked to nearshoring directly reduces poverty in the short term. On the contrary, U.S. FDI inflows may be associated with increases in poverty levels in certain regions, suggesting heterogeneous and potentially adverse distributional effects. The study concludes that the benefits of production relocation are not automatic and depend critically on regional capacity to absorb and integrate capital inflows into the local economic structure, as well as on the ability to strengthen labor markets through the creation of formal, well-paying jobs.

Keywords: Nearshoring, U.S. Foreign Direct Investment, Multidimensional Poverty

Los efectos del nearshoring y la inversión extranjera directa estadounidense en la pobreza multidimensional en México

RESUMEN

El objetivo central de este artículo es analizar el efecto de la Inversión Extranjera Directa (IED) asociada al nearshoring y los flujos procedentes de Estados Unidos sobre la pobreza multidimensional en México durante el periodo 2010-2024. El enfoque metodológico del análisis es cuantitativo-econométrico, se basa en un micro-panel de datos a nivel Estatal y se estima un modelo de mínimos cuadrados ordinarios agrupados con efectos fijos, para controlar la heterogeneidad regional no observable y los cambios en el tiempo. Los resultados indican que los determinantes más robustos de la pobreza son los ingresos laborales y el crecimiento del PIB a nivel estatal, lo que resalta la importancia del dinamismo económico interno. Por el contrario, no se encuentra evidencia robusta de que la IED vinculada al nearshoring reduzca directamente la pobreza en el corto plazo; de hecho, las entradas de IED de Estados Unidos podrían incluso asociarse con incrementos en los niveles de pobreza en algunas regiones. El estudio concluye que los beneficios de la relocalización de la producción dependen de la capacidad regional para integrar estas entradas de capital en la estructura económica local y para fortalecer el mercado laboral mediante la creación de empleos formales y mejor remunerados.

Palabras clave: nearshoring, Inversión Extranjera Directa de Estados Unidos, pobreza multidimensional.

Introduction

The reconfiguration of global value chains, accelerated by geopolitical tensions between the United States and China and the COVID-19 pandemic, has redefined patterns of international trade and investment. In this context, Mexico has emerged as a strategic actor within the U.S. market (Baldwin and Freeman, 2022; Stringer and Ramírez-Melgarejo, 2023; Gereffi, 2020). Its geographic proximity, the integration derived from the United States-Mexico-Canada Agreement (USMCA), and its export-oriented manufacturing trajectory have strengthened its regional insertion, promoting nearshoring and friend-shoring strategies aimed at reducing logistical, regulatory, and political risks (Dussel, 2025; Javorcik et al., 2024).

Within this context, this paper investigates the effect of nearshoring on multidimensional poverty in Mexico during the period 2010-2024. To this end, Foreign Direct Investment (FDI) is analyzed by differentiating inflows originating from the United States, as well as state-level GDP and wage income across federal entities. The central hypothesis proposes that an increase in FDI may generate economic growth and productive dynamism, while simultaneously coexisting with high levels of inequality and poverty. Accordingly, this study evaluates whether the current wave of nearshoring, measured through inflows of new capital and the reinvestment of profits,

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constitutes an effective mechanism for reducing poverty or, alternatively, reinforces patterns of dependency that limit structural transformation.

From a theoretical perspective, this study employs the frameworks of new economic geography and Global Value Chains (GVC), which explain production relocation in terms of production costs, infrastructure, and market access (Martínez-Mora and Merino, 2014). In this regard, available data reveal significant export growth. For example, Mexican exports exceeded 590 billion dollars between 2019 and 2023, with over 80% destined for the U.S. market. This confirms the high level of productive integration and bilateral dependence between Mexico and the U.S. (INEGI, 2023). Meanwhile, foreign direct investment (FDI) inflows have surpassed 36 billion dollars annually (Secretaría de Economía, 2025), with 38-43% originating from U.S. capital. However, most of these inflows are reinvested earnings rather than new investments.

While these decisions reflect confidence in the Mexican economy, they also raise questions about nearshoring's capacity to foster technological diversification, innovation, and structural transformation (CEPAL, 2023). Furthermore, a significant portion of recent FDI inflows is concentrated in specialized sectors, such as automotive, electronics, and medical devices, primarily located in regions close to the U.S. market. Therefore, while some regions of Mexico have experienced increases in industrial production associated with FDI inflows, it is important to analyze their distributive and social effects (Ramírez-Sierra et al., 2025).

International empirical evidence shows that FDI generates heterogeneous distributive effects and, under certain conditions, may contribute to processes of economic and social polarization. In economies with limited institutional capacity or low levels of human capital, FDI has been associated with increases in inequality (Alderson and Nielsen, 2002; Herzer and Nunnenkamp, 2013). Likewise, in regions with high sectoral concentration and higher productivity levels, it may deepen wage gaps and labor market segmentation when strong local production linkages are absent (CEPAL, 2016). In this sense, the potential benefits of FDI largely depend on technological absorption capacity, institutional quality, and the existence of adequate redistributive policies (Figini and Görg, 2011).

This debate is particularly relevant in the Mexican context. According to INEGI (2024), 29.6% of the population lives in multidimensional poverty. Although some export-oriented regions exhibit lower poverty levels, significant gaps persist in access to health services and social security, as well as high levels of labor informality, which limit development opportunities for broad segments of the population. Consequently, the coexistence of productive dynamism and social lag revives the debate on development and dependency. On the one hand, integration with the United States may strengthen industrial capabilities and formal employment; on the other, it may also consolidate patterns of subordinate specialization and external vulnerability.

In this regard, this paper contributes to the debate on asymmetric economic integration by evaluating the conditions under which FDI can promote inclusive territorial development or reproduce structural inequalities. The document is organized into six sections. The second section examines the international and national context of nearshoring. The third section presents a literature review. The fourth section describes the methodology, data, and empirical strategy. The fifth section discusses the results. Finally, the sixth section presents the conclusions and policy implications.

