

Toward a Model of Foreign Direct Investment and Development Policy for Strategic Diversification

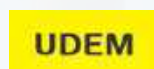
The Case of Germany and Mexico

Jan M. Esslinger

Master Thesis Summary

Original Approaches
Results and Implications

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Thank you for your interest in my master's thesis titled "[Toward a Model of Foreign Direct Investment and Development Policy for Strategic Diversification: The Case of Germany and Mexico.](#)"

The thesis this document summarizes represented the culminating project of my *Tricontinental Master in Global Studies* program, which I completed with distinction via successful oral defense in October 2022. This study program stipulates one semester each at Hochschule Karlsruhe (DE), National Chung Hsing University (TW), and Universidad de Monterrey (MX). The thesis was supervised at Universidad de Monterrey and awarded the grade 100/100.

In it, foreign direct investment is contemplated as a means of reducing external dependencies of national economies, or in other words, the reduction of cluster risks that can arise as a result of high concentration on a few suppliers, manufacturing locations and/or sales markets. A practically applicable model was to be developed to help private-sector and public-sector actors evaluate the decision for or against foreign direct investment into a potential target country. This research is embedded in the practical context of Germany's economic dependence on China, with Mexico as a potential investment target country. The model was developed using several original approaches and then validated via expert interviews. This document provides an overview of select thesis contents.

How to navigate this document?

If you are in a hurry

Read the Abstract & Executive Summary

If you have time

Read the Abstract & Executive Summary

Read about my Original Approaches

Read the full-text Results, Discussion and Implications

ABSTRACT

This master's thesis investigates whether Germany can make itself less economically dependent on China through increased foreign direct investment (FDI) into Mexico. To approach this matter, several original models are formulated, with the centerpiece of the thesis being the Comprehensive FDI Analysis Model; an eclectically constructed decision path to guide users through the process of evaluating a target country with regards to its FDI fitness. Germany and Mexico function as exemplary home and host countries in the scenario of this thesis. To confront the proposed model approaches with practical insights, 19 semi-structured interviews were conducted with a total of 21 experts in FDI and development cooperation. Qualitative content analysis of their statements yielded the following results: Increased investment into Mexico can indeed help alleviate German dependence on China by way of diversifying value chains. When evaluating a country's FDI fitness, the state of its private sector matters most, followed by the state of its institutions. In the private sector, factor conditions, existing networks of related and supporting industries and, ideally, the presence of clusters are the most relevant to FDI fitness. As far as the institutions are concerned, they are most conducive to FDI when they ease market access and grant investors long-term planning certainty. Mexico performs well within the FDI fitness criteria established in this thesis and is a highly suitable partner country for the industry-heavy German economy, with much potential for increased cooperation in near-shoring, vocational training and political alignment. Development cooperation has untapped potential to perform a complementary function to FDI. With minor adjustments, the Comprehensive FDI Analysis Model can be subjected to a future field test.

Keywords: Economic dependence, foreign direct investment, development cooperation, diversification, Germany, Mexico

EXECUTIVE SUMMARY

The original thesis addresses the research question: **Can the German industrial sector become more independent from China by investing more in Mexico/Latin America?** The answer is **yes**. However, only to a limited extent.

Practical Results

- Mexico's greatest potential for the German industrial sector lies in **nearshoring**, i.e., production close to or in the final sales market. The associated shortening and/or diversification of value chains can **reduce the cluster risk** factor represented by Chinese supplier defaults.
- However, this potential is currently limited to the **diversification of production sites** for final sales markets. Mexico's current production capacities have little potential for the diversification of suppliers of intermediate inputs, on which production sites in Germany themselves are dependent, or for special raw materials (such as rare earths). Also, the Mexican market itself as well as other Latin American markets currently offer only limited sales potential for the major sectors of the German economy. The latter is expected to improve in the future.
- From a production location perspective, Mexico is best viewed as a **gateway to North and possibly South America**.
- The German industries that could particularly benefit from diversification to Mexico ('*focus industries*')¹ with the goal of reduced dependence on China are: **Automotive, mechanical engineering, chemicals & pharmaceuticals, data processing equipment, electrical equipment, metal production & processing/metal products**.
- Mexico's most attractive geographical zones for German FDI in the industrial sector are located between the country's center and the north, more precisely **Mexico City, State of Mexico, Nuevo León, Coahuila**, and the **Bajío** region, which includes parts of Aguascalientes, Guanajuato, Jalisco, Michoacán, Querétaro, San Luis Potosí, and Zacatecas. These regions offer the most advanced cluster development in the aforementioned focus industries.
- Improving the local business environment through development cooperation (DC) can be hindered by a lack of coordination. To maximize **synergy potential of DC and FDI**, it is important for public DC bodies to collaborate more closely with the private sector, to facilitate their access to DC engagement. When investing in Mexico, German firms may benefit from participating in DC, especially **dual education** projects.
- **Organized crime is a growing concern** for foreign investors in Mexico, leading to bribery and potentially posing physical danger to assets and staff. Foreign investors must invest more in security and redesign procedures to increase protection. While security concerns may deter new investors, they are unlikely to push out established long-term investors.
- Mexico's left-wing **AMLO administration is less welcoming to foreign investors** than previous governments, which affects USMCA, the energy sector and bureaucratic nepotism.
- In terms of Institutional FDI Fitness,² **China currently remains more attractive than Mexico** in all areas except Government Fitness and Educational Fitness.

¹ Original term proposed in this thesis. Focus industries are identified by applying an original auxiliary model used to superimpose industries with major external dependencies (or other criteria) with industries in which the home and host country have the greatest mutual engagement.

² Preexisting theory which was heavily adapted for this thesis (see Scientific Results).

Scientific Results

- The methodology of this thesis includes literature review and statistical analysis of secondary data, as well as the collection of primary data using qualitative content analysis of interviews with 21 experts in FDI and development cooperation from Mexico, Germany, Austria, Chile, and Venezuela.
- The principal scientific contribution made via this thesis is the '*Comprehensive FDI Analysis Model*.' It is an eclectic step-by-step decision-making tool aimed at supporting private and public actors in their evaluation of an FDI opportunity. It consists of a preparation phase [0-1], firm-analysis phase [2], country-analysis phase [3], and decision-making phase [4-5]. The model is eclectic in so far as it was developed by arranging existing theories and models based on extensive literature review. Each element was subjected to critical analysis by way of interviewing the aforementioned experts, whose answers allowed for statements on the different elements' importance.
- As part of the Comprehensive FDI Analysis Model, an original scoring system for a country's institutional FDI fitness (IFF) was developed based on the preexisting "*Institutional FDI Fitness Theory*." As is the case in the original theory, IFF is divided into the categories Government Fitness, Market Fitness, Educational Fitness, and Sociocultural Fitness. However, the theory was heavily adapted for this thesis, replacing the original study-specific variables with publicly available indices, with the goal of enabling the calculation of a score for any country. The result of said calculation is the original '*Aggregated IFF Score*.'
- In addition to the Comprehensive FDI Analysis Model, two auxiliary models are proposed, which aid the specific scenario this thesis was set in: Attenuating Germany's external dependencies by way of diversifying manufacturing locations.
 - The '*Focus Industry Selection Model*' helps select the industries the Comprehensive FDI Analysis Model is applied to by identifying home country industries based on their external dependence (or other criteria) and then superimposing them with the industries of greatest engagement (i.e., industries with greatest trade & FDI volume) between the home and host country.
 - The '*Iterative & Incremental Model of DC Engagement*' helps primarily private sector actors approach the decision of whether to also engage in development cooperation (DC) efforts in addition to their FDI endeavors. It is an adaptation of a software development practice and proposes a cyclical (iterative) engagement in DC in an effort to improve the host country business environment, thus rendering it more FDI-attractive in the long run. The effectiveness is evaluated upon each iteration and DC engagement is incrementally intensified or diminished accordingly. The general effectiveness of DC was first interpreted by statistically approximating the historical correlation between official development (ODA) flows and different human development indicators. Moreover, the interviewees were questioned about DC if they had the necessary expertise in this field.

These models are called auxiliary because they are not necessarily required to apply the Comprehensive FDI Analysis Model but can be used to reasonably extend it.

The extensive coding scheme covering over 222 different statements that was elaborated to analyze the interview content can be used to conduct further qualitative and quantitative studies on the original approaches developed in this thesis.

End of executive summary

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INTRODUCTION

This document is intended to summarize the main points of my master's thesis. The original thesis comprises a total of over 250 pages and contains a comprehensive theoretical foundation as well as an extensive appendix with primary data and supplementary secondary data. This document does not carry this level of detail. If there are any ambiguities resulting from this abridgement, I apologize and welcome contact via all media.

I had the idea for writing about this subject before I even got accepted into the Tricontinental Master in Global Studies program back in 2020. The Covid-19 pandemic had just started, but 2022's Russian attack on Ukraine could not yet be foreseen by anybody. Something that could always be foreseen, however, is that external economic dependencies contribute to national economies' vulnerability to political pressure, default risks and black swan events. As a starting point, it can be argued that external dependence is likely greatest when it comes to a nation's most important trading partner. In the case of Germany, this is China.

It is not far-fetched to interpret current events on the world stage as the relaunch of an old trend in new attire: The formation of two global poles based on competing ideologies. Many factors drive this trend: Globalization and international value chains being used as political bargaining chips, the political leverage China enjoys due to its currently irreplaceable role in the global economy paired with increasing Chinese wealth and nationalism waking the desire of having a greater say in international politics, Russia's definitive declaration of hostility toward the global West in the shape of its atrocious attack on Ukraine and its abuse of European energy dependencies, European complacency and sluggishness, inequalities between the global North and South which China may use to its advantage, and not least the U.S.-China conflict first explicitly launched by Donald Trump but seamlessly carried forth and in many ways intensified by Joe Biden. [Figure 1](#) is a proposition of the shape such two poles may take, assuming that this trend continues.

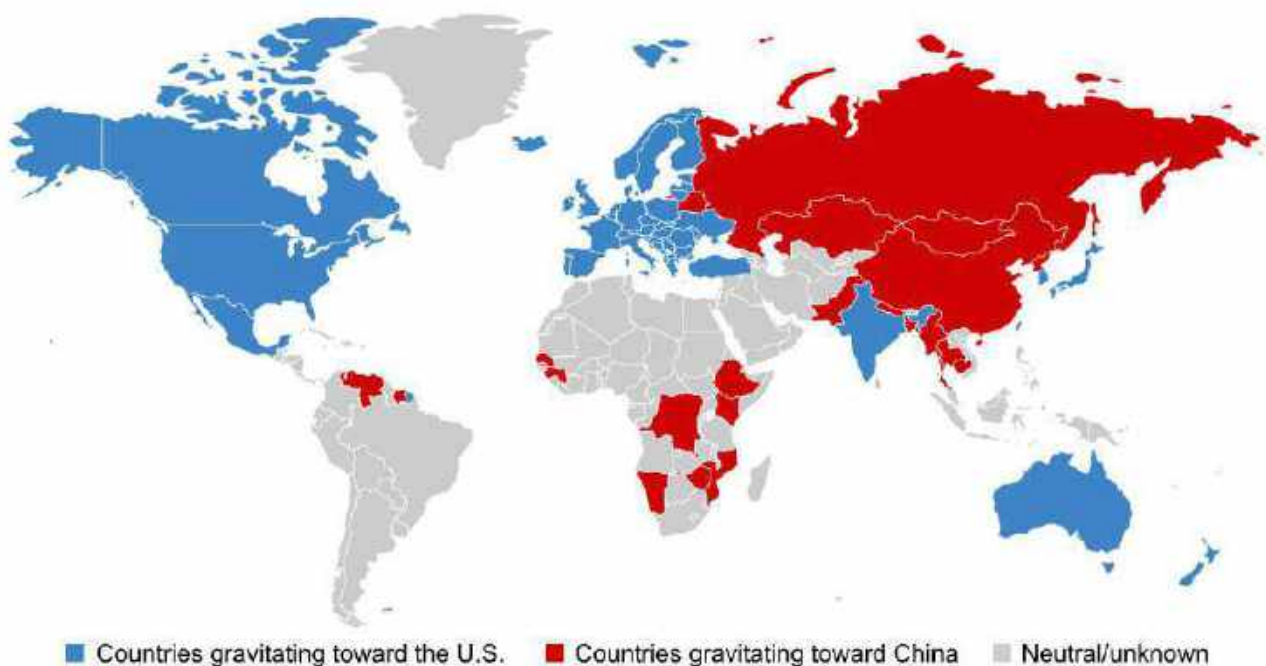


Figure 1: The World Drawn Toward two Poles: A Possible Scenario

Note. Original illustration based on Barkin, 2019; EC, 2022; Fagan & Poushter, 2020; Ford & Goldgeier, 2019; Friedberg, 2017; O'Connor & Donovan, 2022; Rudolf, 2019; Schuman, 2022; YouGov Staff, 2017.

This begs the question: **Where does Europe stand in all this?** The political answer is a matter of ongoing debate. However, while politicians discuss, the private sector must act – and it does. Unlike the U.S. American stance, which calls for decoupling from China, Germany is habitually more restrained – and would prefer diversification over decoupling. One objective of this thesis was to lay the

foundation for developing a model that may inform both private and public actors' diversification decision-making. The proposed model was tested against the scenario of German investment into Mexico. Latin America, historically neglected in European foreign policy, is a region with major potential to suit the diversification strategy proposed in this thesis – above all Mexico.

THE THESIS AT A GLANCE

Theoretical Foundation	Introduction	Economic dependence and political risk
		German industries most dependent on China
		Proposal of a Diversification Strategy
	Why Mexico?	SWOT analysis of Mexico as a manufacturing location
		DE-MX economic engagement overview
	Model 1	Focus Industry Selection Model
	FDI & National Competitiveness	FDI definitions & home- and host country effects
		OLI Framework (Dunning)
		Institutional FDI Fitness Theory (Wilhelms & Witter)
		➔ Original adaptation & Aggregated IFF Score, scores for Germany, Mexico, and China
Empirical Research	Development Cooperation (DC)	Diamond of National Competitive Advantage & cluster theory (Porter et al.)
		Mexican clusters in the focus industries
		Facts & figures, German DC efforts globally and in Mexico
	Model 2	Statistical approximation of historical ODA and human development correlation
		Private sector advantages of DC
	Strategic Partnerships	Iterative & Incremental Model of DC Engagement
		Definition and objectives
	Model 3	Comprehensive FDI Analysis Model
	Part 1: Methodology	Data collection process: Description & documentation
		Critical assessment of data collection process & results
	Part 2: Results & Implications	Presentation of results along 3 themes: FDI, DC & Focus Mexico
		Discussion of results with reference to previous research
		Answering the guiding questions
		Practical implications: Private & public sector
		Scientific implications
		Closing remarks

omitted | partly included | included in detail in this document

ORIGINAL APPROACHES

The objective was to come up with a universally applicable approach to using FDI in order to diversify manufacturing locations. For this thesis, the approach was embedded in diversifying manufacturing for German industrial companies and looking at Mexico for FDI. The rough outline of what needs to be assessed is depicted in Figure 2. This overview helps to place the original approaches on the following pages in the overall strategy. These original approaches are like tools that are needed at the various steps of the strategy.

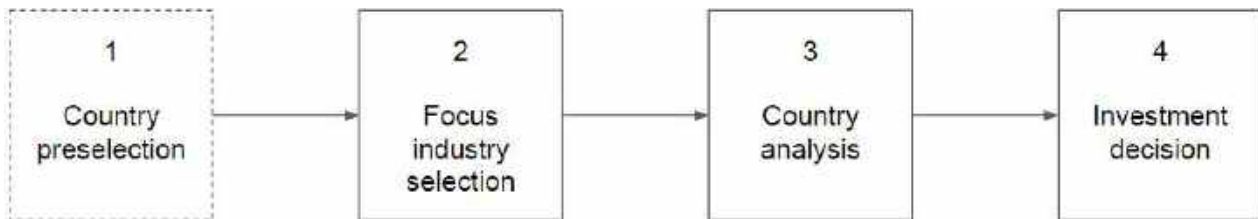


Figure 2: Outline of a Diversification Strategy

It is necessary to make a loose country preselection, as the characteristics of specific countries play a role in the further steps. The country longlist that results is then broken down to a shortlist in the next step, which is done by identifying for which countries on the longlist the engagement of the focus industries is particularly pronounced. The way focus industries are selected in the first place is illustrated in Figure 3.

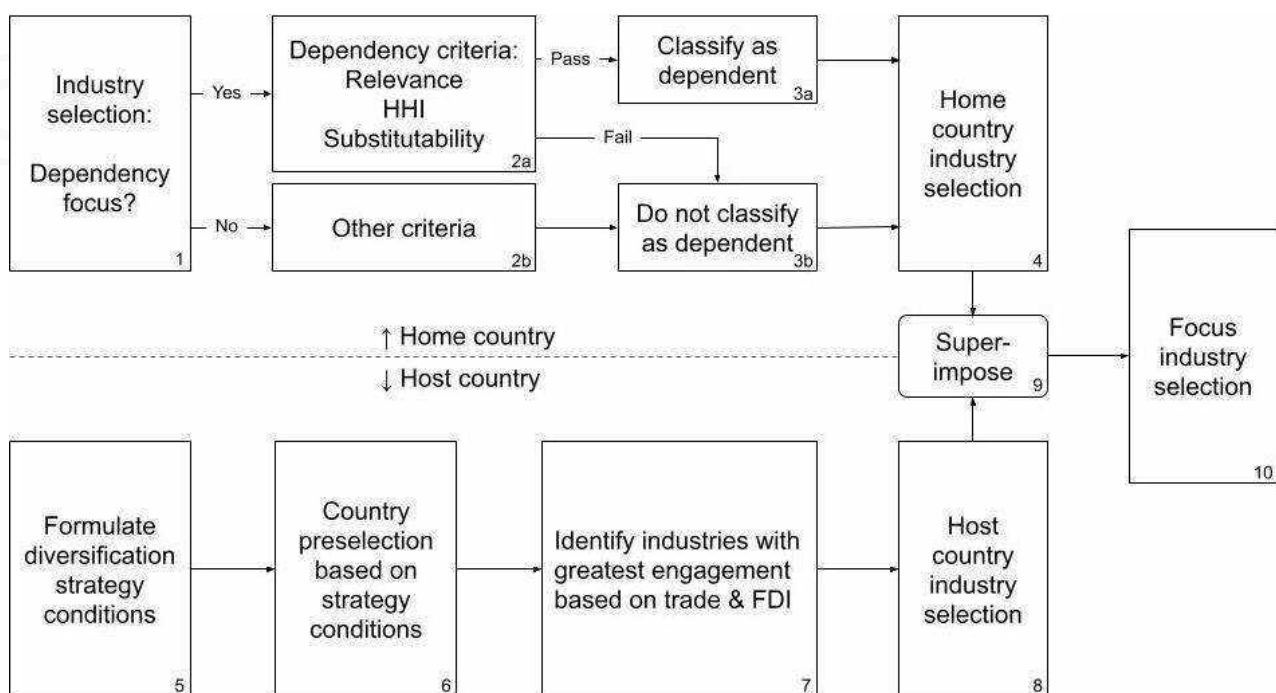


Figure 3: Focus Industry Selection Model

This model is an auxiliary model to help guide toward a comprehensive investment model. It consists of two paths: The upper path takes the perspective of the home country. In this path, home country industries can be selected whether they be dependent or not. This simply indicates that the model can be applied to any industry whether it qualifies as dependent or not, but that it does include a section that helps identify dependent industries. The lower path takes the perspective of the host country. When the results of both analyses are superimposed, the focus industries are obtained.

Two elements in Figure 3 call for further explanation: 2a and 7. 2a is used to determine whether an industry should be classified as dependent or not. This is done using an approach developed by ifo researchers Baur and Flach. Baur and Flach define critical products on the basis of three criteria (2022, p. 60):

- The relevance of a good for German production. Only goods that are actually relevant for German production represent a high risk for the economy as a whole in the event of a supply shortfall.
- The degree of market concentration in relation to supplier countries, measured by the Herfindahl-Hirschman index (HHI). A low degree of diversification in terms of suppliers is associated with a higher risk of supply failure in the event of negative shocks.
- The substitutability of a good by domestic production. For products that can be substituted by domestic production, dependence on foreign countries needs to be regarded as lower.

If these three criteria reach a certain threshold, an industry can be classified as dependent. Of course, it is not obligatory to use dependency as a selection criterion for home country industries; other criteria can also be chosen. However, dependency is the thematic overhang of the scenario in this thesis and Baur and Flach's approach is suitable for its definition.

Element 7 is the identification of industries with greatest engagement. This original term simply means: Where is there already the greatest exchange between home and host country? These are determined by ranking industries based on import/export volume and FDI. This principle is based on the idea that investment in a country is more promising if its foundations have already been laid than if an industry has to be built up from scratch - though globalization has made it so the latter hardly ever occurs anymore.

No country can be strong in all sectors at the same time, which is why it makes sense to limit the analysis to certain industries and also to take this two-way approach. A potential target country for investment need not be viewed incessantly through the lens of one or more industries, especially not in an initial macroeconomic review. Rather, this view helps quantify the investment potential for specific industries in a country.

Rank	Category	
	Imports	Exports
1	Data processing equipment	Automotive
2	Electrical equipment	Mechanical engineering
3	Textiles & clothing; automotive	Chemicals & pharmaceuticals
4	Mechanical engineering	Metal production & processing, metal products
5	Chemicals & pharmaceuticals	Data processing equipment
6	Metal production & processing, metal products	Electrical equipment

Table 1: German Industries Most Dependent on China as a Supplier of Intermediate Inputs and as a Sales Market

Note. Table based on Baur and Flach (2022) and Matthes (2019). In the imports ranking, *textiles & clothing* and *automotive* share a rank due to their identical ranking after the two sources' superimposition. There are six ranks because the data overlapped in six industries.

Industry	Focus ranks		Dependency ranks		Trade ranks		FDI ranks
	Rank	Score	Imports	Exports	Imports	Exports	FDI Flows
Automotive	1	8	3	1	1	2	1
Mechanical engineering	2	17	4	2	5	1	5
Chemicals & pharmaceuticals	3.5	20	5	3	6	3	3
Data processing equipment	3.5	20	1	5	4	6	4
Electrical equipment	5	21	2	6	3	4	6
Metal production & processing, metal products	6	31	6	4	9	5	7

Table 2: Focus Industry Selection

Table 2 is the application of the original Focus Industry Selection Model (see Figure 3). Here, the ranks from the two analyses performed - the identification of German dependent industries and the identification of industries of greatest engagement with Mexico using trade volume and FDI - are entered into one table. Then they are summed up, yielding a score, and ranked according to that score. This new rank is the final focus industry rank. It indicates which industry is most promising in the host country, given the urgency of its dependence in the home country.