International and National Context of Nearshoring and Multidimensional Poverty

Following the entry into force of the USMCA in 2020, trade rules among the United States, Mexico, and Canada marked a strategic turning point by providing greater certainty for international trade in North America. This new institutional framework facilitated cross-border capital mobility and fostered the emergence of nearshoring, a phenomenon that refers to the relocation of manufacturing operations to geographic locations closer to the final market where goods and services are commercialized (CEPAL, 2025). As a result, this process has contributed to strengthening U.S.-centered production networks while simultaneously increasing the presence of foreign capital in Mexican territory.

This dynamic has been further reinforced by the ongoing reconfiguration of GVC, driven by geopolitical tensions, supply-chain disruptions, and rising regulatory pressures, particularly in relation to China (Ramírez-Sierra et al., 2025). The strategic rivalry between the United States and China, together with the effects of the COVID-19 pandemic, exposed the vulnerabilities of highly externalized and geographically concentrated supply chains. Within this context, nearshoring has consolidated as a strategic response aimed at reducing risks, shortening production distances, and enhancing productive resilience through the relocation of manufacturing processes to countries located closer to final markets. In the case of North American economies, these decisions are closely aligned with the strategic framework provided by the USMCA, which operates as the primary institutional mechanism for regional integration. This framework is further supported by Mexico's geographical proximity to the United States, its relatively competitive labor costs, and its long-standing manufacturing capabilities, all of which contribute to attracting FDI.

At the global level, FDI flows between 2005 and 2024 have exhibited a cyclical pattern and have proven highly sensitive to international economic shocks. A stylized fact shaping this dynamic is the 2008 global financial crisis. As illustrated in Figure 1, FDI inflows among the main recipient countries reveal that economies such as the United States, China, and the Netherlands have consistently led global investment inflows across multiple periods. Likewise, macroeconomic shocks, such as the 2009 economic crisis, triggered substantial contractions in investment across many economies; nevertheless, a moderate recovery took place between 2010 and 2014. Subsequently, from 2015 onward, the United States, the Netherlands, and China maintained relatively high levels of FDI inflows. Mexico, in contrast, exhibited a relatively stable trajectory with a gradual upward trend, particularly around 2013. Meanwhile, countries such as Brazil and Canada display recurrent FDI cycles largely associated with commodity price fluctuations and relatively stable financial conditions. By comparison, Japan and South Korea recorded comparatively lower levels of inward FDI during the period under analysis. Similarly, the Netherlands experienced a notable reduction in FDI inflows between 2018 and 2023, a phenomenon linked to corporate restructuring processes and adjustments in financial flows associated with international tax planning strategies.

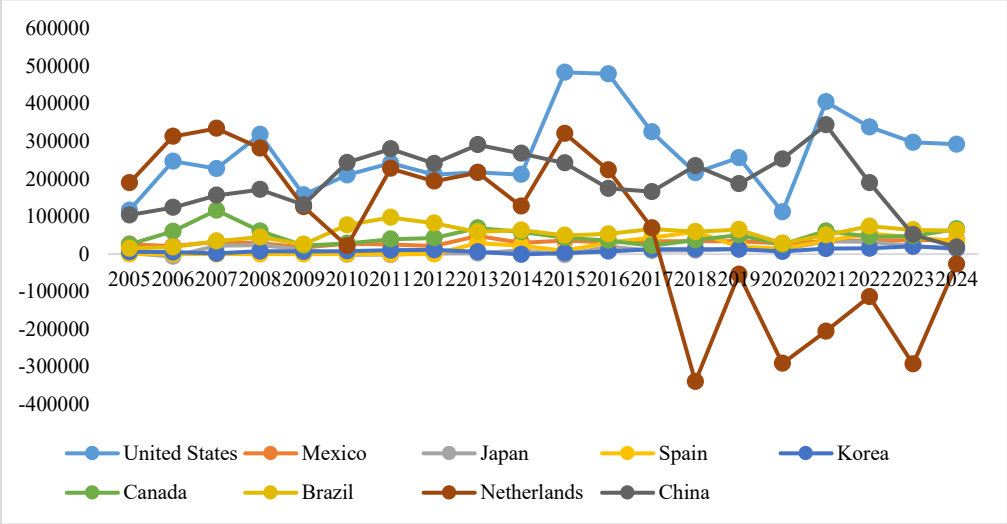


Figure 1. Foreign Direct Investment (millions of U.S. dollars).
Note: Data from the OECD and the World Bank. Only inward investment flows to countries are shown.

Furthermore, data for 2020 indicate that the COVID-19 pandemic generated a sharp decline in global FDI flows (Figure 1). Although investment inflows rebounded between 2021 and 2022, a subsequent slowdown became evident, particularly in the case of China, reflecting the combined effects of geopolitical tensions and the ongoing reconfiguration of global value chains. Within this evolving global context, the United States has regained its position as the world's leading destination for foreign direct investment, registering an average annual growth rate of approximately 4.8%. Mexico follows with an annual growth rate close to 2%, while China records a negative growth rate of approximately -9.7%.

Within the context of the geographic dispersion of investment across economies, Figure 2 illustrates the evolution of investment flows between 2006 and 2024 from the main countries of origin of FDI in Mexico. In particular, the figure depicts investment associated with nearshoring, especially reinvested earnings and new investment inflows.

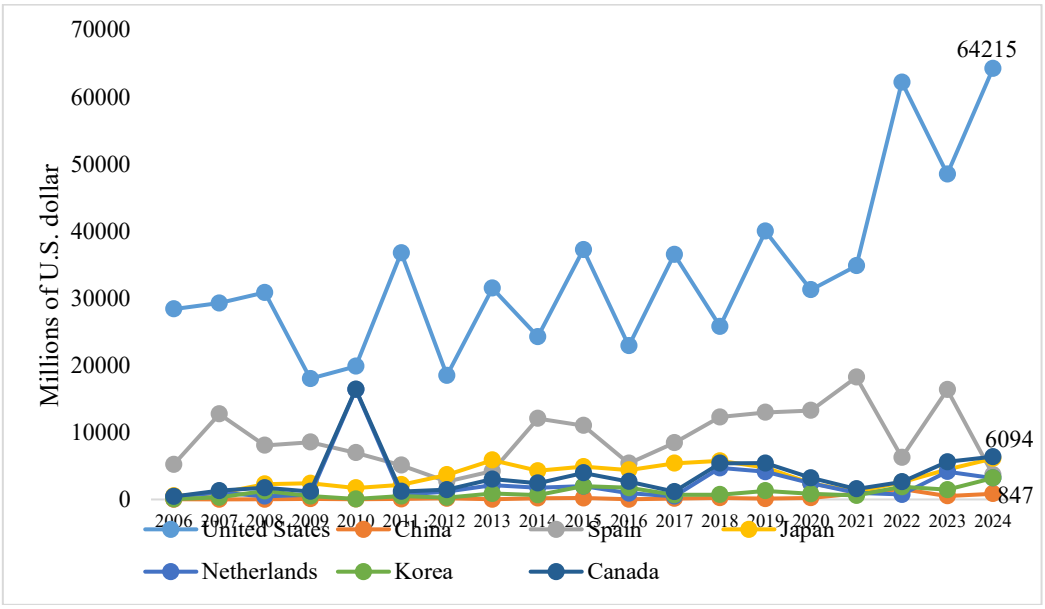


Figure 2. Main Countries of origin of FDI, associated with nearshoring (2010-2024).
Note: Data from the National Registry of Foreign Investments (RNIE), Ministry of Economy. Only new investments and reinvested earnings are included.

The data reveal a pronounced participation and concentration of FDI originating from the United States throughout the period under analysis. U.S. investment exhibits a cyclical pattern and, similar to trends observed in other economies, experienced a sharp contraction in 2009, followed by a recovery in 2011 and 2015, and subsequently a renewed structural expansion beginning in 2021. Moreover, the figure highlights a significant increase in 2022 (62,193) and 2024 (64,215), suggesting the consolidation of production relocation processes within the broader context reconfiguration of global value chains in the region.

Additionally, China exhibits relatively smaller investment volumes, although with an upward trend between 2021 and 2024, which may reflect strategies of production triangulation or selective investments in strategic sectors. Spain, by contrast, displays a more volatile pattern, with episodes of increasing FDI in 2007, 2020, and 2021, alternating with pronounced declines in 2022 and 2024.

In contrast, countries such as Japan and South Korea show gradually increasing trajectories over the long term, with notable gains in recent years, particularly Japan in 2024 and South Korea in 2022 and 2024. This pattern points to a growing participation of

Asian capital in the nearshoring process toward Mexico. Canada, for its part, registers notable investment episodes in 2010 and again between 2022 and 2024, a trend that aligns with the deepening of the USMCA and the strengthening of regional integration.

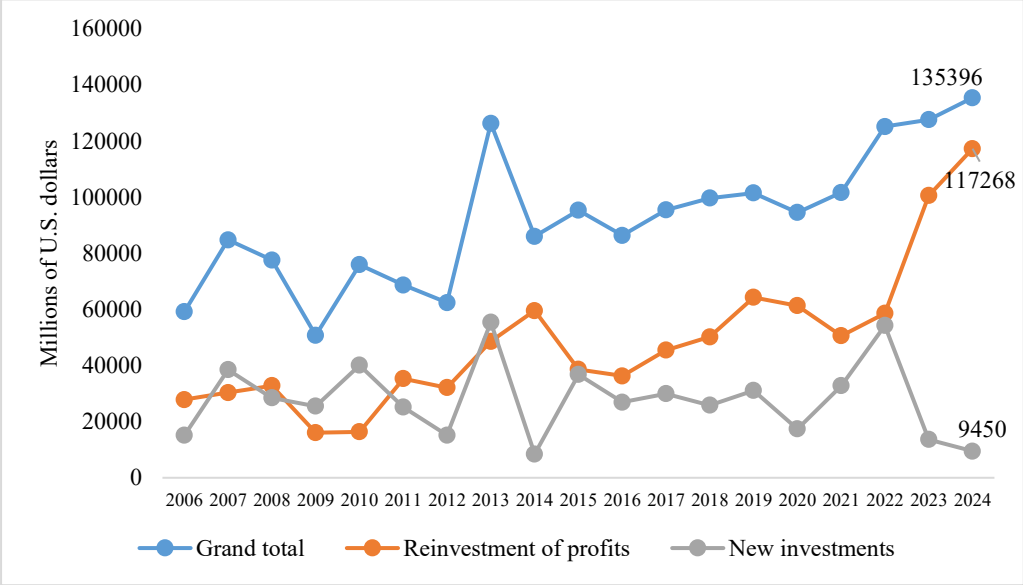


Figure 3. FDI Flows associated with nearshoring (2006-2024).
Note: Data from the National Registry of Foreign Investments (RNIE), Ministry of Economy.

Taken together, the evidence suggests that nearshoring toward Mexico remains strongly anchored in U.S. investment, while increasingly complemented by capital originating from Asia and Europe. This reflects a broader strategic reconfiguration of global value chains, as well as an expanding process of regional integration accompanied by a diversification of investment sources. This dynamic can be further observed in Figure 3, which shows that investment inflows to Mexico are driven primarily by reinvested earnings rather than by new investments in the country. This pattern broadens the debate regarding the potential scope of technology and knowledge spillovers that FDI may generate across Mexican regions.