This covers industry selection. Whether industry selection is at all relevant depends on who applies the Comprehensive FDI Analysis Model. Of course, an individual company does not have to select an industry, since it is part of an industry. What all users need to ask themselves, however, is whether FDI is the right market entry strategy at all. For this, Dunning's famous *OLI framework* can be consulted. This is not an original approach. However, understanding the OLI framework is important for the Comprehensive FDI Analysis Model.

The OLI framework has three components that are passed through like stations in the decision-making process. As demonstrates, failure at any one station leads to either remaining domestic, choosing exports or choosing licensing; only when all three OLI criteria are met is FDI the sensible decision.

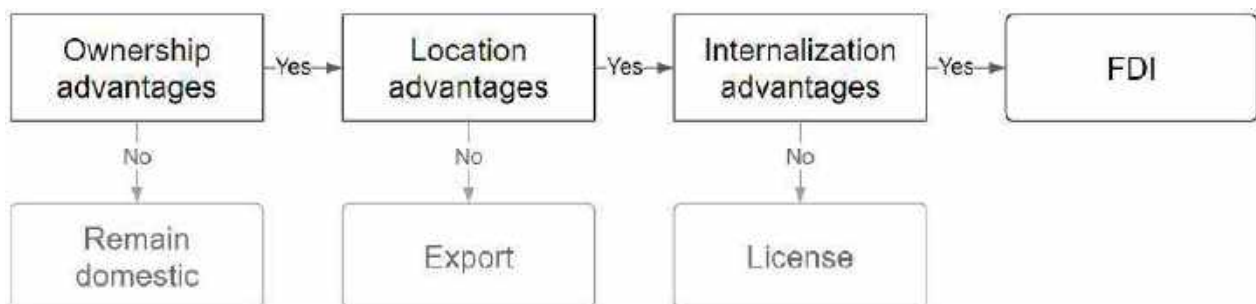


Figure 4: OLI Framework

Note. Original illustration based on Dunning, 1980.

Ownership advantages: These are the firm-specific competitive advantages a firm would have over local players in foreign markets. They include elements such as brand, trademarks, patents, production technology, management expertise, economies of scale, etc.

Location advantages: This refers to the advantages of conducting the value creation activity at the target location rather than at the home base. These can be advantages such as the presence of raw materials, low wages, special taxes or tariffs, or the geographic location itself.

Internalization advantages: This refers to the benefits the company must derive from doing the value creation themselves, rather than having it done through licensing, franchising, or a joint venture. The latter would have advantages such as the partner's knowledge of the target market abroad, employees with language skills, information on import permits, suitable products, contacts, etc. However, especially in the case of competitive advantages related to know-how, it is often difficult to license them, e.g. because it is more cost-efficient to simply continue known processes oneself instead of capacitating new partners to do so, or because knowledge of sensitive production processes or technologies should not leave the company (Dunning, 1980).

Once a country shortlist is in place, focus industries have been identified (if applicable), and it has been established that FDI is the correct market entry strategy, we move on to country analysis. Country analysis proceeds in a funnel-like fashion: There is a macro analysis (industry-independent) and a micro analysis (industry-dependent).

For macro analysis, an original adaptation of the *Institutional FDI Fitness* (IFF) theory by Wilhelms & Witter is incorporated. As is the case in the original theory, IFF is divided into the categories Government Fitness, Market Fitness, Educational Fitness, and Sociocultural Fitness. However, the theory was heavily adapted for this thesis, replacing the original study-specific variables with publicly available indices (see [Figure 5](#)).

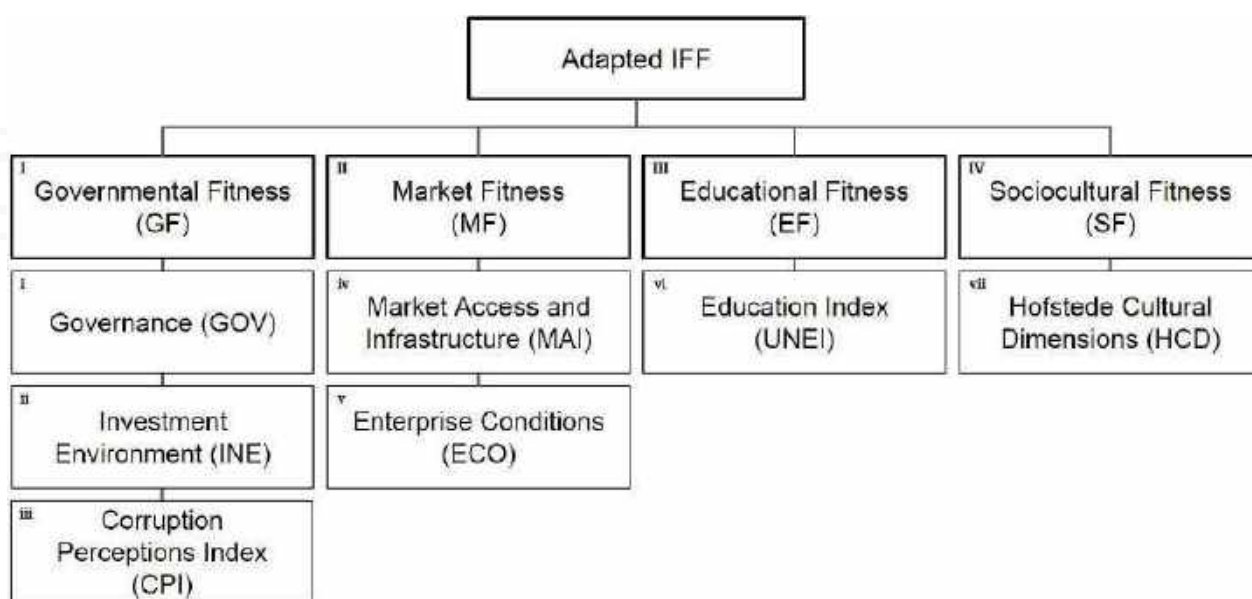


Figure 5: Adapted IFF Model with Reputable Indicators as Proxies

Note. Original illustration based on Wilhelms & Witter, 1998, p. 16.

This model can be used to make a statement about how conducive or obstructive a country's institutions are to FDI. As a general rule of thumb, the freer capital can flow in and out of a country, and the more stable the legal framework, the more conducive it is to FDI. Using publicly available indices allows for the calculation of a score for any country. The result of said calculation is the original *Aggregated IFF Score*. The scores for Germany, Mexico and China are depicted in [Table 3](#).

Country	IFF score	GF			MF		EF	SF
		GOV	INE	CPI	MAI	ECO	UNEI	HCD
DE	95.09	94.87	92.31	95.53	98.08	96.15	88.66	100
MX	54.77	48.72	61.54	27.93	53.85	69.87	57.96	63.5
CN	65.31	44.23	72.44	55.87	74.36	82.69	52.10	75.5

Table 3: Values of the IFF Model and Aggregated IFF Score

Note. Table assembled based on Brien, 2019; Hofstede Insights, n.d.; Transparency International, 2021; UNDP, 2020.

For the micro analysis part of country analysis, i.e., 'zooming in' on the immediate business environment private sector actors find themselves in a country, region, city, district, etc., Porter's renowned Diamond Model of National Competitive Advantage (also not an original approach, but a necessary requisite) is employed.

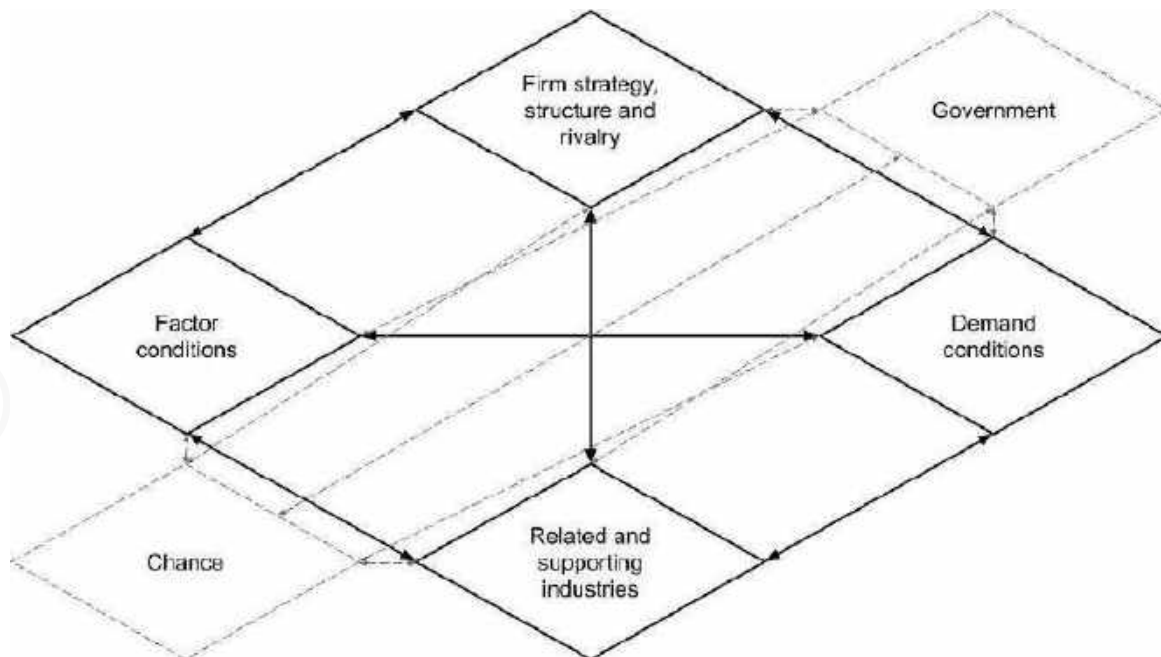


Figure 6: Diamond Model of National Competitive Advantage

Note. Adapted from Porter (2008, pp. 182–183). Bold lines represent primary determinants, broken lines represent secondary determinants.

Factor conditions: the availability, quality, and cost of labor, natural resources, infrastructure, capital, and technology

Demand conditions: the nature and size of the domestic and international markets for goods and services

Related and supporting industries: the presence and strength of suppliers, buyers, competitors, and other firms in related and supporting industries

Firm strategy, structure, and rivalry: the competitive environment and the strategies, structures, and incentives of domestic firms

Chance: unexpected events that can impact the competitiveness of an industry or firm, such as natural disasters, technological breakthroughs, or changes in government regulations

Government: policies, laws, and regulations that affect the competitiveness of an industry or firm, including taxes, trade policies, IP protection, and education and infrastructure

The functioning of the diamond can essentially be understood as placing the entity (usually a firm) of interest in the center and the determinants constituting its environment. Understanding the Porter diamond is a prerequisite for applying another of Porter's concepts: That of clusters. "Clusters are geographic concentrations of firms, suppliers, related industries, and specialized institutions that occur in a particular field in a nation, state, or city" (Porter, 2008, p. xix). In clusters, there is intense competitive pressure and related and supporting industries settle. As a rule, clusters tend to emerge in areas with good factor conditions and corresponding demand. Clusters have the effect of increasing productivity, promoting innovation and stimulating new business. As can be concluded from the diamond model, companies located in clusters are particularly well-equipped to compete internationally. Prominent examples of clusters in the context of this thesis would be automotive clusters in southern Germany, or in the states of Puebla or San Luis Potosí in Mexico.

The extent to which clusters are developed can be quantified. This requires comprehensive analyses of economic data in predefined regions. Therefore, the state of information on clusters in emerging economies is often not as good as in industrialized countries, where detailed databases on clusters exist, such as Porter's U.S. Cluster Mapping Project or the EU's European Cluster Collaboration Platform. However, the collection and analysis of cluster data is increasingly taking hold in emerging economies as well - including Mexico. Its central bank conducted a nationwide cluster analysis in 2022. This helps illustrate how clusters fit into the funnel concept of the Comprehensive FDI Analysis Model. If Mexico, for instance, was found to be good in the macro analysis, the question then becomes where a firm should locate geographically. Visualizing the clusters in a heat map based on their characteristics helps answer this question (see [Figure 7](#) for an exemplary visualization of automotive clusters in Mexico).

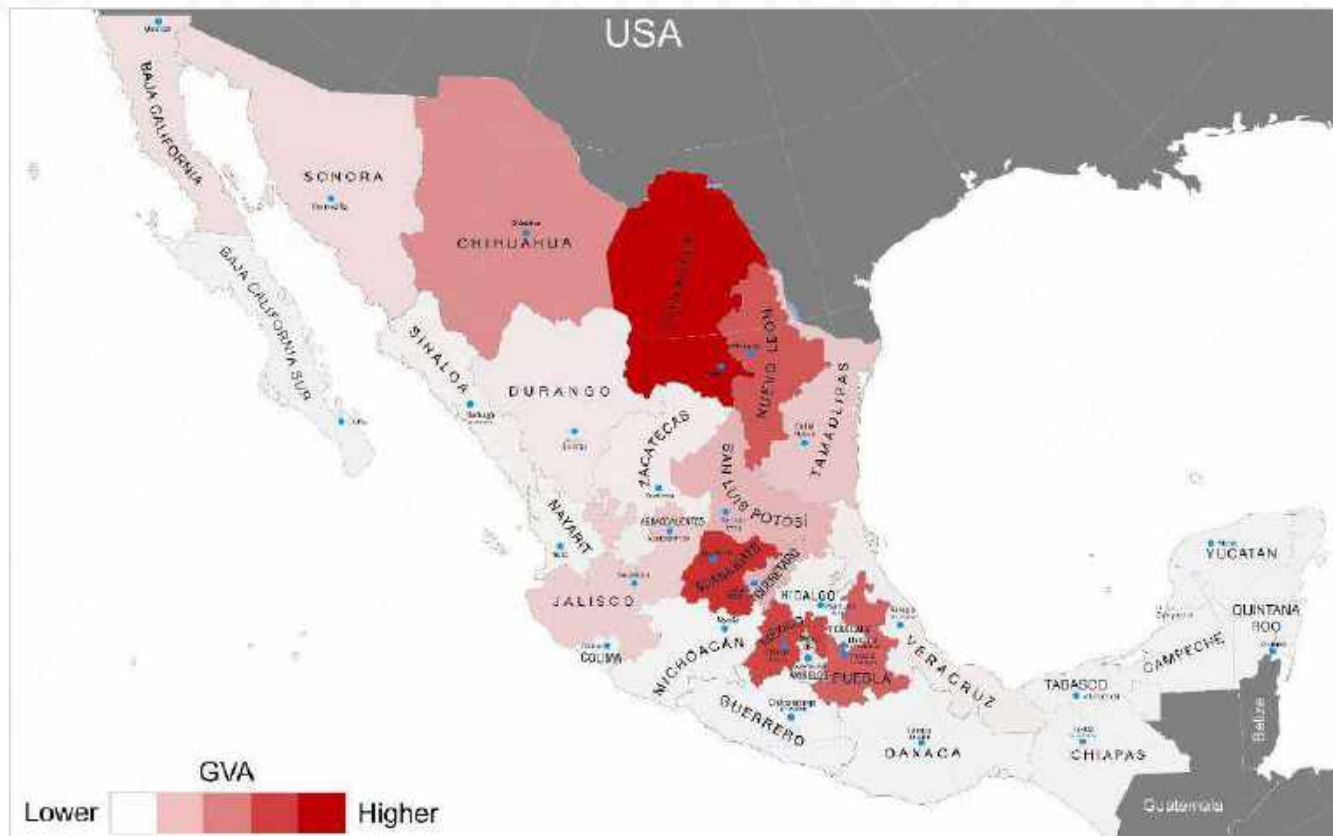


Figure 7: Heat Map of Mexico's Automotive Clusters' Geographical Distribution by GVA, 2019

Note. Original illustration based on Juárez-Torres et al., 2022, p. 16, Table 4.

Cluster	No. of industries	Percentage of all industries in the economy				
		Employment	Establishments	Production	Gross value added (GVA)	GVA per worker in MXN
Medical equipment & supplies manufacturing	5	1.44	0.06	1.33	1.14	291.14
Semiconductors & other electronic components manufacturing	4	0.96	0.02	0.65	0.72	275.11
Automotive	7	4.86	0.18	14.86	10.02	758.56
Office administrative services	14	3.51	0.92	1.66	2.30	241.19
Metal products manufacturing	11	2.06	0.38	2.73	2.10	375.47
Steel products manufacturing	14	1.86	0.55	4.14	3.07	608.04
Financial services and head offices	17	3.78	0.60	10.56	14.02	1,365.85
Plastic products manufacturing	21	6.91	8.34	7.51	5.51	293.29
Freight transportation services and residential & nonresidential construction	15	4.82	1.10	3.49	3.61	275.22
Business support services	9	2.76	3.87	1.24	1.36	181.10
Pharmaceutical & medical manufacturing and services	14	1.67	0.91	1.55	1.40	309.62

Table 4: Economic Statistics of the Mexican Clusters Most Relevant to the Focus Industries, 2019

Note. Adapted from Juárez-Torres et al., 2022, p. 15. This table is an excerpt from the full table including 24 clusters. The clusters deemed most pertinent to the focus industries for German-Mexican cooperation identified in this thesis (see Table 2) were selected for this table

A final theoretical foundation worth mentioning in the context of this thesis is *development cooperation* (DC). DC is included under the assumption that emerging markets might have the potential to improve their investment environment there through development policy-based projects. This assumption is justified as a positive correlation between *Official Development Aid* (ODA) flows and various human development indicators can be demonstrated (which was done via statistical analysis in the full thesis). The relationship between the investing and the investment target country aimed at in the spirit of this thesis is of a partnership nature. DC is thus addressed on the one hand because of its presumed diplomatic effect; on the other hand, this thesis is primarily concerned with economic interests. Development policy must therefore be placed in the context of private-sector benefits. This endeavor is illustrated in Figure 8.

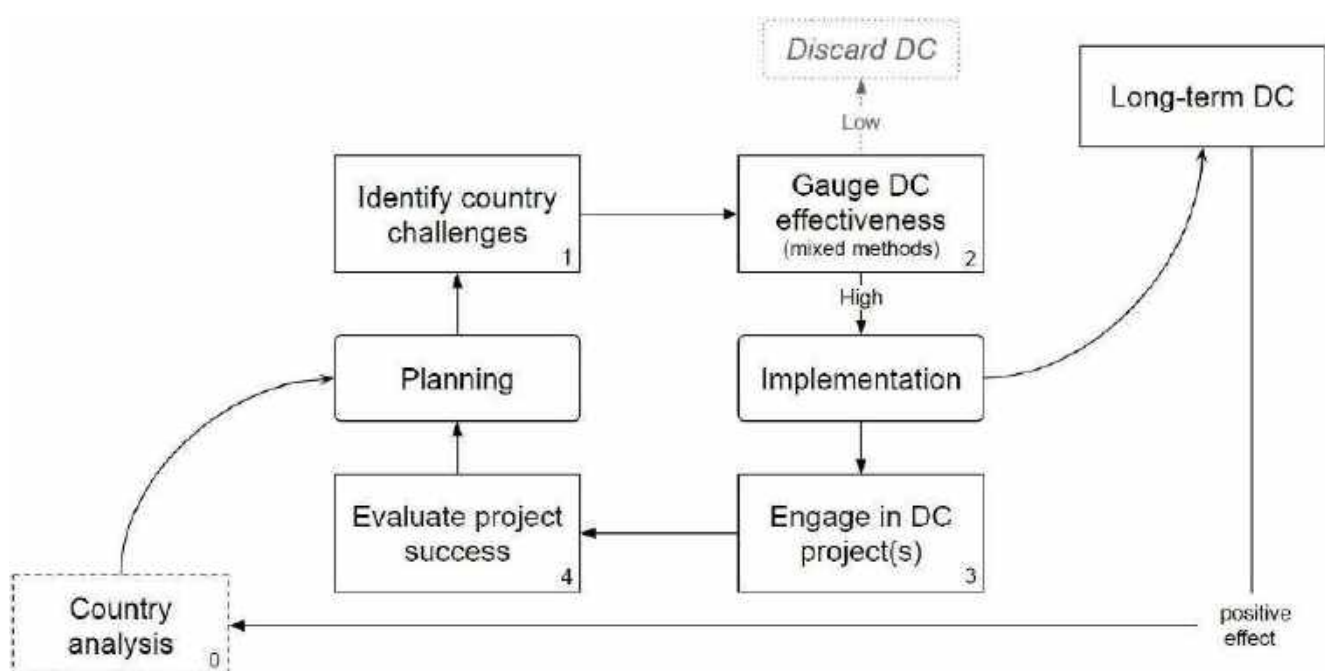


Figure 8: Iterative & Incremental Model of Development Cooperation

Figure 8 represents how a (private sector) actor can participate in development cooperation. The structure of the model is based on so-called iterative & incremental development, an approach that has its roots in software development. However, it is primarily a procedural model and can be transferred to virtually any field. A characteristic of the incremental approach is usually that the final result of an endeavor is not predetermined and that it continues to grow organically. In this context, the endeavor is understood to be the long-term engagement in DC. In the incremental approach, different parts of a system are developed and integrated into the overall system at different times and at different rates. Iterative alludes to progressing via iterations. The result of an iteration is examined for necessary adjustments and those are then implemented in later iterations. Ongoing revisions and improvements of the parts of the system are intentional. The goal is basically to create a rolling system where experience from the development and use of earlier iterations can be fluidly implemented.

The model can be read as follows:

0. The results of the country analysis facilitate statements on the state of the local investment environment.
1. These results are categorized and operational areas for potential DC engagement are identified.
2. The potential for effective development projects in the host country is assessed using mixed methods.³ If this assessment shows that DC projects in the respective country/area have rather low chances of success, the DC engagement can be discarded.
3. The DC project(s) is/are implemented.
4. The DC project(s) is/are subjected to a post evaluation. Subsequently, the cycle repeats itself. The model has one of two outcomes: Either DC engagement is abandoned, or it is implemented for an extended period of time. If the latter, its effects are expected to positively feed back into the local investment environment, improving performance in the country analysis over the long term. More abstractly, this model would ideally lead to its own elimination at some point, as the host country would no longer have a need for external development projects.