The data reveal an upward trajectory in investment associated with production relocation processes in Mexico, particularly from 2021 onward. Total FDI flows increased from 59,166 million U.S. dollars in 2006 to 135,396 million in 2024, with a possible structural break around 2013 and a more pronounced shift during the 2022-2024 period. A notable feature is the growing share of reinvested earnings, which reached 117,268 million in 2024 and accounts for most of the recent dynamism. This pattern suggests that nearshoring is not manifested solely through new investment inflows but also through the expansion of already installed productive capacities. Meanwhile, new investments show notable increases in 2013 and 2022, the latter being consistent with the intensification of relocation strategies following the COVID-19 pandemic and the geopolitical tensions between the United States and China (see Figure 3). Overall, the composition of these flows indicates a process of consolidation and expansion of productive capacities rather than a temporary or purely cyclical inflow of capital.

Empirical evidence supports this interpretation. Studies by the Economic Commission for Latin America and the Caribbean (CEPAL, 2023) document that Mexico has been one of the primary beneficiaries of the reconfiguration of global value chains in North America. Likewise, analyses by Gereffi (2025) estimate a significant potential for export expansion associated with nearshoring, particularly in manufacturing sectors characterized by strong regional integration.

Complementary evidence from reports by the Ministry of Economy of Mexico (2023, 2024) indicates increasing investment flows and infrastructure expansion in sectors such as automotive manufacturing, medical devices, and electronics. Similarly, empirical findings from Dussel (2025) and Gaytán and Martínez (2023) suggest that the production relocation process associated with nearshoring is generating multisectoral effects and an increasing concentration of manufacturing activities in strategic industrial regions, particularly in the northern border states. In this regard, the data presented here are consistent with the literature that identifies Mexico as a strategic node within the emerging economic geography of nearshoring.

However, the dynamism of FDI flows does not necessarily translate into distributive improvements. At the national level, Mexico faces persistent structural challenges related to regional inequalities, high levels of labor informality, and limitations in social security coverage. According to the National Institute of Statistics and Geography (INEGI), a significant share of the population remains in a situation of multidimensional poverty, a condition that encompasses deprivations in education, health, housing, basic services, and social security, in addition to income constraints. In the northern border states, although average income levels and participation in international trade exceed the national average, substantial gaps remain in access to social rights and in the quality of employment. This contrast between manufacturing growth and social lag raises important questions regarding the capacity of nearshoring to trigger inclusive territorial development processes.

Consequently, the current investment context (shaped by the ongoing global reconfiguration of production) offers important opportunities for the country. Nevertheless, its impact on socioeconomic outcomes, such as poverty reduction, ultimately depends on factors including the development of local productive linkages, technological absorption capacity, the creation of high-quality employment, and the implementation of public policies aimed at strengthening social cohesion.

Geoeconomic configuration, Foreign Direct Investment and Regional Development

The impact of FDI on poverty reduction remains widely debated, and its effects on economic development are far from conclusive. The empirical literature reports mixed findings. On the one hand, a substantial body of research highlights the positive effects of FDI, particularly in terms of job creation, wage growth, and technology transfer, all of which may contribute to poverty alleviation (Borensztein et al., 1998; Dollar and Kraay, 2002). Conversely, a critical strand of the literature, largely influenced by dependency theory, argues that external capital may reinforce existing structural inequalities. From this perspective, developing countries rely on foreign capital to compensate for limited domestic savings, which can result in economic subordination, limited spillovers of productive capabilities, and weak linkages with domestic markets (Klein, Aaron and Hadjimichael, 2001; Nguyen and Dang, 2026). Thus, while FDI can generate important benefits for host economies, it may also pose significant challenges in terms of how these benefits are distributed, potentially exacerbating regional and territorial inequalities.

Additionally, the international reallocation of capital reflects firms' efforts to secure access to strategic inputs and to strengthen control over production processes. In this context, the recent reconfiguration of Global Value Chains (GVC) can be understood as an adjustment in the spatial organization of production in response to shifts in relative costs and evolving constraints on global trade. Logistical disruptions stemming from the COVID-19 pandemic, together with escalating trade tensions between the United States and Asian economies such as China, have altered transportation costs, heightened supply risks, and increased institutional uncertainty. These developments have, in turn, reshaped the conditions under which firms make location decisions, prompting them to incorporate efficiency and resilience considerations into their international production strategies (Baldwin and Freeman, 2022; UNCTAD, 2020).

In this context, many multinational firms have reconfigured their production strategies, seeking to balance cost minimization with the need to reduce exposure to external shocks. As part of this process, they have reassessed key logistical, tariff, and regulatory factors. From an economic perspective, these changes reflect a shift in the determinants of comparative advantage and in the incentives shaping FDI. In particular, location decisions increasingly incorporate risk management linked to the fragmentation of international production, giving rise to a trade-off between productive efficiency and systemic resilience (UNCTAD, 2020).

Within this framework, economies endowed with greater capital, infrastructure, and technological capabilities tend to exert stronger influence over the configuration of international trade and investment. By contrast, middle-income economies face structural constraints that limit their ability to fully benefit from production relocation processes. Consequently, their growth trajectories depend not only on their degree of integration into GVC, but also on their capacity to upgrade toward higher value-added activities and to strengthen domestic production linkages (Gilpin, 2001; Keohane, 1984).

Historically, firms' location decisions have been driven by resource endowments, market access, and cost minimization. For decades, the fragmentation of production enabled multinational corporations to reduce costs by relocating specific activities to regions with lower wages. However, recent disruptions have exposed how geographic dispersion can generate persistent logistical vulnerabilities. In response, new strategies have emerged that seek to balance efficiency with resilience, placing greater emphasis on geographic proximity and the strengthening of regional supply networks (Baldwin, Freeman, and Theodorakopoulos, 2023; Gereffi, 2025). In this context, nearshoring has gained prominence as a strategy to reduce transportation costs and enhance operational coordination by relocating production processes closer to final markets (ECLAC, 2023).

Latin America has consequently become an increasingly relevant destination for FDI, driven by labor availability and relatively competitive production costs. Mexico stands out in particular due to its deep economic integration with the United States and its geographic proximity, which have facilitated its participation in GVC (Hanson, 1996). This integration has been especially concentrated in the northern border region, reinforced by the implementation of NAFTA in 1994 and its subsequent update under the USMCA in 2020. These developments have consolidated Mexico's position as a key manufacturing platform within the region.

According to the New Economic Geography perspective, the spatial distribution of economic activity is shaped by the interaction between agglomeration economies and transportation costs (Krugman, 1991). Regions endowed with developed infrastructure, specialized suppliers, and large labor markets tend to attract higher levels of investment. In Mexico, this pattern has favored the concentration of foreign direct investment (FDI) in the northern border and Bajío regions, where manufacturing-based industrial clusters have expanded significantly. In this context, proximity to international markets remains a key determinant.

However, participation in GVC also poses important challenges, particularly in terms of value-added distribution. Their hierarchical structure implies that lead economies tend to concentrate high-value activities (such as research and development, design, and technological control) while host economies specialize in lower value-added stages, including assembly operations (Gereffi, 2018). In countries such as Mexico, despite deeper integration into sectors like automotive and electronics, the capacity for value capture remains limited (Dussel, 2025).

Furthermore, weak knowledge transfer and limited local production linkages hinder the ability of foreign direct investment (FDI) and nearshoring to generate endogenous development and regional convergence. While some regions experience economic dynamism, industrialization can generate pressure on public services, create negative externalities, and cause living costs to rise. At the same time, agglomeration processes may reinforce spatial concentration and widen territorial disparities (Krugman, 1991).

In labor markets, FDI can contribute to job creation, as well as to labor market duality. On the one hand, FDI generates formal, better-paid jobs in modern sectors. On the other hand, it may displace labor toward informal, low-productivity activities. This dynamic is linked to skill-biased technological change, which increases the demand for skilled labor and widens wage gaps (Feenstra and Hanson, 1997).

In this sense, nearshoring can promote economic growth, although it may also pose significant challenges for host regions, particularly in terms of pressure on public services and spatial reconfiguration. Its relationship with poverty is indirect and largely mediated by labor market dynamics. The overall impact depends on factors such as job quality, levels of formality, and the degree of productive integration within the local economy. In Latin America, the prevalence of precarious employment and weak productive linkages tends to constrain poverty reduction effects; by contrast, stronger integration and the presence of technological spillovers can contribute to increases in household income.

In Mexico, for instance, empirical evidence suggests that manufacturing foreign direct investment (FDI) has contributed to reductions in income poverty at the local level, particularly in municipalities with more developed infrastructure (Chiatchoua et al., 2023). However, it has also reinforced patterns of territorial concentration and wage inequality. More broadly, the relationship between economic growth and poverty reduction is mediated by income distribution and labor market opportunities (Ravallion, 2004; Dollar and Kraay, 2002; Ferreira et al., 2007), while the effects of trade have exhibited significant regional heterogeneity (Esquivel and Rodríguez-López, 2003; Banxico, 2025).

In terms of income, the national average real wage ranges between 7,600 and 7,800 pesos per month (approximately 450-460 USD), reflecting relatively low purchasing power (INEGI, 2025). In contrast, states that receive more than 80% of FDI inflows (Mexico City, Nuevo León, the State of Mexico, Baja California and Coahuila) tend to exhibit higher average wages. Nevertheless, significant disparities in multidimensional poverty persist across regions. Northern states such as Nuevo León, Baja California, and Coahuila report comparatively lower poverty rates; however, substantial shares of their populations still experience conditions of vulnerability. By contrast, the State of Mexico exhibits higher poverty levels, largely associated with pronounced territorial inequalities, while Mexico City presents intermediate levels linked to spatial disparities.

In this context, the analysis of FDI should move beyond its contribution to GDP growth and adopt a broader welfare perspective. Following the capabilities approach, development is understood as the expansion of individuals' real freedoms and opportunities (Sen, 1999). Within this framework, the benefits of FDI depend on factors such as absorptive capacity, the quality of human capital, and the strength of domestic productive linkages. Consequently, nearshoring represents a significant opportunity for Mexico. However, its potential impact will depend on the country's ability to strengthen human capital, reduce labor market segmentation, and promote integration into higher value-added activities. Only under these conditions can FDI contribute to sustained improvements in welfare and mitigate the persistence of territorial and social inequalities.

Methodology

Data and variables

This study adopts a quantitative approach through the estimation of a micro-panel dataset to identify the effect of FDI, associated with nearshoring and originating from the United States, on multidimensional poverty in Mexico. In this regard, the empirical analysis is based on the hypothesis that the distributive effects of FDI are not homogeneous but rather depend on local capabilities and the regional productive structure. To evaluate this argument, the analysis covers the 32 Mexican federal entities over the period 2010-2024, incorporating year fixed effects to capture specific temporal dynamics.