This model can be considered an add-on module to the *Comprehensive FDI Analysis Model*. It is not necessary for the assessment of a country's FDI attractiveness by private companies, industry spokespeople, or policymakers; however, it can be used when such parties who have a long-term interest in a country as a strategic partner want to engage in efforts to improve the local investment environment.

The Comprehensive FDI Analysis Model

The Comprehensive FDI Analysis Model is about decision making. At the core of this decision-making process is the question: Should an investment be made or not? On the way to answering this question, a number of macro- and microeconomic 'gates' are passed, which should be conducive to the funnel-like concretization mentioned previously.

³ Mixed methods means: Without prior experience of the actor, approximate assessment tools such as statistical approximation, the performance of past projects according to documentation by GIZ or other development policy bodies, or qualitative primary information must be used. However, the model becomes particularly effective when prior experience can be drawn upon.

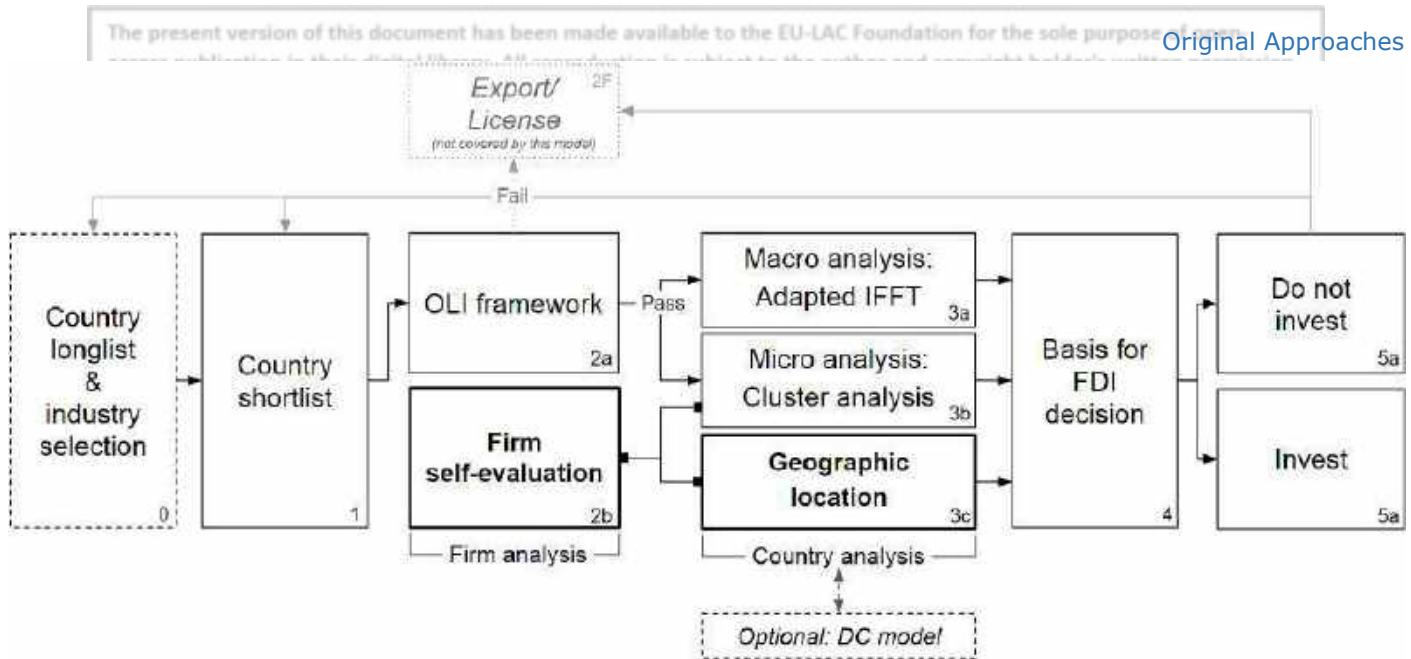


Figure 9: Comprehensive FDI Analysis Model

Below is a compact explanation of each station in the Comprehensive FDI Analysis Model:

0. Before the actual model comes into play, the following questions must be answered: Which countries should be longlisted, i.e., which countries are generally eligible? There are no universal criteria for answering this question; it depends. Matters become relevant such as: Is a nearshoring approach being pursued? Is it purely a matter of low labor costs? Are geopolitical forecasts the motive? Secondly, the question arises: For which industries should the model be applied? This step plays an important role because ideally there should already be engagement with potential target countries in the respective industry. That an industry is introduced completely new in a country is unlikely, but the extent of its presence should be quantified. To identify the most promising industries for increased interaction, the Focus Industry Selection Model can be applied. This station is depicted with broken lines to indicate that it is optional. This is because country and industry selection can also be approached quite differently: First, it does not necessarily have to be about dependent industries; any industry can be considered based on arbitrary criteria. Second, this issue does not arise in the case of individual companies or the representatives of a specific industry. In addition, here too, the user can select an industry according to their own criteria. In this thesis, the target country (Mexico) was fixed from the beginning. The focus industries were determined according to the outlined approach.

1. A shortlist based on the longlist will be created. Those countries will be shortlisted with which there is satisfactory engagement in the focus industries, or which otherwise meet criteria. The shortlist with at least one country is required for the application of the OLI framework in the next step.

Steps 2a and 2b are simultaneously carried out and form the *firm analysis* stage.

2a. The OLI framework is applied as shown in Figure 4. A target country is required for application because the criteria in the OLI framework must always be evaluated with respect to a country. All three OLI criteria must be met for a company to proceed with FDI. Otherwise, Step 2F applies.

2b. Firm self-evaluation element is about the user's self-assessment in terms of firm size and position in the value chain. This is also possible at the industry level by assessing industries based on the typical nature their companies. This element is linked to the elements 'micro analysis' and 'geographical location' in the country analysis.

2F. If in Step 2, the ownership advantages (O) criterion cannot be met, the company should remain domestic. If it can be met, but there are no location advantages (L), the company should export to the target market. If the O and L criteria are met, but there are no internationalization advantages, the company should license its business model in the target market. For none of these cases does the remaining Comprehensive FDI Analysis Model apply, so a firm should go back to the start if this occurs. However, if the OLI criteria are met, the firm should enter the target market via FDI, meaning it can proceed to the country analysis.

Steps 3a, 3b, and 3c are simultaneously carried out and form the *country analysis* stage. The country analysis consists of two parts: Macro and micro.

3a. For the macro analysis of a country, IFFT (see [Figure 5](#)) was chosen. It can be applied using data from publicly available indices to make a statement about the institutional FDI fitness of the target country.

3b. To assess how pronounced the private sector is in the focus industry or industries, cluster analysis must be performed. For various countries, cluster analyses are published by corresponding organizations; if this is not the case, a bespoke cluster analysis must be performed. Clusters are geographically definable agglomerations. Accordingly, the micro-analysis allows for statements about where in a country an industry is most strongly represented.

3c. This element deals with the evaluation of the potential host country's geographic location with respect to the final sales market and potentially the connection to international logistics networks. As such, it is connected to the firm self-assessment.

4. After passing the two gates, or stages, all data are available for an informed FDI decision. If the data are in favor of a country's FDI attractiveness, the investment decision can proceed. If not, the actor should go back to the start.

5a. The criteria from the previous step speak in favor of an investment decision. Further evaluation models can be added downstream, or the investment can be continued.

5b. The criteria from the previous step speak against an investment decision. The company can either enter the target market by exporting or licensing or go back to the start. If the country is retained but the industry changes, the macro analysis can be left in place since it is industry independent. If the country changes, all steps must be performed again.

This concludes the presentation of the main original approaches within this thesis. In the following pages, the methodology of the empirical survey is briefly presented, followed by a detailed description of its results and implications.

METHODOLOGY

As is usual in qualitative research, no hypotheses are proposed, since they have to be formulated in a way akin to 'the more the expression of x changes in a certain direction, the more the expression of y changes in a certain direction.' Such hypotheses cannot be reliably tested by qualitative means. Instead, guiding questions are formulated.

- **What must a diversification strategy for German industrial companies achieve and how could it be designed?**
- **How is Mexico to be evaluated as a target country for a diversification strategy for German industrial companies?**
- **In how far would Germany and Mexico benefit from increased cooperation within the framework of a diversification strategy?**
- **To what extent is it sensible for the German economy to detach value chains from China and diversify toward Mexico and/or other Latin American countries?**

In addition, questions specific to the Comprehensive FDI Analysis Model are formulated to assist the overall research:

- How important are the various decision criteria for or against FDI relatively to one another?
- Are certain parts of the model obsolete and/or should new parts be added?
- To what extent are the topic of development cooperation and its associated model a useful addition to the Comprehensive FDI Analysis Model?

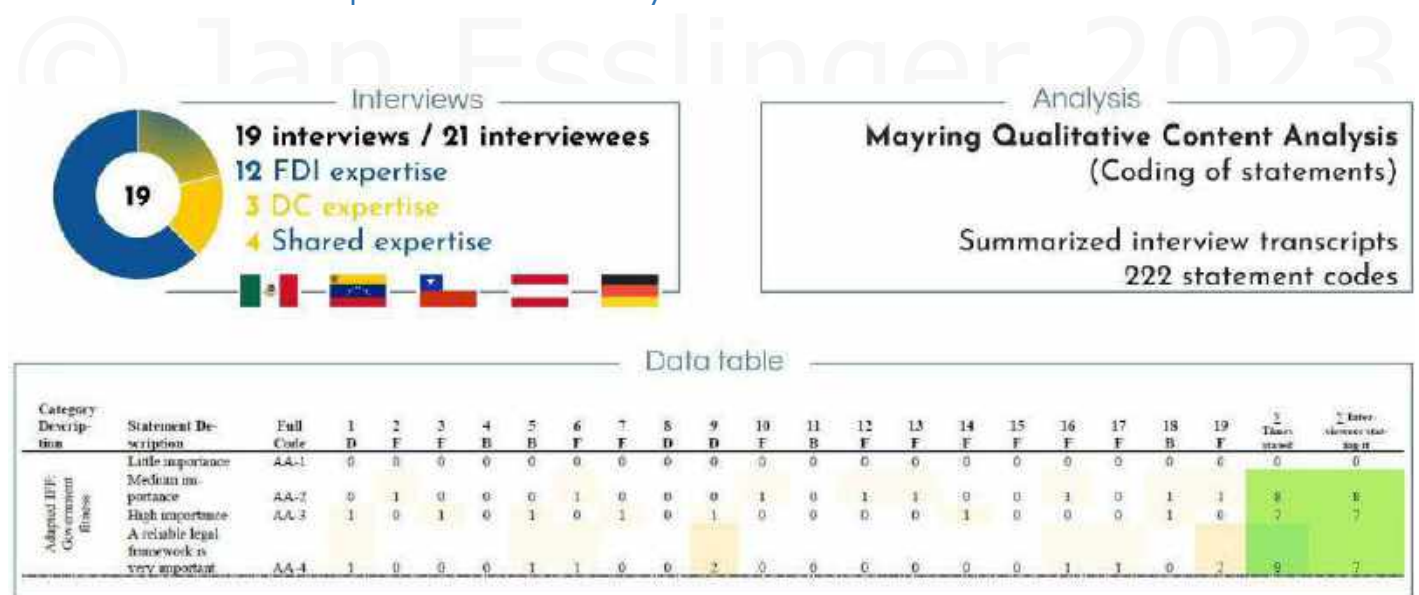


Figure 10: Visual Summary of Primary Data Collection and Analysis

In the scope of this thesis, qualitative research was conducted by means of expert interviews. 21 experts from the fields of FDI and DC were interviewed, both on the German and the Mexican side, although it is worth bearing in mind that the German side is overrepresented when reviewing the results. The interviews were transcribed in summarized form and the statements were evaluated with qualitative content analysis based on Mayring, resulting in a coding guide comprising 222 codes. The analysis of the interviews according to this quantification method was collected in a comprehensive data table (see Figure 10 for an exemplary excerpt). The results are presented in the following section.

RESULTS

Presentation of the Results

This section presents the results of an empirical investigation, which involved coding and tabulating statements made by interviewees. The results are only presented in this section and will be interpreted in the subsequent section. A large amount of data was collected, and therefore, only statements made by at least two interviewees were considered for the presentation, unless an individual statement was particularly significant. The presentation follows the thematic blocks of the thesis with appropriate sub-structuring units.

Figure 11 provides a first overview of the top 10 statements according to their occurrence and according to how many interviewees made the respective statement. Most topics are presented in this way in the following sections, with the relevance of occurrence vs. number of interviewees varying depending on the context.

Foreign Direct Investment

The first thematic block is FDI. Since this is the core topic of the thesis and also has the broadest theoretical basis, it receives the primary attention.

There were two objectives for this thematic block: To be able to make general statements about FDI decision criteria and to be able to make specific statements about Mexico's FDI attractiveness. The approach to the interviews and presentation in this chapter retains these objectives: Each subsection begins with the interviewees' general statements about FDI, followed by statements about how each topic manifests itself in Mexico. By way of introduction, it is worthwhile to provide an overview of the interviewees' assessment of the various determinants from the Adapted IFF Model.

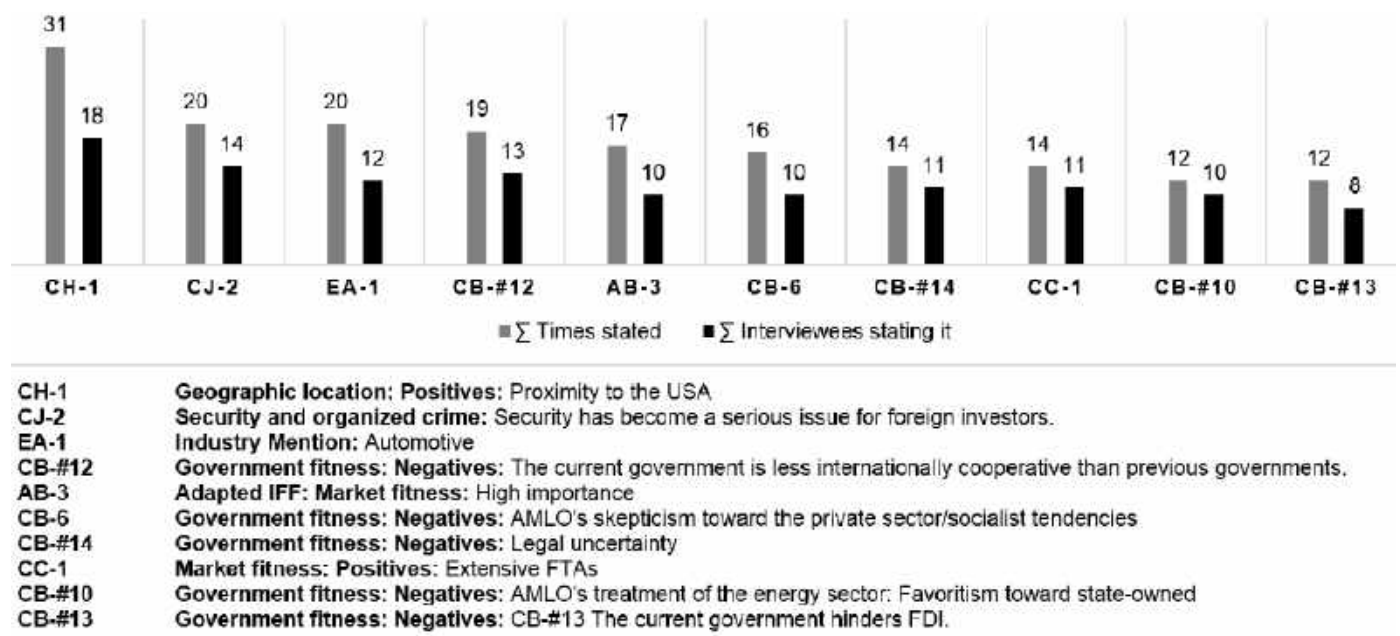


Figure 11: Top 10 Statements by Occurrence

IMPORTANCE FOR FDI ATTRACTIVENESS

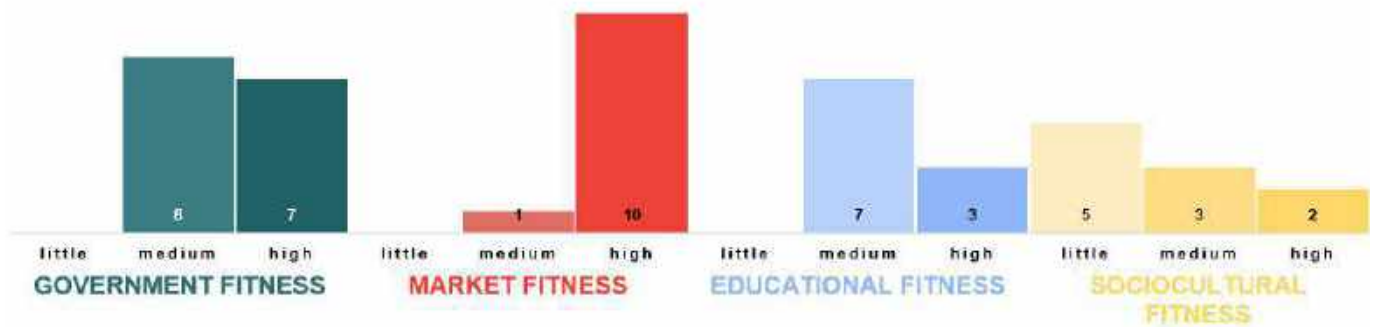


Figure 12: Interviewees' Assessment of the IFF Determinants

Note. The numbers refer to the sum of interviewees making the respective statement.

Government Fitness (GF)

The interviewees in the study ranked Market Fitness (MF) as more important than GF, though they still assigned GF medium to high importance. Reliable legal framework was seen as particularly important within GF, which refers to a government's measures to attract or hinder FDI and denotes political tendencies.

Negative aspects of Mexico's GF had the largest number of statements among the entire data collection, indicating that interviewees had many criticisms of the government's current policies.

The current state of affairs can be summed up roughly like this: President *Andrés Manuel López Obrador* (AMLO) of the left-wing *Morena* party has a strongly developed skepticism toward the private sector per se. This extends seamlessly to foreign direct investors. This skepticism has resulted in legal uncertainty, which weakens planning security concerning long-term investments, making Mexico less attractive for German investors who tend to have a long-term orientation. The way politicians deal with the energy sector is a prominent and recurring example of endangered planning security, with the AMLO administration passing

regulations aimed at consolidating the role of large state-owned firms⁴ as part of a large-scale energy reform.

Foreign investors in Mexico face problems with the government's energy reform, which requires them to source energy locally and rely on state-owned companies. This creates conflicts and planning uncertainty, as seen in the example of a German crude oil company with a concession on an area claimed by PEMEX. In-house compliance rules, such as sustainability, can also become an issue when CFE generates electricity from PEMEX crude oil. The frequency of changes in energy sector regulations in Mexico has raised concerns about investment security, with US investors initiating USMCA complaint proceedings. Some interviewees believe that such concerns are justified.

Interviewees, many of whom have lived in Mexico for prolonged periods of time and have witnessed government changes, perceive the current overall government as less internationally cooperative, and in some cases even state that the current government's policies actually hinder FDI. However, they repeatedly attribute this to the current president's focus on domestic affairs and his general aversion to the private sector. Some interviewees go so far as to call him a left-wing populist. He is said to outwardly make politics for 'the little guy'

⁴ In this thesis, this refers in particular to the state-owned *Federal Electricity Commission* (CFE, *Comisión Federal de Electricidad*) and the

state-owned petroleum company *PEMEX* (*Petróleos Mexicanos*).

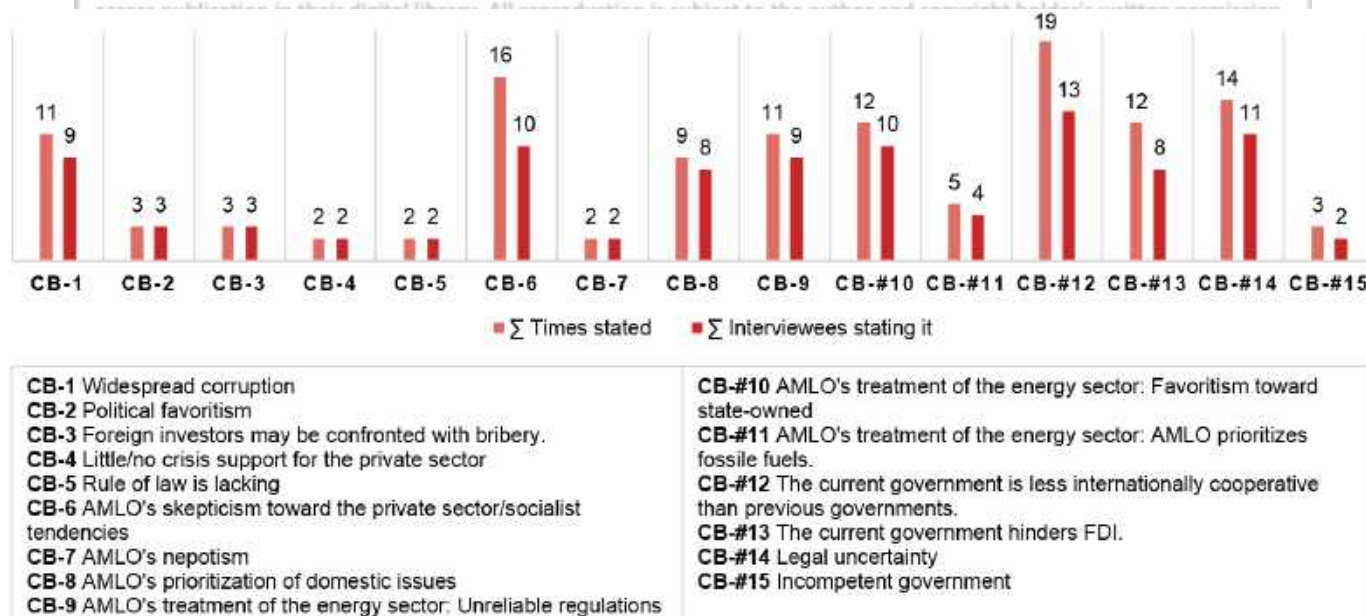


Figure 13: Government Fitness: Negatives

and portray himself as FDI-skeptical; but when a foreign project promises to add value, he prominently advertises his involvement. Sporadically, interviewees also lamented that *ProMéxico*, a former Mexican FDI promotion agency had been dissolved under AMLO, leaving Mexico with far less of a presence in international FDI attraction, which is now handled by diplomats.

There were also occasional statements that AMLO's nepotism led to greater incompetence as operational staff from the previous administration were replaced by party loyalists, resulting in a loss of know-how. Corruption was also frequently cited as a problem, taking the form of bribery and political favoritism. Paperwork at state authorities was allegedly prioritized or left undone depending on political sympathy.

The interviewees' view of current GF was overwhelmingly negative. However, there were also positives: Several noted that Mexico is, on the whole, a politically stable country, especially compared to other Latin American countries. Moreover, the president is aware of the importance of FDI for Mexico and would back down if, e.g., U.S. investments were ever really on the line. Also, FDI skepticism comes primarily from the central government; individual states in Mexico remain very interested in FDI.

Market Fitness (MF)

MF was rated by the interviewees as the most important determinant of IFF (see Figure 12). Market Fitness refers to the quality of institutions in place concerning market access and openness, the ease of opening and doing business - also called red tape - but also the availability of energy, labor, and more. As for the state of markets themselves, they cited market size and saturation as some of the most important criteria for FDI decisions.

Participants had many positive things to say about Mexico's MF. Mexico's FTAs were highlighted most often in this regard, with the USMCA taking the lead. However, FTAs were also seen as promising in the context of trade with other Latin American countries. Overall, participants viewed Mexico's strong integration into world trade as very positive.

The size of the Mexican domestic market itself was also positively highlighted on numerous occasions. Although proximity to the U.S. market plays an absolutely central role and Mexico is definitely seen as a bridge into this market, great growth is expected from the domestic market, especially due to the steadily growing middle class and its

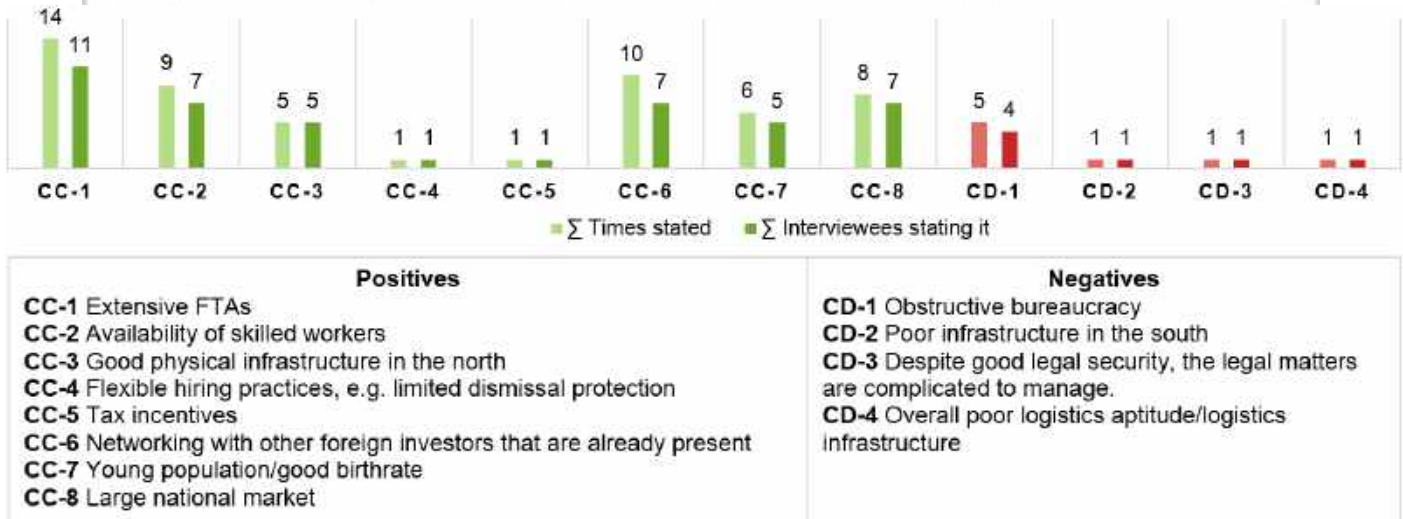


Figure 14: Market Fitness: Positives & Negatives

consumer spending. Certain industries in particular, such as the pharmaceutical industry, can profit from this. In this context, the low average age of the population was also mentioned, which positively impacts long-term consumption but also the availability of labor.

The availability of skilled workers is another positive. A key statement here was that labor in Mexico is either well-educated or inexpensive; an ideal situation for foreign investors looking for manufacturing. By these skilled workers, technical skilled workers are meant rather than academically qualified personnel. It should be mentioned here that Mexico is unfortunately experiencing a brain drain, especially in the direction of the United States, motivated by the better working conditions and wages. However, German companies do promote the training of their own skilled workers as part of their involvement with dual education projects in Mexico.

Furthermore, the presence of administrative and/or informational infrastructure was noted positively. Many German companies are already present in Mexico, as are various helpful private and public organizations that can provide advice. The road is paved, so to speak. There are also clearly identifiable clusters in Mexico.

Finally, the interviewees emphasized physical infrastructure; however, they rated its condition as positive only from Mexico's center northward. The further south, the more underdeveloped the physical infrastructure. The rampant disparity in development between northern and southern Mexico was a frequently recurring theme overall. It can be explained at a surface level by the proximity of the northern states to the U.S. and the lively cross-border exchanges to which it leads.

The point that stands out on the negative side is the bureaucracy in Mexico. Companies in Mexico have to fulfill a wide range of requirements and are subject to audits. In some cases, these requirements come close to or are on par with the level of regulation in Germany. This is not a bad thing per se, especially since compliance is a major concern for German companies. One interviewee even observed that foreign companies tended to comply more with local rules than Mexican ones. However, bureaucracy sometimes stands in the way of compliance. For example, administrative processes at the authorities, such as registering a tax number, take a very long time. The slightest deviations can also completely reset such processes.

Educational Fitness (EF)

Sociocultural Fitness (SF)

EF ranked third most important among IFF determinants among respondents. They attributed either medium or high importance to EF, but in no case low importance. This determinant denotes the level of education in the working population and lends itself to assumptions about the expected productivity of FDI operations.

The experts' opinions on the education situation in Mexico were predominantly negative. They sharply criticized the public education system, and one interviewee went so far as to say that it has been a disaster for 25 years. It is important to specify that, in this respect, the experts are referring primarily to the basic level of education, i.e., rather primary and secondary education. As mentioned earlier, they praise the presence of technically capable professionals.

SF refers to a country's cultural receptivity to FDI, with the adapted approach in this thesis focusing on cultural compatibility between investor and investee. SF was rated by respondents with the lowest importance of all IFF determinants. At the same time, they had a lot to say about this topic, not least because they were able to draw on a wealth of intercultural experience as actors in the field of FDI. This is nevertheless compatible with the perceived low importance, as the interviewees explained that culture does play a role in FDI but can virtually never be a dealbreaker. It also emerged from their accounts that corporate culture plays a more important role in practice than ethnic/national culture does.

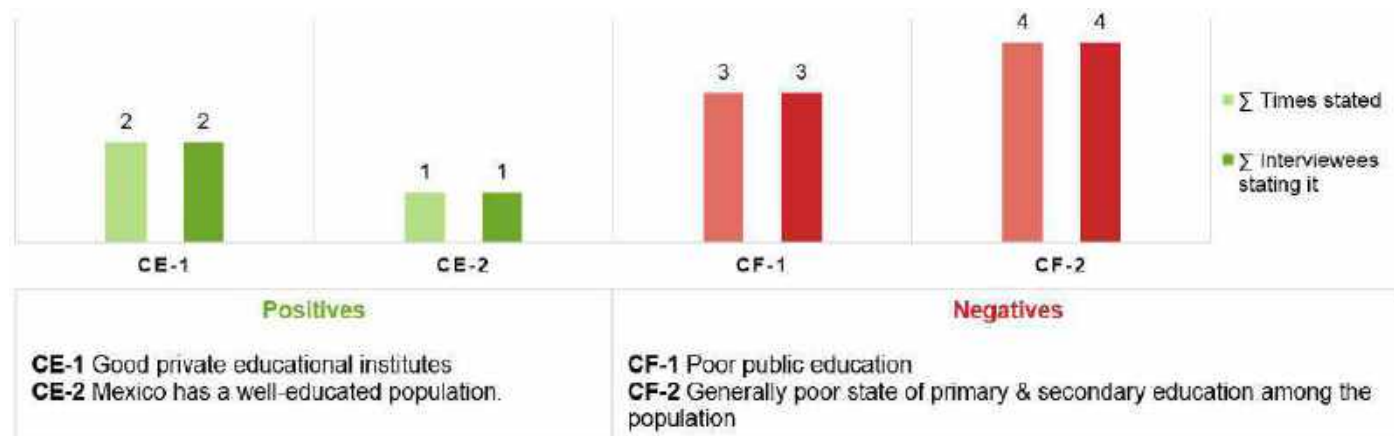


Figure 15: Educational Fitness: Positives & Negatives

There were also isolated positive comments on the quality of private educational institutions, and some interviewees highlighted the international exchange programs at universities. One interviewee stated that the top executives virtually always have degrees from U.S. universities. He went on to say that those who can afford it send their children to private school whenever possible.

The interviewees' assessment of Mexico's SF is very positive overall. They stated that German investors are highly regarded in Mexico and many even specified that German investors are more welcome than others. Some interviewees also stated that Mexican culture and German culture were not so foreign to one another, as they were both Western cultures, not least because of historical influences from Europe. What makes Germans popular in Mexico, besides the good working conditions and the fact that German companies invest in the further education of their employees, are the associations with the country brand 'Made in

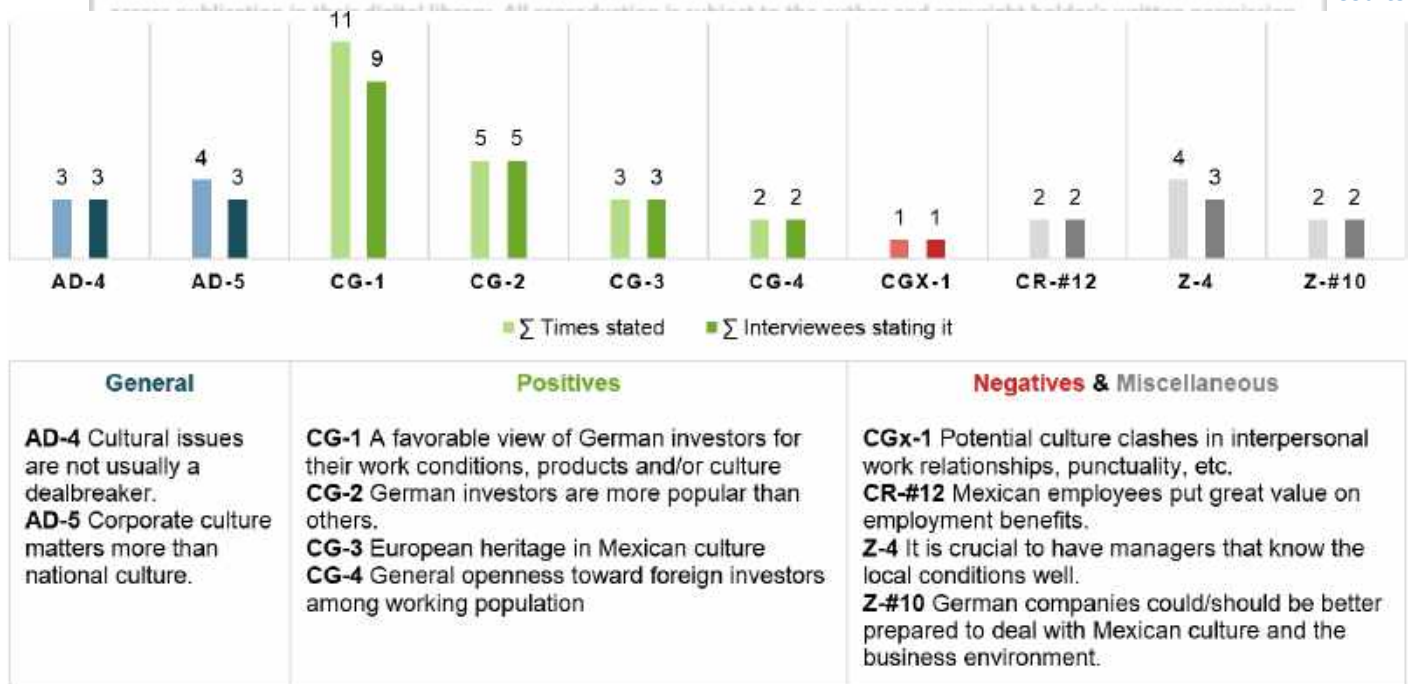


Figure 16: Sociocultural Fitness: Positives, Negatives, and Other Relevant Statements

Germany.' Mexican employees at German car manufacturers, for example, are often proud of their work.

Interviewees noted good cultural compatibility between Germans and Mexicans but stressed the importance of understanding local customs and procedures, including building personal relationships before discussing business deals. Corporate culture was seen as more important than national culture, with Mexicans valuing a sense of belonging and additional employer benefits. High turnover rates were noted, especially in the blue-collar sector where salary was the main factor. Managers should be aware of local conditions and German companies, especially SMEs, have room for improvement. Language proficiency was emphasized to avoid misunderstandings. Overall, the relationship between Germans and Mexicans was respectful and appreciative.

Geographic Location

Mexico's geographic location relative to the U.S. being a positive factor for the country's FDI attractiveness is the most common statement throughout the entire data collection. 18 out of 19 – or about 95 percent – of interviewees made this statement, and five interviewees even declared proximity to the U.S. as the main reason for FDI in the country. There were no statements that explicitly classified Mexico's geographic location as negative. Geographical conditions enormously simplify the voluminous flow of goods to the U.S., especially by land. This is an advantage especially for goods that cross the U.S.-Mexican border several times before completion. As previously mentioned, the physical infrastructure in northern Mexico is accordingly good. Further positively noted was Mexico's access to both the Pacific and Atlantic Oceans and its proximity to the rest of Latin America.

However, some mixed statements reasonably put Mexico's geographic location into perspective; for example, one interviewee stated that under current circumstances it is difficult to move goods through Mexico from the Atlantic to the

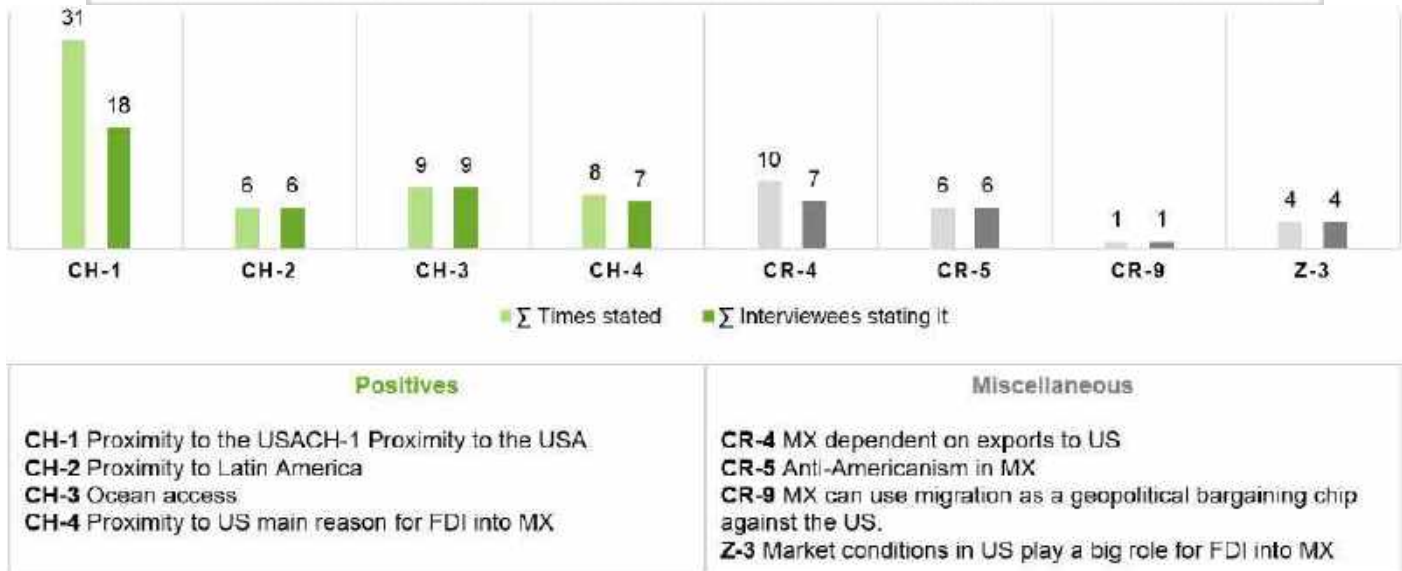


Figure 17: Geographic Location: Positives & Miscellaneous

Pacific because the overland route is arduous. He added that there is a project to link the oceans – similar to the Panama Canal – but that it is proving difficult.

Other mixed statements implicitly relativize the geography. Several interviewees stated that Mexico is enormously dependent on exports to the U.S., which extends to market conditions there in terms of quality and quantity. In addition, a common statement is that organized crime is widespread in Mexico. This is indirectly due to the geographic location, since drug trafficking, for example, has its main market in the United States. These passive consequences for Mexico also exist for other topics, such as migration. Not only some Mexicans want to cross into the U.S., but also other migrants from Latin America, who have to cross the border in Mexico to do so. However, one interviewee explained that the migration situation gives Mexico a potential negotiating advantage over the U.S. because they can control migration there. Last but not least, it can be said that there is some degree of anti-Americanism in Mexico due to the political squabbles that the neighborhood has caused in the past. This extends to the president, according to some interviewees. Although these points do not concern geography per se, they nonetheless originate in it. However, it

should be reemphasized that, by and large, geographic location was considered a major asset of Mexico by the interviewees.

State of the Private Sector/Clustering & Competitiveness

The questions on the private sector primarily had Porter's Theory of National Competitive Advantage as their theoretical foundation. The interviewees rated it as moderately or very important. On whether local institutions or the private sector was more important, some found that the two complemented each other, while others felt the private sector was more important. However, there was a tendency to favor the private sector over institutions, with some interviewees explaining that FDI continues due to private sector demand, despite concerns about the current Mexican government's policies.

By and large, the interviewees expressed a positive outlook on Mexico's private sector, with low production costs and a well-established network of suppliers being highlighted as important factors. Respondents noted that identifiable clusters in Mexico also promoted foreign direct investment, making the country more attractive for market entry. Additionally,

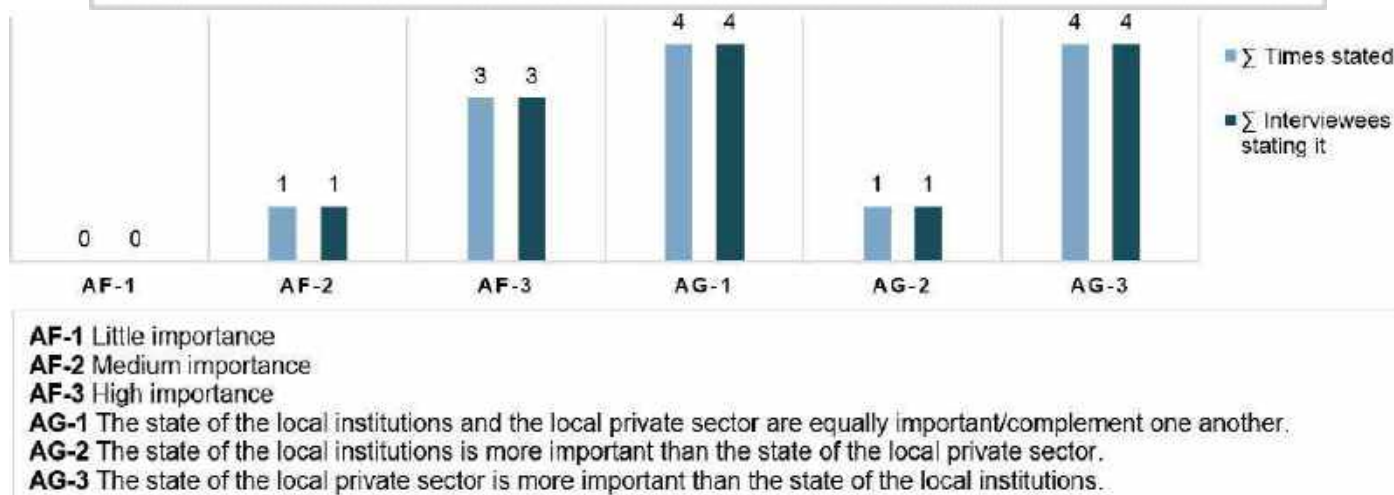


Figure 18: Interviewees' Assessment of the Private Sector's Importance

Mexican companies were increasingly able to compete with the suppliers that followed multinational enterprises to Mexico, indicating a positive effect on local competitiveness through FDI.

are also efforts by the particularly inward FDI-heavy states to increasingly limit FDI in the pure production sector and to channel it more in the direction of R&D.