The dependent variable corresponds to the number of individuals living in multidimensional poverty, $lnPoverty_{it}$, as reported by the National Institute of Statistics and Geography (INEGI) and the National Council for the Evaluation of Social Development Policy (CONEVAL). The explanatory variables include: (a) wages by federal entity, $lnWages_{it}$, deflated using the National Consumer Price Index (INPC) at 2020 prices; (b) the level of economic activity measured through state gross domestic product, $lnGDP_{it}$, expressed in constant 2018 prices; (c) as an indicator of institutional capacity, a variable capturing social expenditure through government programs, transfers, or public support, $lnExpenditure_{it}$; and (d) the variables $lnFDINearshoring_{it}$ and $lnU.S.FDI_{it}$, included to capture the effect of investment flows associated with relocation processes and originating from Mexico's principal trading partner within the context of multidimensional poverty. The variable $lnFDINearshoring_{it}$ is constructed by aggregating two components: new investments and reinvested of profits. This methodological approach is consistent with international standards for measuring FDI, which consider these components as reflecting the magnitude and continuity of productive capital flows (UNCTAD, 2020; OECD, 2008). In the case of U.S. flows, the same accounting framework is applied.

The descriptive statistics presented in Table 1 reveal a pronounced structural heterogeneity across federal entities. From a socioeconomic perspective, poverty exhibits substantial dispersion, with values ranging from a minimum of 89 to a maximum of 8,343, suggesting deep territorial disparities in welfare. This disparity is also reflected in the level of economic activity, captured through GDP and labor income, whose deviations reveal the coexistence of regional economies with highly contrasting productive capacities.

Table 1.
Descriptive Statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max	Source
$lnPoverty_{it}$	256	1588	1518	89	8343	INEGI and CONVEVAL
$lnGDP_{it}$	256	706022	677598	121829	3806102	INEGI
$lnExpenditure_{it}$	256	30100000	26800000	5336288	208000000	INEGI
$lnWages_{it}$	256	2711	804	1286	5701	ENOE
$lnFDINearshoring_{it}$	256	2466	5173	-180	59257	Secretary of Economy
$lnU.S.FDI_{it}$	256	1166	3115	-1066	37663	

Regarding capital flows, foreign investment indicators display considerable volatility, with standard deviations that substantially exceed their average values. Additionally, negative minimum values are observed across all investment categories, indicating episodes of disinvestment or accounting adjustments in certain states. Nearshoring-related investment and FDI originating from the United States exhibit wide ranges, confirming the existence of an asymmetric geographic concentration of the benefits derived from trade integration. From an econometric perspective, however, this variability is methodologically advantageous, as it provides the necessary dispersion in the data to more accurately identify the differentiated effects of FDI on multidimensional poverty within the estimated model.

Econometric Model

Once the variables of interest for this study had been selected, the information was organized using a panel data structure considering $n = 1,2, \dots N$ federal states and $t = 1,2, \dots T$ years. With N = 32 and T = 7, a micro panel with 256 observations $NT = N \times T$ was constructed, where $N > T$. According to Wooldridge (2012), the analysis first estimates a pooled[1] (or restricted-intercept) model, expressed as follows:

$$y_{it} = \beta_0 \sum_{j=1}^{J} \beta_j x_{jit} + \mu_{it} \qquad (1)$$

The subscript *i* denotes the cross-sectional identifier and t represents the time dimension for the dependent variable y and the explanatory variables *X*. The parameter β_0 is the common intercept for all cross-sectional units *i*. The set of parameters β_j is associated with the explanatory variables x_{jt} for which information is available at a specific point in time and space. The μ_{it} component is a random error term with a composite structure of the following form:

$$\mu_{it} = \propto_i + \theta_i + \varepsilon_{it} \qquad (2)$$

The term μ_{it} includes an individual-specific component, $\propto_i$, that remains constant over time but varies across cross-sectional units. Similarly, it contains a time-specific component, θ_i, which remains constant across entities but varies over time. Finally, there is a random element ε_{it}, which is assumed to satisfy the properties of white noise. By introducing dummy variables to capture cross-sectional and temporal fixed effects, equation (1) becomes:

$$y_{it} = \beta_0 \sum_{i=1}^{N-1} \propto_i d_i + \sum_{t=1}^{T} \theta_t t_t + \sum_{k=1}^{K} \beta_j x_{jit} + \mu_{it+\varepsilon_{it}} \qquad (3)$$

$$\propto_i = \sum_{i=1}^{N-1} \propto_i d_i \quad y \quad \theta_t = \theta \sum_{t=1}^{T} \theta_t t_t \qquad (4)$$

In this regard, equations (3) and (4) enable us to estimate a fixed-effects model. This approach ensures that the most appropriate panel data model is identified by the specification tests. According to Librado-Gonzalez et al. (2025), a fixed-effects model can be estimated using equations (3) and (4). To avoid reducing the degrees of freedom, time-specific dummy variables are added to optimize the choice of panel data.

In this regard, after outlining the estimation options and considering the nature and scope of the data, we proceed to select the most appropriate model based on econometric tests. The following equation summarizes the model proposed for this analysis:

$$y_{it} = \beta_0 + X_{it}\beta + \mu_{it} \qquad (5)$$

Where $y_{it} = In(Poverty_{it}), X_{it}$ is the vector of variables and the error term is decomposed as in equation (2), where $\propto_i$ represents unobserved heterogeneity that remains constant over time for each entity. The baseline econometric model is specified as follows:

$$lnPoverty_{it} = \alpha + \beta_1 lnGDP_{it} + \beta_2 nExpenditure_{it} + \beta_3 lnWages_{it} + \beta_4 lnFDINearshoring_{it} + \beta_5 lnU.S.FDI_{it} + \mu_{it} + \lambda_{it} + \varepsilon_{it} \qquad (6)$$

where $lnPoverty_{it}$ represents the number of individuals living in multidimensional poverty in state i during year t. The parameter $\propto$ denotes the model intercept; μ_i captures state fixed effects; λ_t controls for time fixed effects; and ε_{it} represents the idiosyncratic error term. The dependent variable $lnPoverty_{it}$ is constructed using the official measurement reported by the National Institute of Statistics and Geography (INEGI) and the National Council for the Evaluation of Social Development Policy (CONEVAL), whose methodology integrates dimensions related to income and multiple social deprivations under a rights-based approach.