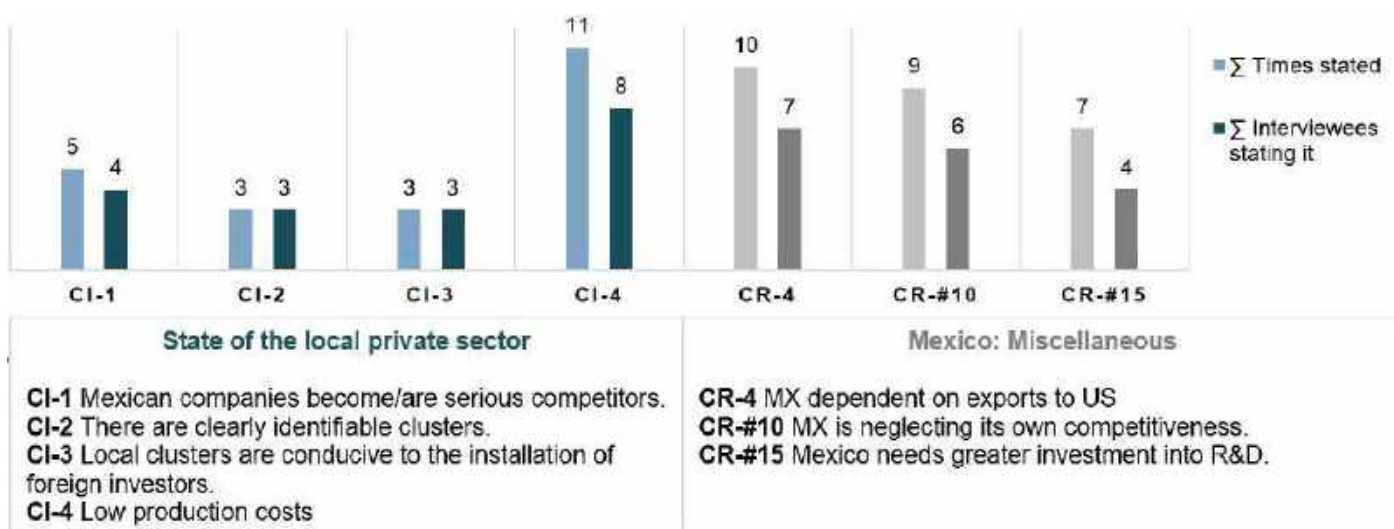


Figure 19: Mixed Statements on the Private Sector in Mexico

However, there was also the opposite opinion among the interviewees, namely that Mexico neglects its own competitiveness and relies too much on the U.S. Mexico needs to diversify more and this needs to happen through Mexico's development away from being purely a manufacturing location and towards more R&D. There are already developments in this area on the part of foreign investors; for example, in the automotive sector in particular, almost all foreign investors maintain development sites in Mexico. There

One interviewee explained that this was incidentally the best type of foreign investor; those who invested in the technical development of their suppliers and then entrusted them with technical developments.

In addition to the merits of having clusters, respondents also spoke about specific clusters and industries in Mexico. These mentions were recorded and are shown in Figure 20.

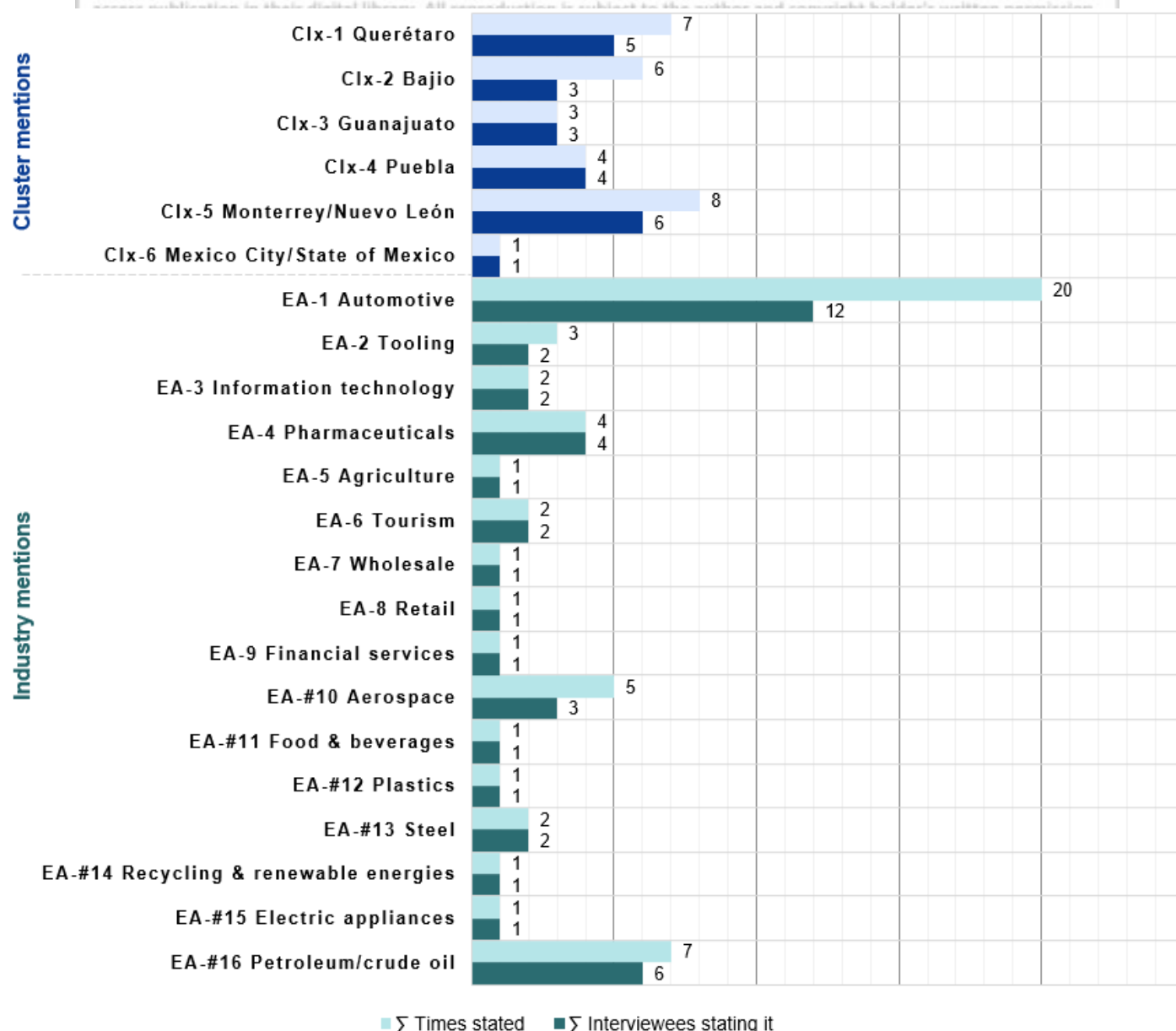


Figure 20: Cluster & Industry Mentions

The automotive sector is far ahead of all other mentions. In the context of the selection of interviewees, it should be noted that the automotive sector plays a particularly important role for German investors. As various interviewees explained, all major German automakers such as Audi, VW, BMW and Daimler are represented in Mexico. Among the clusters, Nuevo León is ranked just ahead of Querétaro in terms of their geographical location being mentioned. The interviewees made the most frequent connections between industry and clusters between Nuevo León and the automotive, aerospace and electric appliances sectors; for Querétaro, and by extension Bajío,

automotive and aerospace were particularly important.

Querétaro and Nuevo León in particular were highlighted as the states with the most competitive clusters. Here, according to the interviewees, factor conditions and suppliers form an optimal business environment, which is why these states attract so much FDI. This could lead, in cases like Querétaro, to the state being downright overcrowded and the government slowly trying to advertise other states. One interviewee stated that there was even an increasing shortage of skilled workers in the region due to Querétaro's attractiveness. Another interviewee stated that the state of Nuevo

León in northern Mexico attracted as much FDI as all of Central America combined.

Overall, interviewees rated the private sector in Mexico as very positive. They added that this was relative depending on the region, with central and northern Mexico being particularly favorable; however, the greater challenge facing the Mexican private sector was that it needed to become more productive/create greater value.

FDI Effects on Economic Growth in the Host Country

Respondents consistently rated the effects of FDI on a country's economic growth as positive. 80% of interviewees making statements on their extent classified them as strong, 20% as medium, and none as low.

The interviewees highlighted several important effects of FDI. Knowledge transfer was rated as the most important effect, encompassing both technical and management know-how. This often goes hand in hand with technology transfer. Additionally, job creation and forward/backward linkages were also seen as significant. Forward/backward linkages refer to the companies up and down the supply chain that are linked to an investor. The growth effect of FDI is particularly significant when more of these linkages can

be established via the investment. This creates jobs in the foreign firm itself as well as in the linked firms, causing a pull effect of suitable staff and related firms into the agglomerations. As explained in previous sections, clusters in particular attract FDI, creating a snowball effect: a foreign company identifies a cluster, settles there due to the attractive conditions, and establishes forward and backward linkages with suppliers and distributors for its day-to-day business, whether they be local or foreign firms. This, in turn, improves local conditions and attracts even more investors.

The interviewees stated that knowledge transfer is the strongest effect of FDI in Mexico, and that Mexico benefits greatly from FDI. However, the pull effect to agglomerations needs to be put into perspective, as clusters attract skilled labor and specialized firms, while unskilled labor often uses agglomerations for seasonal work and may end up returning home. This highlights the higher fluctuation that foreign investors should expect from blue-collar workers.

Respondents were also asked whether poorer regions of Mexico could benefit from FDI through spillover effects, i.e., not necessarily through direct FDI to these states, since FDI primarily reaches states that are already highly competitive. Different views were expressed by the

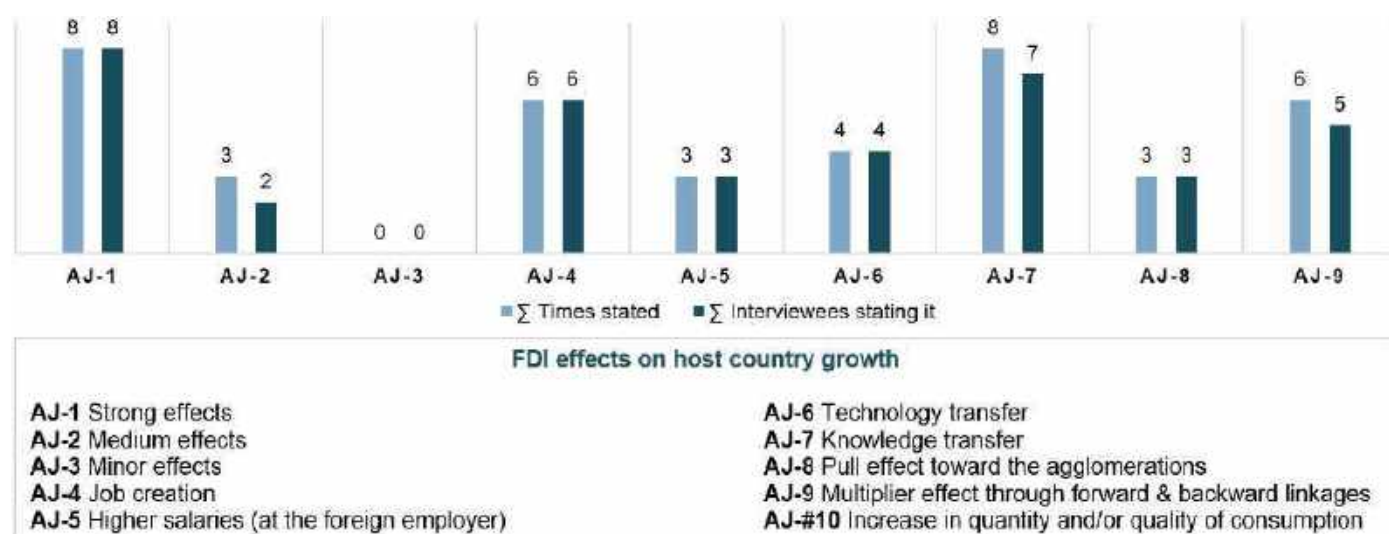


Figure 21: FDI Effects on Host Country Growth: Importance and Nature

FDI Decision Criteria at the Firm Level

interviewees regarding the possibility of FDI having spillover effects in Mexican states. Some believed it could happen if successful models were replicated from other states, while others disagreed, stating that FDI would mainly remain in the state it was invested in. The interviewees also noted that the state fiscal equalization system in Mexico had major shortcomings, and tax money often went to waste. Some interviewees expressed concern that highly productive states such as Nuevo León paid enormous taxes but benefited little, while states dominated by the informal economy generated no tax revenues. One interviewee suggested that tackling the informal economy, which accounts for over half of Mexico's economy, should be a primary objective for the government.

Overall, the interviewees considered the effects of FDI on the host country's growth as positive across the board and affirmed that the Mexican economy had indeed benefitted strongly from FDI. The effects were considered most notable in terms of knowledge and tech transfer as well as job creation.

The FDI decision is influenced by two main factors: the size of the firm and its position along the value chain. MNEs generally have more resources and invest more in building proprietary physical infrastructure on site. They also have a larger capacity for corporate risk assessment, and when they choose to engage in FDI, it sends positive signals to other foreign investors, including SMEs. Due to safety concerns and guaranteed local customers, SMEs often follow MNEs, and this is particularly true in industries where they play a vital part in the value creation process of large companies, such as the automotive sector. Tier 1 to tier 3 suppliers in the automotive sector were frequently mentioned by interviewees in this context. However, SMEs may also have no other choice but to follow MNEs, as they risk losing part of their big customers' foreign business or paving the way for competitors. Other firm-specific criteria that affect the FDI decision include the success or experience with other markets, problems with global supply chains, and the industry in which the company operates.



Figure 22: Firm Level FDI Criteria

Development Cooperation

Objectives of Development Cooperation

As it is a secondary topic in this thesis, respondents were asked fewer questions about development cooperation overall, and fewer experts with specifically this expertise were interviewed. The objectives of the development cooperation block were to find out how this topic is linked to FDI and to what extent private sector actors come into contact with it. In the overall concept of the thesis, the question of the extent to which engagement with development policy can be conducive to FDI is pursued.

DC can serve both altruistic and self-interested motives. The UN SDGs, for example, aim to protect global public goods. DC can also be used to prevent unwanted migration to donor countries. For instance, German development agencies in Africa aim to reduce migratory flow to Europe by mitigating local challenges. Infrastructural projects have the potential to benefit the private sector. Additionally, capacity development empowers local populations, enabling them to improve their social mobility and ability to take action.

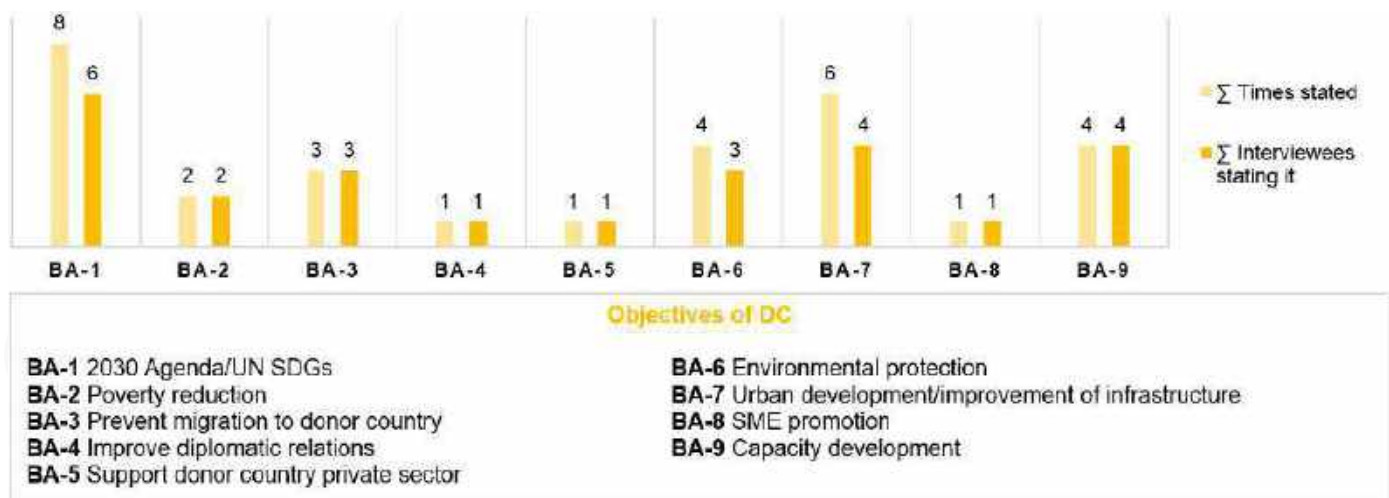


Figure 23: General DC Objectives

When reviewing the statements on DC, it is important to include that fewer interviewees were interviewed specifically with this focus (see Figure 10). However, statements from all three types of interviewees were included in the analysis if they related to DC.

In Mexico, environmental goals are at the heart of Germany's DC. In addition, educational goals are strongly present, the particular nature of which is discussed in more detail in a later section.

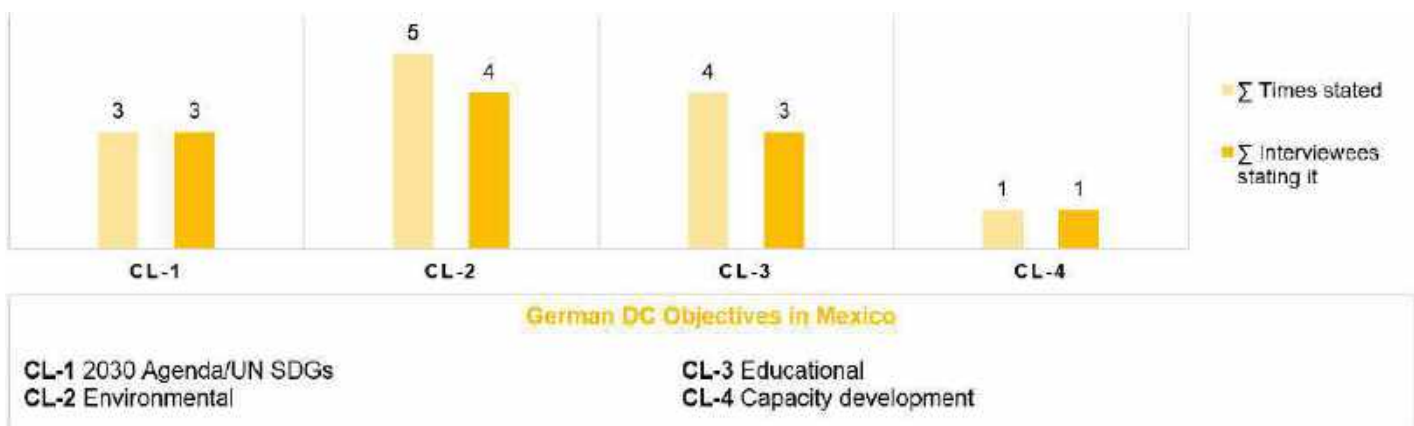


Figure 24: German DC Objectives in Mexico

Sustainable Impact of Development Projects

Regarding the sustainability of DC, respondents did not have a uniform attitude. In fact, some interviewees are very critical of DC. While twice as many respondents said that DC projects tended to have a sustainable impact as said that they did not, the fact that any respondents said the latter should raise questions.

times, i.e., the transition of DC accomplishments into local institutions. More on this below. Regardless of the impact of the projects themselves, however, the interviewees cited a diplomatic effect, stating that DC projects can in principle only strengthen relations between countries.

As far as the sustainability of DC efforts in Mexico is concerned, there were few actionable comments from the interviewees.

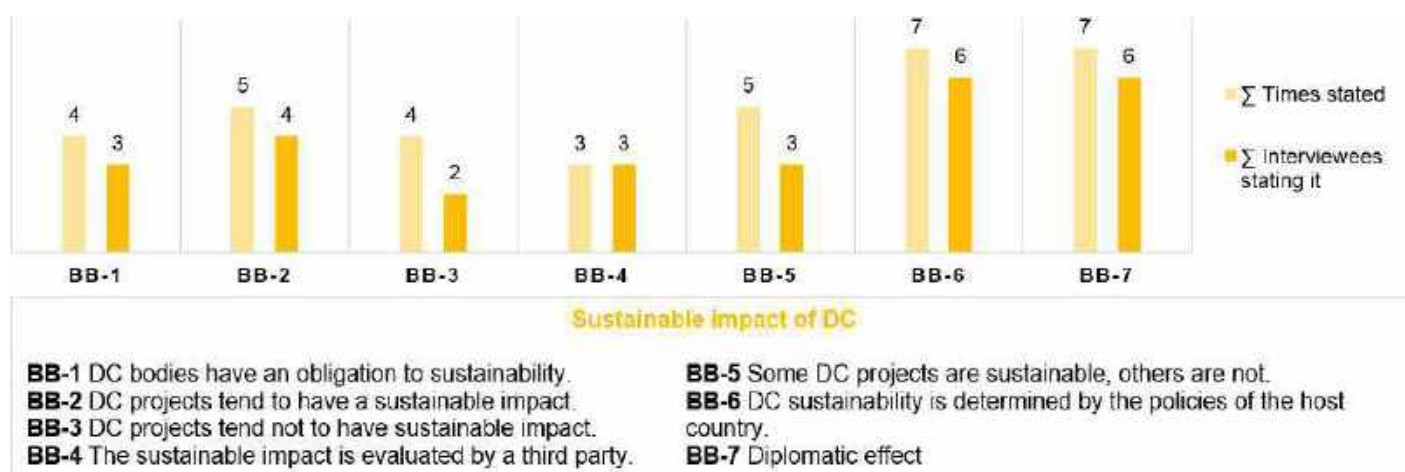


Figure 25: Sustainable Impact of DC

They also said that, while DC bodies have a commitment to sustainability and are audited by third parties, only some projects actually have a sustainable impact, which is tied to various conditions. The most important of these conditions is how the policymakers in the recipient country are attuned to sustainable DC, i.e., to what extent they accept and continue to use its achievements. In this context, the keyword institutionalization was mentioned a few

The most relevant statement was that the capacity and willingness of the Mexican authorities to absorb DC project effects determined the extent of their sustainability. When the project effects are institutionalized, they are sustainable. As an example of this, dual education based on the German model was given. This project is being promoted in particular by the German Chamber of Commerce in Mexico, CAMEXA, and was cited frequently by the

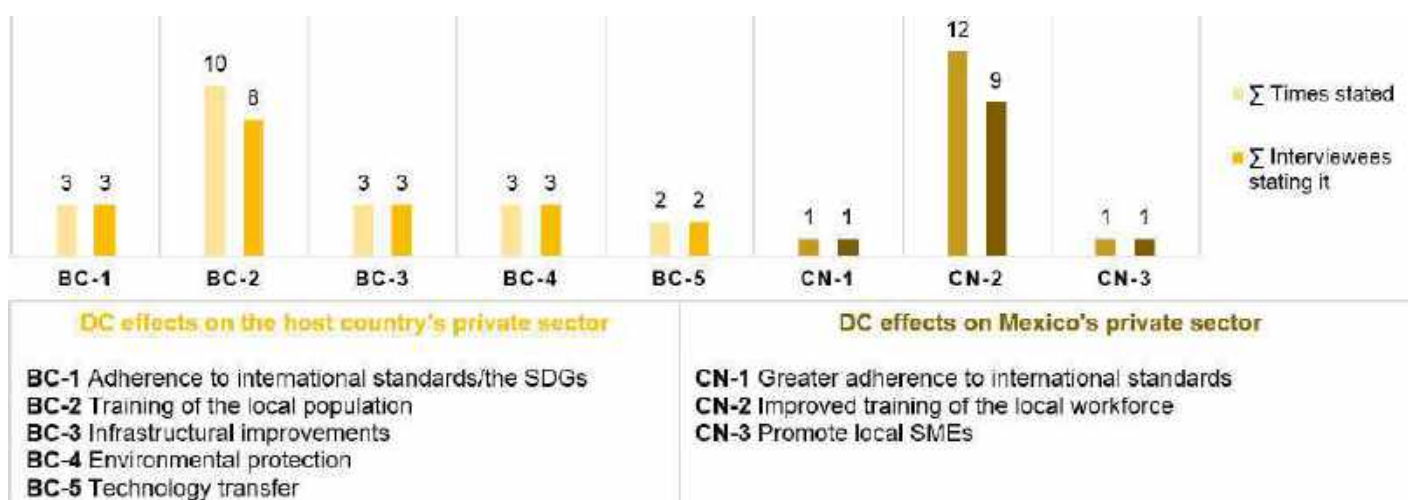


Figure 26: DC Effects on the Host Country's/Mexico's Private Sector

interviewees. One obstacle that caps the effectiveness of the dual education initiative in Mexico is that dual education degrees are not consistently institutionally recognized. And, some interviewees stated that there was little effort on the Mexican side to change this in the future.

Effects of Development Cooperation on the Host Country Business Environment

Respondents identified various positive effects of DC in general on the private sector in the recipient country. For example, they stated that DC can support adherence to international standards. This can in turn facilitate MNCs' FDI by helping them with their corporate compliance, for example when it comes to sourcing green energy. However, in terms of international standards, one interviewee also explained that private sector measures such as ISO certifications are likely to have more significant effects. Also, infrastructure improvements through DC projects potentially improve the local business environment. Environmental projects can also improve the sustainable use of resources.

However, both generally speaking and in relation to Mexico, the effect on the education of the local working population was by far the most frequently cited benefit of DC for the business environment. Here,

too, numerous references were made to dual education. Since there is a high demand for skilled workers, especially in the cluster-rich regions, it would make sense to strengthen these efforts in this context, according to one interviewee. Overall, it can be ascertained that DC has the potential to positively impact the business environment in the recipient country.

Benefits of Engaging in Development Cooperation for the Home Country Private Sector

There are a number of motivations for the private sector to support DC projects. First of all, DC projects are generally implemented by private sector actors. In this respect, the projects plainly represent contracts for private companies. Moreover, financing is available through development banks at particularly attractive conditions for the implementation of DC projects. Furthermore, DC projects generally have a beneficial effect on the local business environment, which is an indirect incentive for private companies. Simply put, promoting DC can potentially facilitate future investments. In Mexico, German private companies mainly pursue long-term effects such as the development of a technically skilled workforce and compatibility with international sustainability standards through their DC engagement.

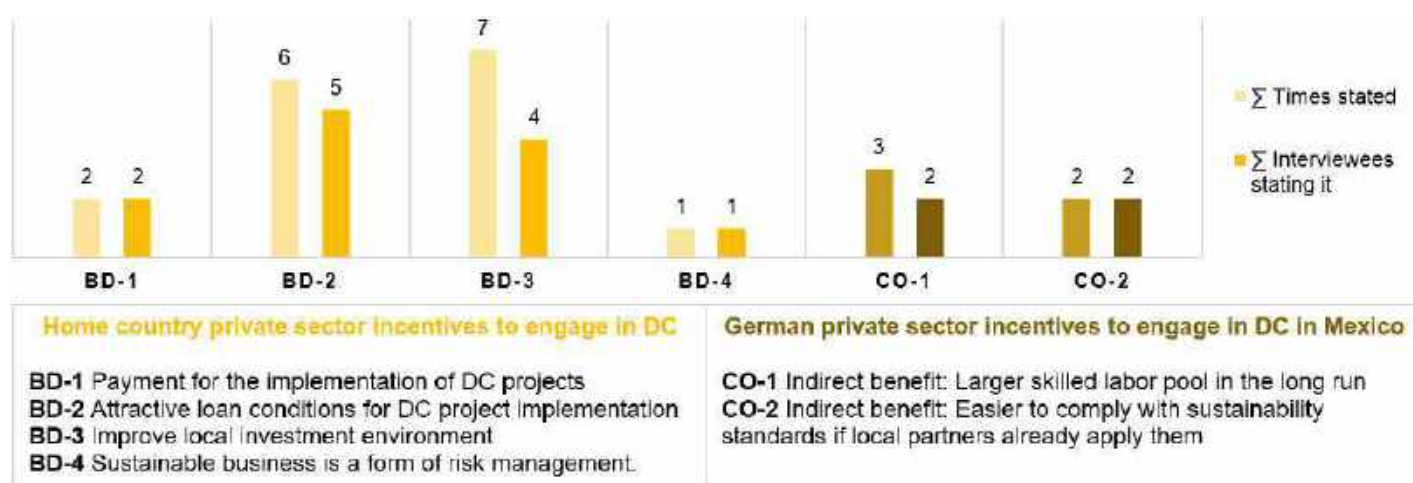


Figure 27: Private Sector Incentives for Engaging in DC

Miscellaneous Results on Development Cooperation

Last but not least, there were also some mixed individual statements on DC, which do not form a conclusive category. Nevertheless, they represent worthwhile additions to the DC results.

conditions for purely private-sector loans to SMEs in Mexico. He lamented that German development policy generally does not really prioritize German economic interests or even sustainable economic development in the recipient country. He classified it as ideology-driven and overall disconnected from economics.

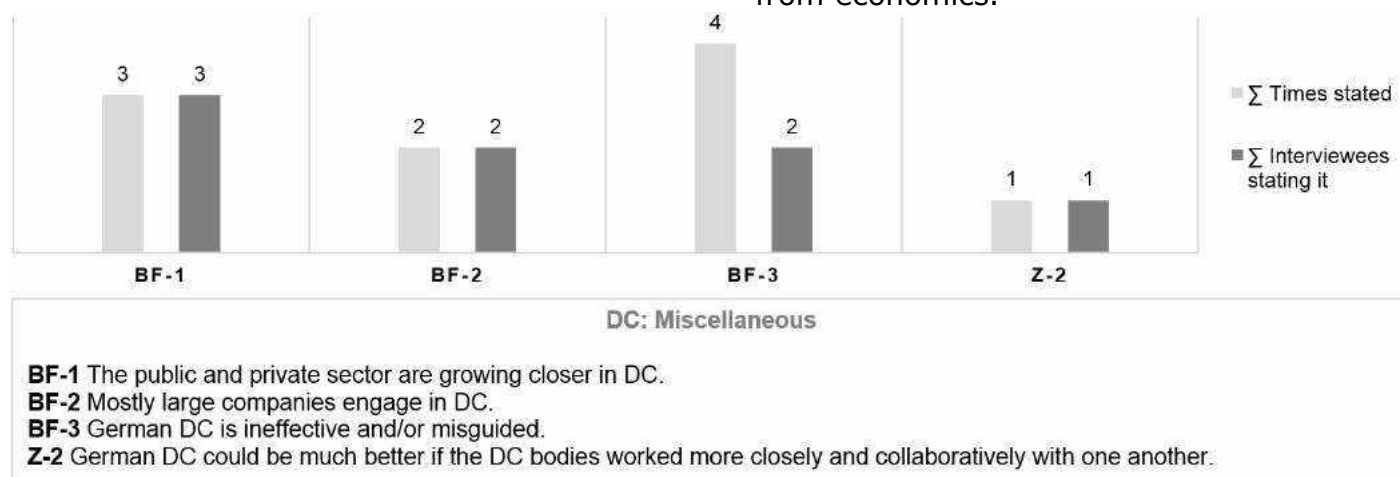


Figure 28: Miscellaneous Statements on DC

First of all, it can be stated that, generally, larger companies are more likely to be involved in DC. This is closely linked to the aforementioned fact that larger firms tend to build up infrastructure on site or to create their own optimal working conditions, while SMEs tend to follow suit. Due to the development nature of these investments, the projects are then also eligible for financial support from German development banks. Interviewees also mentioned that the private sector and development policy as a whole were gradually moving closer together. However, one interviewee from the field of development banking, who was highly critical of DC overall, explained that this cooperation between DC bodies and private actors has many pitfalls.

For example, the fact that mainly MNCs receive attractive loans for DC projects is essentially absurd, since these are precisely the firms with most equity at their disposal. SMEs would need access to credit and could then also be more involved in DC, but their default risks stand in the way, which is de facto greater for SMEs. These factors create a dilemma. A similar situation applies to the

Alongside him, another interviewee also expressed doubts about how sensibly the German DC budget is being spent in Mexico. An expert from a DC implementing organization stated that better coordination between DC bodies, i.e., from the BMZ to the potentially contracted private company, was needed to unleash the potential of DC. As a general observation, it can be noted that interviewees with more ties to the business world were generally more doubtful or hesitant about DC.

The interviewees did not see FDI and DC in competition with one another, but as complements. However, as no one responded that DC was more effective, while four interviewees responded with FDI, it can be concluded that FDI and DC ought to complement one another, but FDI tends to be more effective in a country's economic development. In this context, one interviewee specified that DC could have a kick-starting effect particularly during the growth phase of developing countries, but that this effect would diminish as development progressed.

Focus Mexico

This section focuses on results that are unique to the case of Mexico or Mexican-German collaboration and can only be generalized to a limited extent. Their relevance is primarily rooted in their potential to expand the research horizon beyond the theoretical framework.

Security and Organized Crime

The issue of security took a highly important role among the responses. The statement that security has become a serious problem for foreign investors was the second most common statement in the entire data collection. What is being referred to in this context is physical security, which can be infringed upon by crime in Mexico. Some interviewees went as far as calling it the biggest problem Mexico is currently facing.

form of veritable physical danger to investors' assets; in terms of tangible goods, but also – much more gravely – in terms of staff themselves. Several interviewees told of robberies of trucks and trains, but also that personnel would be kidnapped and/or extorted. This typically used to involve Mexican employees and especially those in middle management but is now increasingly spilling over to foreign employees as well. Compared to the past, stated an interviewee with decades of experience living in Mexico, organized crime was becoming more ruthless and increasingly interfered in the affairs of foreign investors. The latter must respond by investing more in security, but also by redesigning procedures, such as using truck convoys for increased protection.

As mentioned above, safety concerns were



Figure 29: Statements on the Security and Crime Situation in Mexico

Organized crime, according to one interviewee, has seeped into virtually all aspects of public life. As an example of how this is reflected in the day-to-day economy, he cited that up to ten percent of the prices of agricultural exports to the U.S. are now attributable to illegal activities, such as bribes, protection money, etc. Foreign investors are also increasingly confronted with this; more so than in the past, as several interviewees stated. On the one hand, this confrontation can happen with the widespread corruption, with investors of SMEs' size in particular occasionally facing bribery. On the other hand, it can take the

very present among the statements. At the same time, however, three interviewees also stated that, while Mexico's growing security and organized crime problems as well as challenges in the legal and political domain, may deter new investors, this would not be enough to make long-term investors who are established in Mexico leave the country.

Underutilized Potential in Mexico and Mexican-German Collaboration

Various business potentials emanated from the statements, both in Mexico itself and for increased cooperation between Germany and Mexico. Both are interlinked. First of all, it can be stated that the explicit statement that Germany and Mexico can benefit from increased cooperation was very common. Implicitly, of course, this was said through every statement on this topic.

as the most effective German development projects in the country. However, dual education degrees are still not particularly recognized in Mexico by both the authorities and the population. There is a lack of political will to institutionalize dual education in Mexico, i.e., to recognize the degrees throughout. And only academic degrees are really appreciated among the general population. There is clearly great potential for increased cooperation between Germany and Mexico in this area.

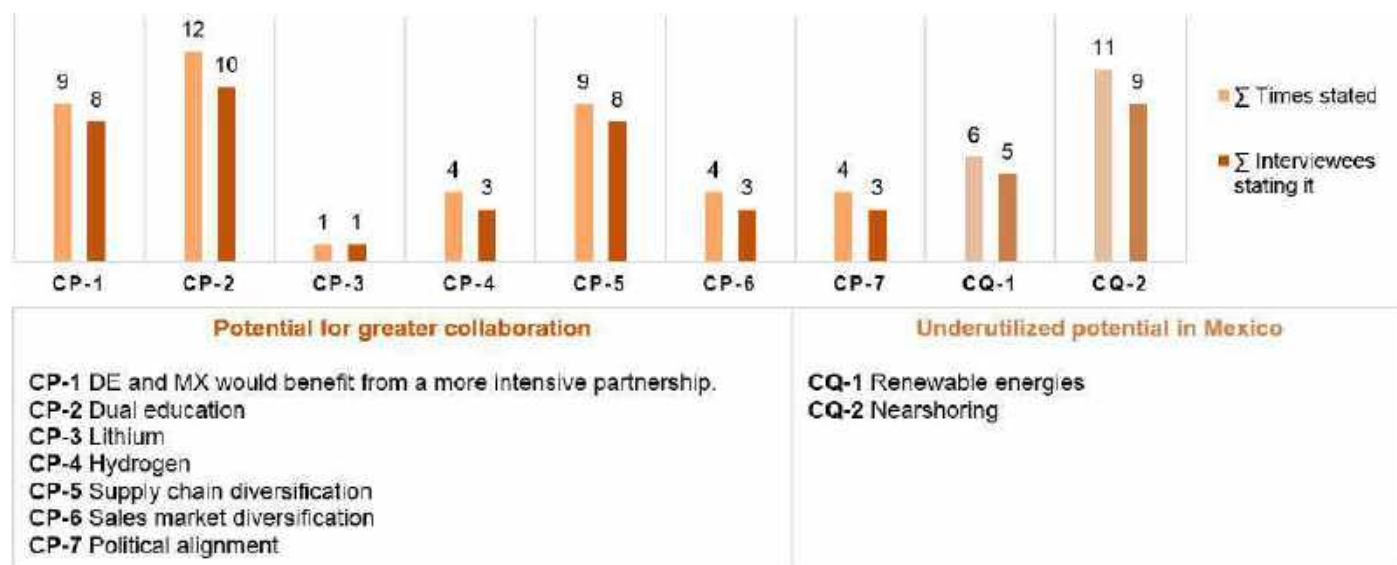


Figure 30: Underutilized Potential in Mexico and Mexican-German Collaboration

The greatest cooperation potential, which was mentioned by more than half of all interviewees, lies in German-style dual education in Mexico. This point becomes particularly relevant in the context of various statements from previous sections: The general education situation in Mexico is rather poor. However, there are relatively many skilled workers. The demand for these skilled workers is so great, especially in cluster-rich agglomerations such as Bajío that there are in fact shortages. German-style dual education is traditionally designed for the practical training of skilled workers. Thus, there is a demand from German and industrial companies of other nationalities alike in Mexico, which can be met by German expertise. Previous experience with dual education projects in Mexico, fronted primarily by CAMEXA, has been excellent and several interviewees highlighted these

In Mexico itself, the interviewees also ascribed great potential to the field of renewable energies. Not only would there be great potential for foreign investors who could source green energy from wind or solar power; there would also be great potential in the area of green hydrogen, for example in northern Mexico, for which there is great demand in Germany and other western industrialized countries. However, there is currently little movement in this sector in Mexico, which the interviewees once again attributed to the current political situation.

'CP-7 Political alignment' refers to the fact that Germany and Mexico have similar goals in many respects, such as the UN SDGs, or better integration into the world market; however, there is often a lack of political coordination in Mexican-German collaboration. In various contexts, the

interviewees named the private sector as the driving force behind the collaboration. A prominent example of improving political alignment would be a potential resumption of negotiations of the renewed EU-LAC FTA, whose stalemate essentially coincided with the beginning of the COVID-19 pandemic.

In terms of nearshoring, Mexico is of course already an important nearshoring location, especially in relation to the U.S.; however, the interviewees stated that there was considerably more potential in this regard. One interviewee stated that Mexico is only realizing about 20% of its true nearshoring potential, especially in light of current developments in the international community. For German companies, the greatest opportunities in nearshoring lie primarily in the diversification of supply chains.

R&D and Mexican SMEs

Mexico has a problem with the creation of competitive SMEs. This conclusion can be derived from combining the statements that Mexico is dependent on the U.S., neglects its own competitiveness, and needs more investment in R&D with the statement that local regulations hinder the creation of competitive SMEs. As the interviewees identified, the focus in the Mexican economy is on its strength as a manufacturing hub. On the one hand, this makes it vulnerable to external demand shocks (which is true for all countries that are highly integrated in the global economy); however, on the other hand, it also caps the value that Mexican companies can add. In principle, not least because of FDI, there is a lot of technical know-how in Mexico on the basis of which many specialized SMEs could be created. As mentioned by some interviewees, there are indeed Mexican companies that provide serious competition to the foreign SMEs invested into Mexico. However, the potential is capped by various factors, such as the difficult availability of credit to start a

business. Default risk is primarily to blame for this.

One interviewee explained that credit in Mexico is basically granted to individuals or large companies, but hardly ever to entrepreneurs. This is partly due to the fact that the means of debt collection creditors have at their disposal in Mexico are rather ineffective. Without credit, however, it would be difficult to start a business. Also, potential founders would migrate to the U.S. due to the difficult local conditions, another example of the brain drain other interviewees also mentioned. But it would be absolutely beneficial for FDI, including that from Germany, if there were more competitive SMEs in Mexico. For now, either the established suppliers of the MNCs have to follow suit in Mexico, or product components lacking in Mexico have to be Imported at high cost. Thus, all parties would benefit from stronger Mexican SMEs.

Mexico in Relation to Other Latin American Countries

For all the importance of its proximity to the United States, it should not be overlooked that Mexico also borders other Latin American countries to the south. However, it is not only geographically that there is a certain closeness between Mexico and the rest of Latin America; culturally and linguistically, the barriers are also relatively low. When asked how they assessed Mexico's competitiveness compared to the rest of Latin America, interviewees exclusively answered that it was comparatively greater. Other countries with somewhat comparable competitiveness are depicted in [Figure 31](#).

'Somewhat comparable' means that these countries are on par with Mexican competitiveness in certain areas but cannot fully replicate it. For example, Brazil has mass production capacities, but, while still attractive, its geographical location and infrastructure is less favorable. In Chile,

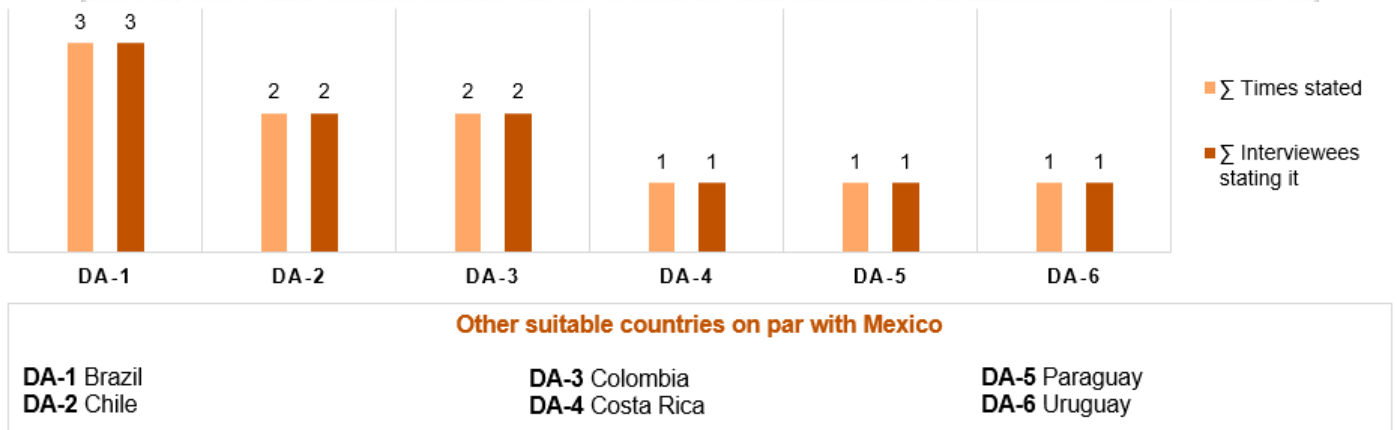


Figure 31: Other LAC Countries with Competitive Potential Similar to Mexico

there is advanced technical production capacity, but the cost is less attractive there are currency issues. Colombia has natural resources and great growth potential, but less technical production capacity.

Overall, the interviewees were fairly reserved about Latin America as a sales market. Occasionally, certain growth industries were mentioned, such as the luxury sector. In general, interviewees classified Latin America as a potentially attractive market in the future and also attributed nearshoring potential to the region but acknowledged various obstacles to FDI as things currently stand. For example, a common statement was that the rest of Latin America is very unstable compared to Mexico. If one wanted to invest in Latin America or use Mexico as a hub to access Latin American markets, it would always have to be evaluated on a case-by-case basis.

Answers to the Principal Guiding Question of this Thesis

At the end of the interviews, some experts were directly asked the overarching question of this thesis: Can more FDI in Mexico and/or Latin America help make Germany less dependent on China? The answers are shown in Figure 32.