With regard to the explanatory variables, the model incorporates $lnFDINearshoring_{it}$ and $lnU.S.FDI_{it}$, which capture the annual flows of foreign direct investment received by each federal entity, using data provided by the Secretary of Economy (2025). From a theoretical perspective, the expected signs of these coefficients are negative ($\beta_4 < 0$ and $\beta_5 < 0$), indicating that higher inflows of foreign investment may contribute to the reduction of multidimensional poverty through mechanisms such as job creation, wage increases, and the development of productive linkages.

Finally, the empirical analysis employs a fixed-effects (FE) model to control for unobserved and time-invariant heterogeneity across federal entities. This approach allows the estimation to account for persistent structural factors (such as historical industrialization trajectories, geographic conditions, or the initial endowment of infrastructure) that may influence the evolution of multidimensional poverty over time.

Results

The estimated model's results indicate that the most robust determinants of multidimensional poverty in Mexico are primarily associated with labor market performance and regional productive dynamics. In both estimations, per capita labor income exhibits a negative and statistically significant coefficient at the 1% level ($p < 0.01$), confirming its importance in reducing poverty (Table 2).

Given that the variables are specified in logarithmic, the coefficients can be interpreted as elasticities. In this context, a 1% increase in labor income is associated with an approximate 1.08% decrease in multidimensional poverty. This result confirms the importance of labor income as a channel through which welfare is transmitted and suggests that its effects tend to materialize with relatively short time lag, particularly in regions with more dynamic and formalized labor markets. This finding aligns with the empirical literature that identifies salaries as the primary mechanism through which vulnerable households the benefits of economic growth reach

[1] The use of a pooled data model is justified when there is no statistically significant unobserved heterogeneity across cross-sectional units or over time. Under these conditions, the error term is assumed to be independently and identically distributed, and the relationship between the dependent and independent variables is homogeneous across observations.

vulnerable households (Dollar and Kraay, 2002; Ravallion, 2016), as well as with evidence for Latin America highlighting the distributive role of labor markets (Lustig, 2018).

Similarly, state-level Gross Domestic Product (GDP) exhibits a negative and statistically significant coefficient in both estimated models. Following Table 2, a 1% increase in GDP is associated with approximate 0.48% reduction in multidimensional poverty. However, unlike labor income, the effects of economic growth are likely to operate through indirect and lagged channels, as expansion initially simulates investment and productivity with has subsequent impacts on employment wage. This temporal dimension is particularly relevant in the context of structural transformation, where the poverty reducing effects of growth depend on how effectively it translates into local labor market outcomes (Bourguignon, 2003; World Bank, 2020). Overall, the result suggests that regional economic growth in Mexico has positive distributional effects, although these depend on the inclusiveness and labor intensity of growth process.

In contrast, state-level social spending does not appear to be statistically significant. This suggests that public spending on social programs has no substantial immediate effect on multidimensional poverty once labor income and economic growth are controlled for. This finding may reflect temporal lags in policy impact, as well as regional heterogeneity in the effectiveness of public interventions. Variations in institutional capacity, targeting efficiency, and program design across states may dilute the observable aggregate effects of redistributive policies, particularly in contexts characterized by structural inequalities (Lustig, 2018; World Bank, 2020).

Table 2.
Econometric Results.

	Model (1) $FDINearshoring_{it}$	Model (2) $U.S.FDI_{it}$
$lnExpenditure_{it}$	-0.015	-0.019
	(0.033)	(0.032)
$lnWages_{it}$	-1.081***	-1.081***
	(0.0860)	(0.086)
$lnGDP_{it}$	-0.480***	-0.480***
	(0.0832)	(0.0835)
$lnFDINearshoring_{it}$	-0.00610	
	(0.00995)	
$lnU.S.FDI_{it}$		8.38E-06
		(0.005)
Constant	22.08***	22.11***
	(0.916)	(0.916)
Observations	256	256
R-squared	0.69	0.69
Number of id	32	32
Test Hausman: p-value < 0.05	Chi-Sq = 107.10	p = 0.000
Wald test: p-value < 0.05	Chi-Sq = 952.81	p = 0.000
Test de Jarque–Bera	Chi-Sq = 402.11	p = 0.0000
	Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1	

Note: the residuals of the model show no statistical evidence of deviation from a normal distribution, thereby satisfying the normality assumption of the error term in the estimated fixed-effects model.

Regarding the variables associated with foreign investment, neither nearshoring-related investment nor investment originating from the United States exhibits statistical significance. The coefficient associated with nearshoring is negative but not statistically significant, while $lnU.S.FDI_{it}$ displays a positive but likewise insignificant coefficient. These findings suggest that FDI does not exert immediate or direct effects on multidimensional poverty at the regional level.

From a broader analytical perspective, it is important to ask why external investments, such as FDI, do not reduce multidimensional poverty in the short term. One plausible explanation lies in the structural characteristics of the Mexican economy. It is marked by a highly segmented productive structure and weak linkages between export-oriented sectors and the domestic economy. In this context, investment flows, particularly those associated with nearshoring (including new investments and reinvested profits) tend to concentrate in capital-intensive industries and geographically localized clusters. This pattern limits the creation of broad regional spillovers, especially regarding employment and income.

This structural limitation is closely linked to the persistence of labor informality, which plays a key role in mediating the relationship between investment and poverty. High levels of informality weaken the transmission mechanisms through which productivity gains translate into higher wages and improved living standards. Informal workers typically lack social protection, face income volatility, and have limited access to stable employment. Consequently, even in regions that receive substantial foreign investment inflows, a large share of the population may remain excluded from the formal channels through which economic growth contributes to poverty reduction.