As Figure 32 illustrates, the answers were overwhelmingly positive. No one answered negatively, and of the 12 interviewees who responded positively, 8 - or 75% - gave a clear yes. At first glance, statements FA-4 through FA-7 about how exactly this help might manifest itself may seem to contrast with this positivity. This, however, is not the case; the general attitude of the interviewees in this regard can be summarized as follows: Yes, increased investment in Mexico and/or Latin America can help make Germany less dependent on

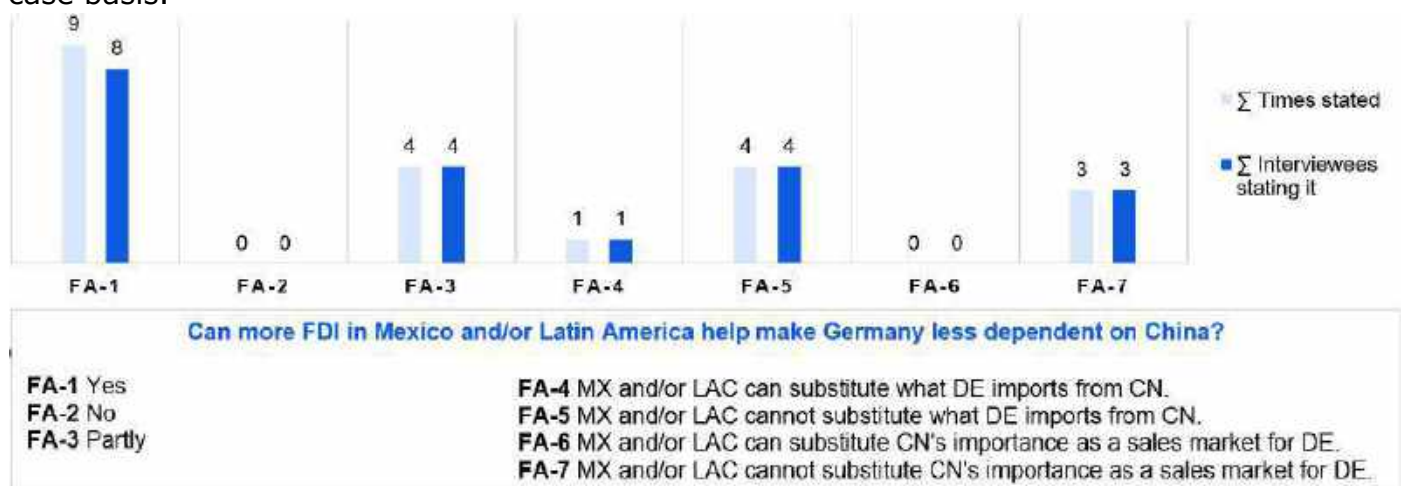


Figure 32: Answers to the Principal Guiding Question of this Thesis

China. But realistic limitations have to be acknowledged. The whole of Mexico and Latin America together likely cannot outweigh the volume of China as a sales market for the German economy. Also, as far as imports are concerned, Germany purchases products from China that, for the most part, Mexico and/or Latin America would find difficult to substitute for the most part in the near future.

The respondents' optimism can be explained by them attributing great value to the diversification of supply chains and sales markets per se. In other words, any diversification is desirable in terms of risk minimization for the German economy. Furthermore, Mexico's large and consistent nearshoring potential vis-à-vis the U.S. once again played an important role in their attitudes. Despite the sensible limitations they put forward, the respondents were thus very positive overall about the approach of mitigating German dependencies by diversifying toward Mexico/Latin America.

DISCUSSION

Foreign Direct Investment

As indicated by the literature, FDI has, in principle, exclusively positive effects of various degrees on the host country. The interviewees' statements fully confirm this. Mexico has benefited greatly from FDI and continues to do so. The positive spillover effects of FDI on the host country are, as identified by preexisting literature, primarily the creation of more jobs and at conditions above local average, knowledge transfer, and, indirectly, economic growth. Also, labor-intensive activities, more precisely manufacturing, are indeed more likely to be relocated to Mexico, as the literature suggests. The fact that the effects of FDI are consistently positive, coupled with the positive effects of DC, thus indicates that the diversification approach in this thesis is compatible with or supports the concept of a strategic partnership.

Foreign investors apply principles from Dunning's OLI framework, whether consciously or unconsciously. So, they are only in Mexico if producing locally there makes more sense than exporting or licensing. In Mexico, it makes sense primarily because investors want to produce inexpensively for the U.S. market. For German companies, FDI in Mexico is particularly worthwhile because they bring ownership advantages in technically advanced industries, Mexico offers location advantages in terms of costs, skilled labor and geographic location that are not present to the same extent at home or in other countries, and because they have internalization advantages in that they can replicate familiar production processes in Mexico by building their own infrastructure or using existing infrastructure and often well-established supplier/distributor networks. The indications of OLI-like decision criteria in the respondents' statements reinforce the further use of this framework in the scope of a comprehensive FDI analysis approach.

Government Fitness (GF) and Market Fitness (MF) are considered the most critical determinants in Institutional FDI Fitness (IFF), as opposed to Educational Fitness (EF) and Sociocultural Fitness (SF), according to interviewees. Free market policies that facilitate market access foster FDI, while policies that hinder the private sector may deter FDI, as demonstrated by AMLO's stance on the energy sector in Mexico. Although education has shortcomings in Mexico, sufficient skilled labor is available. Cultural aspects are secondary but still play a role in IFF. The interviewees' statements reinforce Wilhelms and Witter's findings on IFF, but provide a more precise ranking, with MF considered the most important, followed by GF, then EF, and SF.

The Adapted IFF Model proposed in this thesis, which replaces Wilhelm's and Witter's variables with publicly available

indices, is a viable approach to measuring institutional FDI fitness. One of the main advantages of this approach is that the indices are available for a wide range of countries and are regularly updated, making them easily transferable to potential analyses of regions different from Mexico. The interviewees' statements coincided with Mexico's scores in the Adapted IFF model, with the interviewees rating Mexico's MF as the most important and positive, and the current government and corruption as critical. This consistency demonstrates the fundamental usefulness of this approach. However, the use of preconceived indices can create inaccuracies since the authors of these indices have made their own selection of metrics without necessarily considering the IFFT. This can result in indicators playing into the wrong IFF determinant. For instance, issues of government missteps such as corruption or political favoritism, which negatively reflect on aspects that belong more to GF, may manifest as issues with energy availability, which is an MF indicator. Nonetheless, these issues can be resolved by working with the individual indicators themselves. Overall, the Adapted IFF Model is a solid approach with minor difficulties that need to be addressed in future iterations.

The greatest discrepancy between the Adapted IFF Model and the interviewees' statements was in the determinant SF. According to [Table 3](#), there is a considerable cultural difference between Mexico and Germany, even more than there is between China and Germany. However, the interviewees stated the exact opposite: Many affirmed that Germans and Mexicans are culturally highly compatible, since Mexico is also a Western culture, there are religious and traditional overlaps, and so on.

The reason for this discrepancy is likely due to the Hofstede methodology, which was originally about business culture. This highlights the need to consider different

understandings of culture, such as corporate culture/work culture and national/ethnic culture, for a more realistic assessment of Sociocultural Fitness. Additionally, cultural similarity may not be as important for FDI as other factors, such as historical integration into the global economy, willingness to travel, multilingualism, international education, and global alliances, which should be studied separately to better understand the factors that favor this component.

In summary, the use of Hofstede scores alone is insufficient for evaluating SF, and practitioners' perceptions of cultural differences should be taken into account. Further research is needed to identify the most relevant factors for a realistic assessment of SF.

Despite these criticisms, the basic approach of developing an Aggregate FDI Score based on existing indicators remains valid. With the exception of the SF determinant, the respondents' statements fully corroborated this. To pursue the approach scientifically, it is important to use the underlying indicators instead of the composite indices and to expand the SF determinant to include indicators other than just the Hofstede score. In the new aggregation of an FDI score, the weighting of the determinants can be applied based on the data collected in this thesis.

National Competitiveness

Regarding the private sector and the role of clusters in FDI, it can be said that the interviewees' statements are in line with the literature. Clusters function like incubators. This applies not only to the domestic economy, but also to foreign companies, which likewise prefer to settle in cluster-rich agglomerations when entering a country's market. Clusters offer optimal competitive conditions, and Mexico is no exception. However, Mexico scores better in certain

determinants of the Porter diamond than in others (see Figure 33).

cross the border between Mexico and the U.S., often several times before completion.

Note. '+' implies a positive factor, '•' implies a neutral factor, '-' implies a negative factor.

This reinforces the notion of a double diamond, where the NCA determinants of

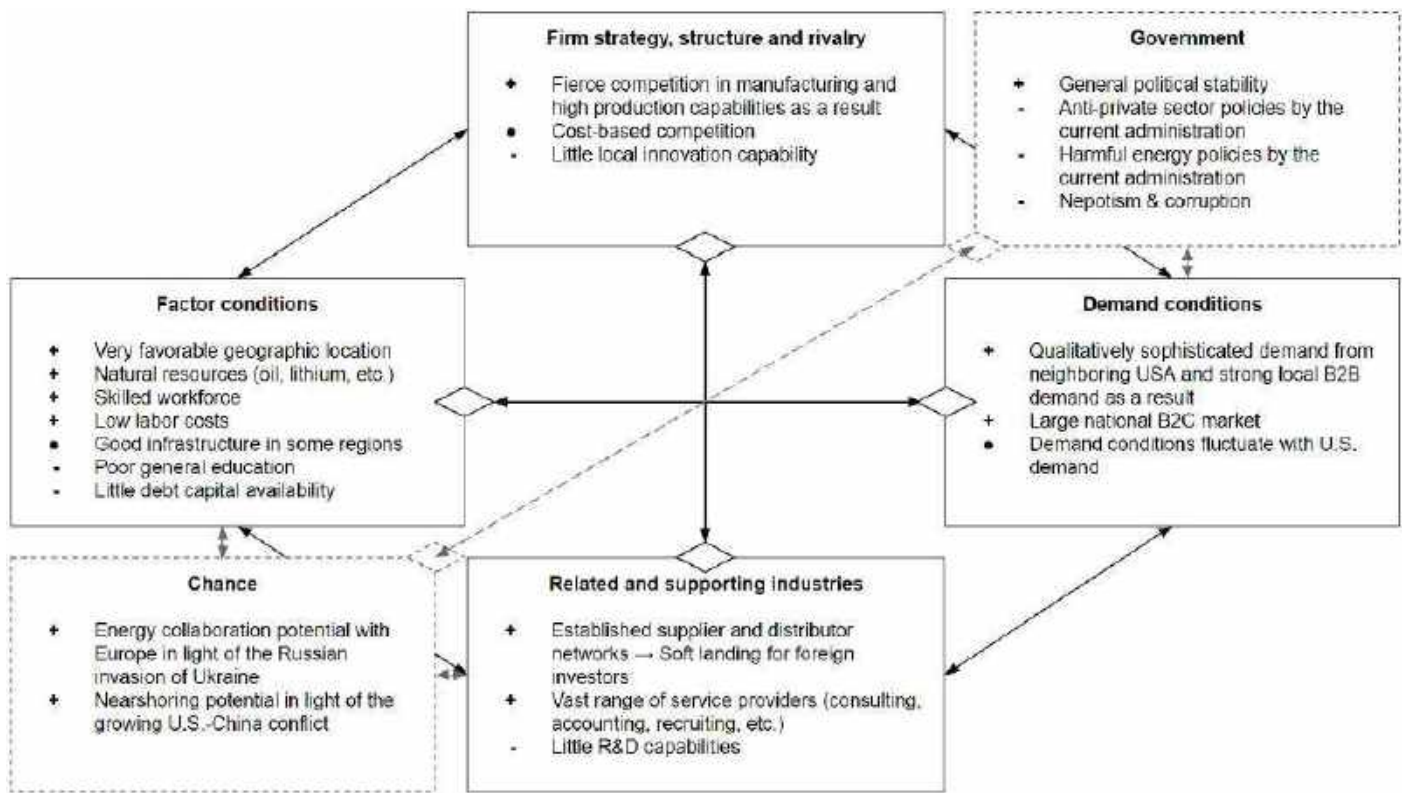


Figure 33: Mexico's Diamond of National Competitive Advantage Based on the Interview Data

The most important cluster agglomerations in Mexico for industrial companies are Nuevo León and the Bajío region. Clusters in Mexico are characterized in particular by good related & supporting industries and factor conditions in the form of the availability of labor that is either particularly inexpensive or technically skilled. The specialization to date has been in manufacturing. The automotive sector was particularly prominent both in BANXICO's cluster analysis and in the statements of the interviewees. This is where the greatest potential for Mexican-German economic cooperation continues to lie, along with other technically demanding production activities in sectors such as mechanical engineering, aerospace, and more.

USMCA was frequently mentioned as a major asset to Mexico and some interviews cited the seamless way in which products

two countries whose economies are closely intertwined should be seen as linked rather than separate. However, doubts may arise as to whether Mexico benefits from this linkage to the same extent as the U.S. does; for the United States thereby gains access to low-cost production in Mexico, but Mexicans do not gain equivalent access to U.S. capital (e.g., technology, know-how, etc.).

Mexican companies are currently still lagging behind in value-adding activities. There is not yet much R&D activity on that front. However, this is increasingly changing, thanks in particular to demand from foreign firms. Large German investors especially are increasingly putting money into developing the local workforce and innovative capabilities, so that R&D can also be done locally. It would be in the interest of the Mexican private sector and foreign investors if SMEs were systematically

promoted. This is also one of the conclusions reached by FDI expert Peña Guzmán in his book, in which he outlines a possible transformation of FDI in Mexico away from a pure manufacturing hub and toward a value-added powerhouse (2021).⁵ Such a sea change would require improvements in local working conditions, legal security and credit availability.

The Comprehensive FDI Analysis Model

The thesis centers around the Comprehensive FDI Analysis Model, which combines FDI and competitiveness theory. The research aimed to identify potential improvements in the model and, after review, it was found that there were no logical flaws but there is potential for

improvement process from the provisional to the final model was carried out in the full thesis but would bust the scope of this summary.

A key research objective was to identify and evaluate the decision criteria that come into play for FDI. The insights from practice that the experts were able to provide, combined with the theoretical foundations from this work, led to the decision criteria in [Figure 34](#).⁶

Note. The bars represent the importance of each item based on the interviewee statements. Arrows mean that an element feeds into another element. Dashed connections mean that two elements are related contextually, but do not necessarily influence one another causally.

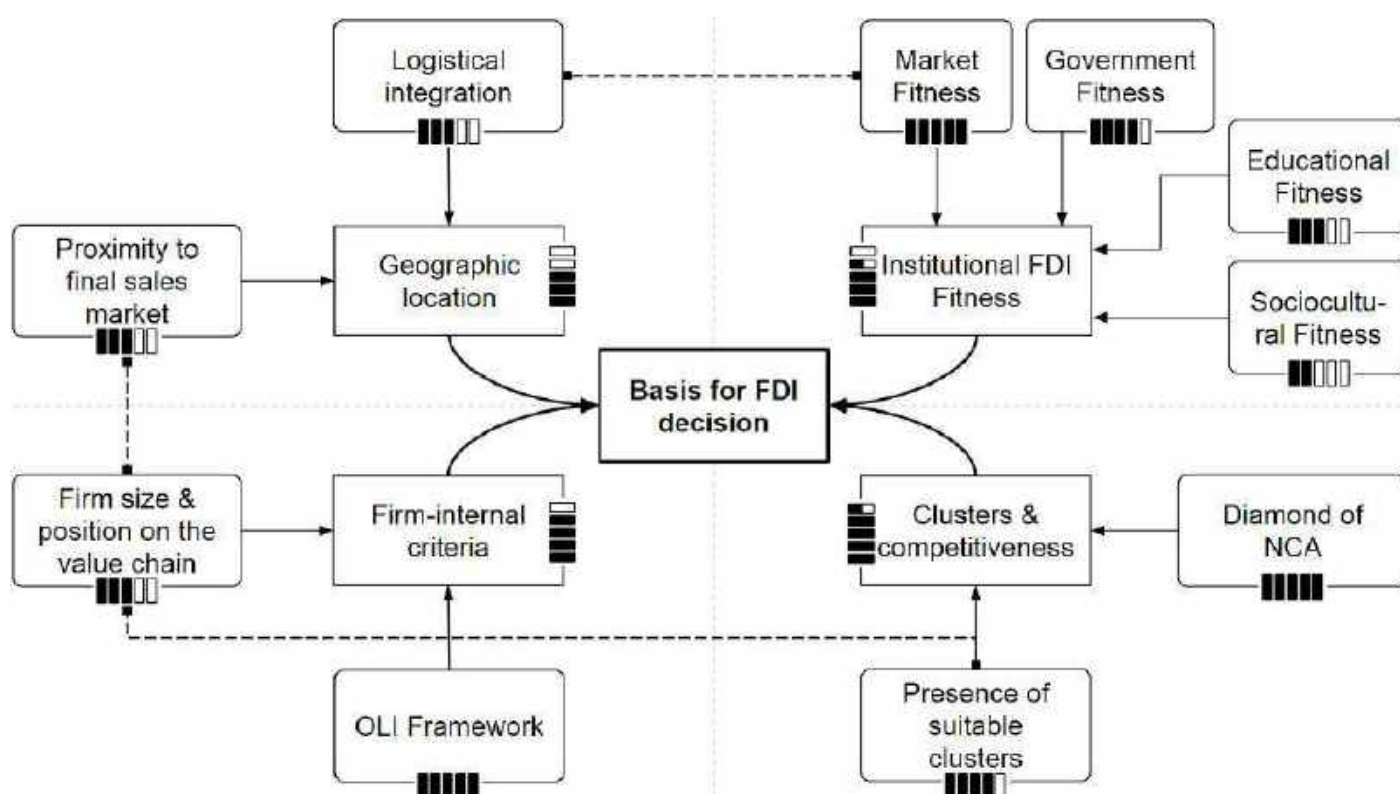


Figure 34: Compiled FDI Decision Criteria, Rated According to Importance

improvement. These improvements went into a revisited version, which is depicted in [Figure 9](#). A detailed discussion of the

⁵ Mr. Peña Guzmán was among the interviewees in this thesis. With explicit permission, exceptions are made to the otherwise preserved anonymity in his case and that of Mr. Piotrowski (see acknowledgements).

⁶ [Figure 34](#) answers the auxiliary guiding question "How important are the various decision criteria for or against FDI relatively to one another?"

Development Cooperation

The statements on area align with the literature. ODA payments and German DC goals in Mexico aim to protect global public goods such as natural resources and the environment. The sustainable impact of DC projects depends on local uptake, as political instability can quickly destroy the results of DC efforts, as seen in Nicaragua, for example. To achieve sustainable success, recipient country governments must institutionalize the projects by integrating them permanently into local institutions.

There is potential for DC projects to improve the investment environment in the host country. For example, private companies can borrow from development banks on favorable terms and use these funds to carry out infrastructure projects. In Mexico, the implementation of the German-style dual education model through DC efforts could address the shortage of skilled workers, benefiting the local private sector and foreign investors. However, the slow institutionalization of such training remains a challenge.

Overall, however, development policy as a complement to FDI must be subjected to realistic limitations. DC has no explicit economic ambition but focuses on goals such as the UN SDGs. Accordingly, the interests of the private sector take up limited space in DC concepts. Some experts also sharply criticized Germany's development work in Mexico, saying that there was no recognizable holistic concept that would also benefit Germany. The potential to promote private-sector efforts through DC would be enormous, but DC is too disconnected from the business world and the relevant actors also are not particularly interested in its concerns. In addition, the use of public funds by DC bodies is often seemingly non-transparent, and the impression arises that these actors are subject to little scrutiny by independent third parties. Such statements could be

obtained from the primary data collection and do not emanate from the existing literature. Since it is difficult to objectively ascertain their veracity in the context of this research, they must be left as they stand. It can be conceded, however, that it is understandable for actors within DC bodies themselves to comment on the issue more optimistically than those positioned at the interface with the private sector. There is great potential here for more investigative research into the effectiveness of DC projects and the quality management tools that are used in the process.

In summary, it can be said that DC plays the expected role when it comes to FDI. It has moderate potential to improve the investment environment in the host country and can thus support FDI. However, it should be seen as complementary and cannot replace the private capital flows.

The Iterative & Incremental Model of DC

Fundamentally, nothing needs to be altered about the Iterative & Incremental Model of DC. This model should be seen as an add-on module to the Comprehensive FDI Analysis Model and the aspect that primarily required input from the empirical investigation was the extent to which DC projects can support FDI attractiveness. In the model, this relates to the feedback effects on the country analysis. The assumption was that DC projects have a positive impact on this in the long term, and the interviews confirmed this.

However, as previously mentioned, it is important not to overstate the magnitude of DC's effects on the local investment environment. Targeted projects in close cooperation with the private sector not only in implementation but also in the formulation of requirements themselves can yield some success in this regard. But, these projects cannot equal market-based influences and they are also capped by

factors beyond the reach of DC contributors; namely, the receptivity of local institutions to DC. The model is deliberately designed so that users cyclically assess the success of their DC engagement and can drop out if they are dissatisfied (hence *iterative*). Overall, however, the assumption that DC has at least moderately positive effects on the local investment environment in the long term was reinforced by the interviews.

Answering the Guiding Questions

What must a diversification strategy for German industrial companies achieve and how could it be designed?

The German industrial sector is highly integrated into the world economy and relies on a relatively small number of supplier countries for intermediate inputs. Recent disruptions have highlighted the risk of political differences between countries affecting global supply chains. Friend-shoring, incorporating international political goodwill into management decisions, is a justifiable diversification strategy to minimize political risk. This involves buying or setting up manufacturing facilities abroad, with the goal of nearshoring to minimize disruptions. The strategy is aimed at industries producing for other markets, which applies strongly to the German industrial sector.

Any company from any industry can choose to diversify. However, it is worthwhile to ask which industries have greater urgency to do so than others. Subsequently, the nearshoring potential with countries considered suitable on a surface level – ‘friendly’, in this case – needs to be gauged. Based on literature review, this thesis offers an approach to both that is coined ‘*Focus Industry Selection*.’ It entails the selection of home country industries to focus on with the option of determining the degree of their external dependency and subsequently matching them with the industries of greatest engagement with a potential FDI

host country to distill the so-called focus industries. This auxiliary model can serve as the basis for the following strategy when no focus industry has been pre-determined by other factors.

The next step is to launch an extensive evaluation of a potential FDI host country. The way to do this is the centerpiece of this thesis: A Comprehensive FDI Analysis Model. It is based on an eclectic theoretical foundation as well as primary data from the real-life pairing Germany-Mexico. It is meant to comprehensively and with increasing sophistication inform the decision of a user – which can be an individual company, an interest group, or a policymaker – for or against FDI into a particular country. Based on the empirical research in this thesis, a weighting of the different components of this decision framework is also proposed. As an additional module, users can add DC engagement, which can potentially improve the investment environment in the long run. In summary, German industrial companies are provided with a tool that can support them in international diversification through FDI. Thus, strategy and design have been covered thoroughly.

How is Mexico to be evaluated as a target country for a diversification strategy for German industrial companies?

The theories adopted in this thesis as well as the proprietary models developed on their basis were put to the test with the help of empirical research via expert interviews on the real-life pairing Germany-Mexico. Thus, the theoretical approaches as well as Mexico's performance itself were evaluated simultaneously. In the updated Comprehensive FDI Analysis Model, the country analysis is divided into macro, micro and geography. The answer to this guiding question follows the same approach.