Furthermore, the absence of statistically significant effects of FDI may reflect the presence of indirect and lagged transmission mechanisms. The potential benefits of foreign investment (such as technology transfer, human capital accumulation, and the development of backward and forward linkages) tend to materialize over longer time horizons and depend critically on the absorptive

capacity of local economies (Alfaro et al., 2004; Moran, 2011). Accordingly, the contemporaneous specification of the model may not fully capture these dynamic processes.

In addition, the results point to substantial regional heterogeneity. In more industrialized and export-oriented regions, such as those along the northern border or integrated into global value chains, the effects of FDI may differ markedly from those observed in less developed areas with weaker productive structures. Therefore, the estimated coefficients should be interpreted as average effects that may mask significant territorial disparities, including enclave dynamics and an uneven distribution of benefits.

Overall, the model yields a coefficient of determination of approximately 0.69, indicating that the explanatory variables account for a substantial share of the variation in multidimensional poverty. The results suggest that sustained poverty reduction in Mexico depends fundamentally on the evolution of labor income and the inclusiveness of regional economic growth. In this context, the potential gains from the reorganization of global value chains will translate into improved welfare only if accompanied by structural transformations that strengthen labor markets, reduce informality, and enhance the integration of domestic firms into productive networks. Finally, these findings highlight the importance of incorporating dynamic econometric specifications, such as lagged variables and interaction effects, as well as more disaggregated regional analyses in future research. Such approaches would allow for a more precise identification of the temporal, indirect, and heterogeneous effects of foreign investment and nearshoring on poverty reduction.

Conclusions

This study contributes to the literature on FDI, regional development, and poverty by providing empirical evidence on the relationship between nearshoring-related FDI, economic growth, and multidimensional poverty across Mexican States over the period 2010-2024. From a theoretical standpoint, the paper advances the debate on the development effects of FDI by challenging the conventional assumption (rooted in neoclassical and modernization frameworks) that capital inflows automatically generate welfare improvements through spillovers, productivity gains, and job creation. Instead, the findings align more closely with structuralist and territorial development approaches, which emphasize that the impact of FDI is mediated by local conditions, institutional capacities, and the degree of productive articulation within regional economies.

Empirically, this document makes two main contributions. First, using fixed-effects panel data models, it identifies labor income as a central transmission channel through which economic dynamics affect multidimensional poverty. The results provide robust evidence that increases in labor income exert a significant poverty-reducing effect, reinforcing the idea that labor markets, particularly in terms of wage levels and job quality, play a pivotal role in shaping welfare outcomes. This finding contributes to the empirical literature by highlighting that the effectiveness of growth in reducing poverty depends critically on its inclusiveness and its capacity to generate formal, well-remunerated employment.

Secondly, the analysis indicates that although economic growth is statistically associated with poverty reduction, the direct effect of FDI (including nearshoring and investment from the United States) is not statistically significant. This finding constitutes a key empirical contribution, as it challenges the prevailing narrative that nearshoring automatically fosters inclusive development. Notably, the positive coefficient observed for U.S. FDI suggests the presence of uneven development dynamics, whereby regions with higher levels of industrial concentration and deeper integration into global value chains may experience economic growth alongside persistent, or even widening, social disparities. This result is consistent with dual economy frameworks and theories of spatial inequality, which posit that external capital inflows can reinforce pre-existing regional disparities

From a policy perspective, these findings carry significant implications. First, they underscore that attracting FDI is a necessary but not sufficient condition for poverty reduction. Accordingly, public policy should move beyond a narrow focus on investment promotion and instead prioritize strengthening the domestic absorptive capacity of regions. This entails implementing policies aimed at improving human capital, fostering innovation, and enhancing the capabilities of local firms to integrate into global value chains. Second, labor market policies play a critical role in ensuring that nearshoring translates into formal employment, higher wages, and improved working conditions, thereby converting investment inflows into tangible welfare gains. Third, regional development strategies must address persistent territorial inequalities by prioritizing infrastructure investment, institutional strengthening, and productive diversification in lagging regions. Such measures are essential to prevent the concentration of benefits in already advantaged areas, particularly along the northern border and within export-oriented industrial corridors.

Furthermore, the study underscores the importance of a strategic industrial policy framework that fosters linkages between multinational corporations and domestic firms. In the absence of such linkages, FDI may remain enclaved, thereby limiting its potential multiplier effects on local economies. In the context of the ongoing reconfiguration of global value chains, driven by geopolitical tensions and the reorganization of production networks, Mexico faces a critical window of opportunity. However, effectively capitalizing on nearshoring requires coordinated policy efforts that align trade, industrial, labor, and social development objectives.

Finally, this research acknowledges several limitations that open avenues for future inquiry. The use of state-level aggregate data may obscure intra-regional disparities and localized dynamics of both poverty and investment. Moreover, the econometric specification does not fully account for sectoral heterogeneity or the complexity of global value chain integration. Future research should adopt more granular spatial approaches, such as municipal-level analyses or cluster-based studies, to better identify the territories that attract FDI and to evaluate the conditions under which nearshoring can foster inclusive and sustainable development. Incorporating micro-level data and sector-specific analyses would further enhance the understanding of the mechanisms linking FDI, labor market outcomes, and poverty dynamics.

Declaration of Conflicts of Interest

The authors do not have any interest conflict.

Authors contribution

Author	Concept	Curation	Analysis/ Software	Research/ Methodology	Resources	Supervision/ Validation	Initial Writing	Final Writing
1	X	X	X	X	X		X	X
2	X				X	X	X	X
3	X				X	X	X	

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