IFF, GF: Mexico is relatively stable politically, especially by Latin American standards. Legal security is fundamentally in place. However, there are several factors that curtail Mexico's Government Fitness. On the one hand, there is pervasive corruption in the public and private sectors. On the other hand, the current left-wing government under AMLO is highly skeptical of the private sector and thus also of FDI and is making policies accordingly. The most prominent examples of this are the blatant favoritism toward state-owned energy companies and chaotic changes to regulations in the energy sector. In the energy sector, this has brought foreign investment to a virtual standstill; generally speaking, AMLO's policies are harming FDI into Mexico.

IFF, MF: Mexico scores particularly well on Market Fitness. Despite the current FDI-damaging policies, institutions have been in place that favor international capital flows to Mexico as well as business formation by foreigners. Due to this long-standing situation, there are extensive networks of suppliers, distributors, service providers, and simply peers in which foreign investors can 'land'. In addition, there are many skilled workers in Mexico and due to the good birth rate, this will continue to be the case in the foreseeable future. From the center to the north of Mexico, physical infrastructure is also good. Furthermore, Mexico is one of the countries with the most FTAs in the world, which strongly favors international trade. Mexico's market fitness is diminished primarily by obstructive bureaucracy and interregional differences in factor conditions, such as the underdeveloped infrastructure in the south of the country.

IFF, EF: The Educational Fitness of Mexico is to be rated rather unfavorably. The general level of education is low. This is due to poor public primary and secondary educational institutions. In some regions, firms are competing for literate employees.

On the other hand, there are relatively good private universities. In addition, there are relatively many skilled workers in Mexico, as previously mentioned. German investors usually have little trouble finding technically skilled workers; only in cluster-rich agglomerations may there be shortages due to strong demand.

IFF, SF: The interviewees' statements about Sociocultural Fitness contradict the implications of the score the determinant receives in the Adapted IFF framework as it currently stands. While the latter suggests strong cultural differences, practitioners affirm that those between Germany and Mexico are rather small. Mexicans are fundamentally open to foreigners, and this generally extends to foreign investors as well. German investors are particularly well regarded because of the good working conditions, the investment in employees and the reputation of their work ethic. However, it is important that managers are well versed in local customs to minimize cross-cultural misunderstandings that may slow down investment processes.

Clusters & competitiveness: Mexico is more competitive compared to other Latin American countries. In addition to its geographic location, the country's competitive advantage lies in its long-standing manufacturing expertise in the industrial sector. Labor in Mexico is either inexpensive or well-skilled. Overall production costs are rather low. There are also a large number of well-developed clusters in the country, which attract comparatively large FDI. For German industrial companies, the clusters in the Bajío region and the state of Nuevo León are particularly attractive. The weakness of Mexico's competitiveness is value added. It is hampered by the lack of investment in R&D and the difficulty of establishing competitive SMEs. Currently, German MNCs often drag their usual suppliers behind them or import missing components to Mexico at a high price. Thus, foreign investors and

Mexican FDI attractiveness would benefit if there were more such SMEs.

Geographic location: Mexico's geographic location is an immensely important factor in the country's FDI attractiveness. Proximity to the largest consumer market in the world - the United States - is the most important aspect of its geographic location. In addition, Mexico has access to the Pacific and Atlantic Oceans. While there are sometimes difficulties in effectively connecting the two oceans by land, infrastructure development projects are planned to improve on this. In addition, the rest of Latin America can be reached from Mexico. For German investors, the proximity to the United States is particularly relevant. The good infrastructure from the cluster-rich agglomerations in the center to the north favors this.

In summary, Mexico is excellently suited for a diversification strategy for German industrial companies. Mexico fulfills the notion of a 'friendly' country in the sense of friend-shoring and is geographically located in such a way that it can also supply Western countries well in the event of a potential gradual formation of two political blocs on the globe. It is politically stable and has economic growth potential domestically and in exporting. The country's competitive advantages fit well with the requirements of the German industrial sector. In the wake of current political and economic developments, Mexico represents an ideal nearshoring hub and a highly attractive country for German FDI.

In how far would Germany and Mexico benefit from increased cooperation within the framework of a diversification strategy?

For the German perspective, this key question has largely been answered in the preceding paragraphs. For the Mexican side, the answer lies in the growth effects of FDI and the impact of DC projects.

Germany already has a fruitful partnership with Mexico. However, there is still a lot of potential within this area. For Germany, Mexico is primarily a low-cost nearshoring hub for further sales to the USA. In terms of volume and sectors, there is headroom for improvement. The automotive sector will continue to account for the lion's share of German investments in Mexico as long as the German automotive industry in general can maintain/expand its competitive advantages. However, there may be potential for green hydrogen in Mexico, especially in the wake of German energy policy. The Mexicans, in turn, could benefit from German expertise in the development of green energies in their own country.

The latter leads to the advantages for Mexico. Mexico could benefit from increased cooperation with Germany, especially in the area of knowledge transfer. From an economic point of view, there is a need for this in Mexico, above all to increase value-adding activities in the country, since these are primarily technically demanding processes. As positively pointed out by the interviewees, German employers generally invest comparatively heavily in the further training of their employees; this is therefore an advantage in itself for Mexican employees. Complemented by CAMEXA's dual education projects and supported by German DC bodies, there is great synergy potential to train highly competitive professionals that would benefit the Mexican economy and foreign investors alike.

For diversification, this is a significant advantage because it expands the possibilities for cooperation. For German industrial companies, not only the quantity but also the degree of technical sophistication plays a role in Chinese intermediate inputs. In other words, there are certain intermediate inputs in the German supply chains that simply cannot be provided by Mexican suppliers at present. Increased R&D investment can change this in the long term. However, this implies a

holistic transformation of Mexico's competitive advantage and cannot be brought about by individual investors or quickly. Ultimately, though, this is the way to strengthen Mexican-German cooperation.

To what extent is it sensible for the German economy to detach value chains from China and diversify toward Mexico and/or other Latin American countries?

Detaching value chains from China is more likely to be harmful than helpful. As far as intermediate inputs for German production are concerned, the supply chains are working well enough for the time being, and abandoning China as a sales market is pointless and undesirable for the German industrial sector. It therefore makes little sense to see Mexico and Latin America as substitutes for China's role in the German economy. This is unrealistic because quantity and quality of intermediate inputs as well as demand conditions of the respective sales markets are not on par. Part one of the question can therefore be answered in the negative: Detaching value chains away from China is not advisable for the German economy.

However, part two of the question can be answered positively. The more German industrial companies diversify their supply chains and their sales markets, the less dependent they are by definition.⁷ The resulting redundancies make them more resilient to defaults caused by disruptive events affecting certain international value chains. Partly, this applies to mass disruptive events such as the COVID-19 pandemic as well, because not all countries and value chains are equally affected by them; still, in such events the global economy will be negatively affected altogether despite diversification. Setting a diversification strategy in Mexico and Latin

America appears highly sensible, especially with Mexico as a politically and economically stable production hub from which the Americas can be comfortably reached. Although the region lacks technical sophistication for many industries, i.e., the service provided is currently factor-based/labor-intensive rather than capital-intensive, now is the time to invest in order to build up this capital in the long term. The goal would be to build up technically sophisticated production capacities over the long term and to supply both the steady U.S. market and Latin American markets that promise high growth. A reasonable way forward is therefore to take advantage of investment potential in Mexico and Latin America without abandoning China.

How important are the various decision criteria for or against FDI relatively to one another?

This question is comprehensively answered via [Figure 34](#). In summary, firm internal criteria must come first to rule out that there could be better market entry strategies than FDI. As far as country analysis is concerned, Institutional Fitness and the state of the private sector play almost equally important roles, with the latter weighing more slightly more heavily.

Are certain parts of the model obsolete and/or should new parts be added?

This question is comprehensively answered via [Figure 9](#), the updated version of the Comprehensive FDI Analysis Model. No element of the model is obsolete, and no logical errors occur as a result of its current arrangement. However, the empirical research has shown that adding two elements to the model represents reality in a somewhat more complete manner. The first is the evaluation of firms in terms of

⁷ The degree of dependency was defined in this thesis as the concentration on a few foreign economies. Increasing the number of foreign

economies in this account consequently dilutes this concentration.

their size and position on the supply chain. This is because, in practice, FDI poses different challenges for firms depending on their size: MNCs are in a better position to make major infrastructure investments, while SMEs are more dependent MNCs being already present in a host country. Together with the OLI framework, this constitutes the 'firm analysis' phase. The country analysis can be meaningfully extended to include the element of geographic location, with firm size and strategy also entering into the equation. In the case of geographic location, the proximity to the final sales market and the connection to logistics networks are relevant. The latter is linked back to the determinant Market Fitness of the Adapted IFF Model, into which indicators for the shipping infrastructure flow in their current state. Firm size and strategy are connected to geographic location, because MNCs are more likely to export to a third market from the FDI host country, while SMEs – due to their activity being linked to the presence of MNCs – are more likely to sell to these very MNCs and thus have their final sales market in the host country itself. Thus, the Comprehensive FDI Analysis Model does not change in essence from the provisional pre-research visualization, but it can be extended.

To what extent are the topic of development cooperation and its associated model a useful addition to the Comprehensive FDI Analysis Model?

At the outset, it can be stated that development cooperation is a useful complement to FDI. FDI does not require DC to function, and DC does not generally pursue economic interests. However, the two approaches have a great deal of synergy potential, some of which is being harnessed. Infrastructure projects, environmental projects, education projects, etc. can directly or indirectly improve the local business environment. These improvements are incremental and protracted in nature;

however, they should not be dismissed. Besides, private companies can benefit directly from DC by implementing projects while enjoying favorable credit terms with development banks.

The Iterative & Incremental Model of DC is a proposed approach to private sector DC engagement. It is a useful extension of the Comprehensive FDI Analysis Model in that it is a self-contained add-on module that only comes into play if users decide to engage in DC. It takes into account the various unknowns that are attached to DC. The interviews implied that the effectiveness of DC projects is often difficult to measure and therefore to predict. The model's cyclical design is an attempt to address this fact by questioning the continuation of the DC engagement during each iteration based on the experiences gathered. The basic assumption that this commitment has a positive long-term effect on the local investment environment, albeit a moderate one, was reinforced by the empirical research in this thesis. The limitation is that mainly larger firms participate in DC projects in practice and they are also more likely to get loans from development banks. While the model is not tied to firm size, it is hence more relevant for larger firms.

Can more FDI in Mexico and/or Latin America help make Germany less dependent on China?

The answer to the overarching guiding question of this thesis is [yes](#). Mexico more than meets the requirements for a suitable target country for the outlined diversification strategy and the interviewees confirmed its potential for increased cooperation with Germany across the board. Based on this research project, Mexico is clearly an above-average FDI host country within Latin America. Through greater investment in Mexico, Germany can become less dependent on China by developing it as an alternative manufacturing base. Mexico

cannot replace China's role in the German economy; but it does not have to. The diversification of production locations that can supply existing sales markets of the German industrial sector, that are close to growth regions, and that have strong domestic markets themselves does reduce Germany's dependence on China. Mexico's geographic location reinforces this argument in the face of projections that the U.S.-China conflict is likely to intensify.

There are certain areas in which China is securing a position of supremacy that even diversification and R&D investment cannot remedy. These include rare earths. This is a challenge beyond the German economy alone and not the object of this thesis. Moreover, it will take time for the Mexican private sector to be able to produce at the level of technical sophistication that China has. On the whole, however, there is a strong case for increased German investment into Mexico.

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IMPLICATIONS

The research approach in this thesis is exploratory. Accordingly, unexploited potentials, new approaches and starting points for possible research projects in the future were sought. This aspiration has been met. The practical and scientific implications arising from the research results are elaborated in the following sections.

Practical Implications for the Private Sector

Nearshoring is a trend and will likely grow in importance in the future. This trend may be fueled by the U.S.-China conflict, especially due to the United States' tough stance on decoupling from China. Prognoses in this respect are prognoses and not set in stone; however, Germany and Europe must position themselves in this conflict, even should it not intensify. The more agile private sector is usually ahead of the more cumbersome public sector in such matters. The political component aside, the private sector has an interest in diversifying value chains and thus increasing its resilience to external shocks and supply chain disruptions. This leads to the following recommendations:

| German/European companies should evaluate their international business in terms of value chains to the final sales market. Companies that are currently exporting should consider whether nearshoring might be a better option for them. This does not only apply to Mexico/transatlantic value chains; for European or near-European markets, for example, Eastern European countries could be considered as nearshoring hubs, and for Asian markets, 'friendly' countries with nearshoring potential, such as Vietnam, etc. For the evaluation of countries, the Comprehensive FDI Analysis Model can be applied.

| Chinese suppliers are firmly integrated into many German value chains. It will be difficult and overall questionable to remove them in the short term. However, even in the case of increased FDI into Mexico, this is not necessarily required; MNCs often pull their suppliers with them into the country in which they conduct FDI. There is no reason why this should not also be done with Chinese suppliers. This would be a more short-term solution than expecting Mexican suppliers to match the Chinese level of technical sophistication. The positive FDI spillover effects for Mexico would be preserved or possibly even amplified in such a scenario.

| German companies investing in Mexico should consider engaging in DC. Dual education in particular has the potential for professionals to be trained the exact same way as in Germany. This facilitates the transfer of production processes from the home country to the host country enormously. The same principle applies to countries other than Mexico.

| For the Mexican private sector, in turn, it is advisable to build up the added value of its output over the long term. There are some systemic obstacles here but the goal should be to move beyond pure production and provide more technically sophisticated services. There is definitely a demand for competitive SMEs with niche capabilities on the part of foreign industrial companies establishing themselves in Mexico. At the same time, it is in the interest of foreign investors, including German ones, to support this competitiveness in Mexico.

| Finally, it would be advisable for the German and Mexican private sector to intensify the cooperation between interest groups. This can refer, for example, to industry associations and advocacy groups. They have the potential to advance critical competitiveness issues that may be stuck at the political level.

In addition to these recommendations, there are concrete ways to make the model approaches from this thesis practically usable. One such option is depicted in [Figure 35](#). It is a mockup of an online platform that compiles and neatly visualizes the data required for Comprehensive FDI Analysis. The purpose of such a platform would be to facilitate users with an interest in FDI in the decision-making process detailed in this thesis. The data that goes into the Adapted IFF model is publicly available and can thus be compiled on a non-commercial platform. The same is true for cluster data from publicly available sources. If one were to monetize such a service, it could be done through the addition of bespoke country reports and FDI consulting services; monetizing the platform itself would most likely result in a multitude of copyright infringements.

including the Adapted IFF Score, the visualization of clusters via a geographic heatmap filtered by industry and a list of DC organizations.

Practical Implications for the Public Sector

Many obstacles in Mexican-German cooperation can be traced back to the public sector. However, this cannot be pinned exclusively on either the Mexican or the German side. The following recommendations for the public sector can be formulated:

On the German/European side, it is essential to formulate the diversification of the domestic economy into a political agenda in a timely manner. The problem of economic dependence and the risks attached to it have only recently entered the

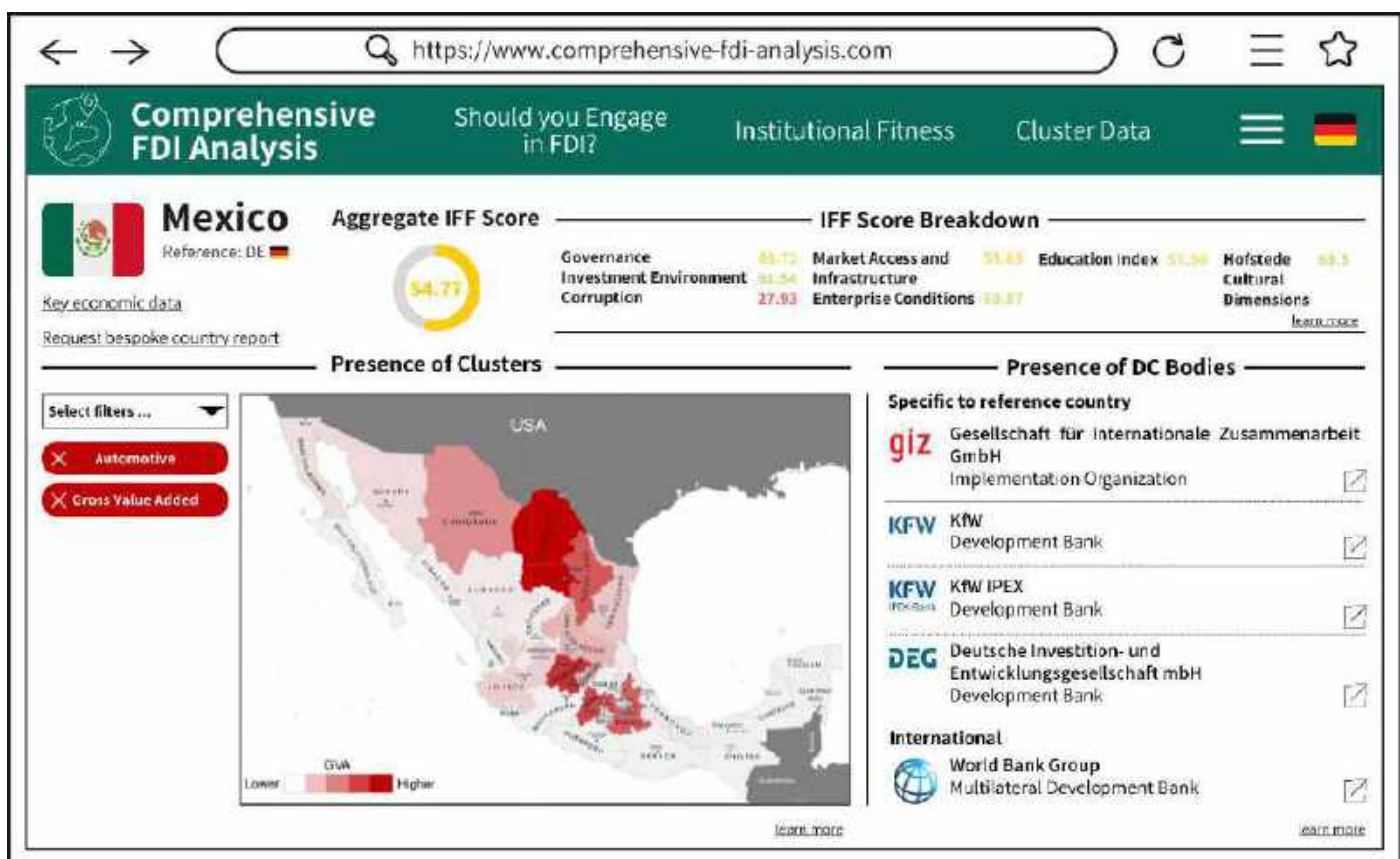


Figure 35: Mockup of a Comprehensive FDI Analysis Platform

Note. The features of this website mockup replicate the concepts from this thesis. They inter alia provide various metrics on a target country in reference to a home country

political discourse. This issue needs to receive much greater attention and a political response to it needs to be devised, ideally at the EU level and with a practical

focus. For this, measures such as premiums, subsidies and tax incentives for diversifying toward 'friendly' countries during a transition period are worth considering. But this would represent an explicit step out of the political neutrality that the EU so values and is thus very unlikely. It is more probable that the will to implement diversification will continue to come from the private sector. Nevertheless, Germany and the EU must formulate a unified strategy in the near future to position themselves in the U.S.-China conflict.

Another obstacle to intensified cooperation between Mexico and Germany is the fact that the revision of their trade agreement between the EU and Mexico has been stuck in the stage of being a so-called agreement in principle since 2018. This agreement would strengthen cooperation across several industries and help ensure high labor and environmental standards (EC, n.d.). These negotiations should be resumed, especially in the course of what will hopefully be an increased thematization of diversification and nearshoring in EU policy in the near future, and by the Mexican side in the sense of strengthening FDI attractiveness. It remains questionable, however, in how far the current Mexican administration is interested in prioritizing these negotiations.

German development policy has a long history and is backed by powerful institutions including its own ministry. Nevertheless, the interviewees in this thesis – both within and outside DC bodies – cited a lack of coordination as unnecessarily limiting the potential it could have. DC has no economic claim. However, capacity development, as a segment of DC projects, is concerned with providing recipients with the necessary means to improve their living conditions themselves. This raises the question of whether the prioritization of economic growth does not fulfill precisely this objective, and whether DC should therefore focus on increasing

competitiveness. The question may also be posed to what extent it can be justified that German tax money is used for DC while DC does not represent German interests. Closer cooperation of the private sector with state-owned DC bodies seems appropriate; both to include the interests of the German private sector and to facilitate its access to DC engagement.

As for the Mexican public sector, the aversion to the private sector is clearly a detriment to the Mexican economy, including FDI. Mexico virtually exclusively benefits from FDI and sabotaging this valuable input for ideological reasons is ill-advised. It is unlikely that this policy course will change under the current administration; however, it is to be hoped that future governments will resume measures to attract FDI into Mexico, reactivate organizations such as ProMéxico, and encourage international exchange between private sector interest groups.

There is much potential in Mexico to build competitive SMEs that can, among other things, act as suppliers to MNCs investing in the country. But this potential is suppressed by difficult start-up conditions. Potential founders therefore often depart for the United States. The Mexican government needs to take measures to prevent this brain drain. The biggest limiter is the availability of credit, which small businesses can hardly access. The default risk of small debtors is too great, especially given the fact that debts in Mexico are difficult to collect via enforcement measures. The government needs to address this. Together with public backing of greater R&D capacities in Mexico, closer work with universities, and financial incentives for entrepreneurs, the Mexican government should roll out more initiatives to promote SMEs in the technical sector.

In the form of dual education, there is an offer from the German side from which both the Mexican private sector and foreign investors can only benefit. The expertise and capacities are there. Accordingly, the

appropriate levers should be pulled in the Mexican government to institutionalize German-style dual apprenticeship degrees.

Scientific Implications

In this thesis, original concepts for modeling a diversification strategy by means of FDI were developed on an extensive theoretical basis. With the help of expert interviews, these concepts were compared with practical insights and subsequently revisited. A number of scientific implications emerge from this empirical research:

| There are a variety of publicly available indicators that point to a country's FDI attractiveness. However, to date, there is no designated FDI attractiveness index. The original Aggregate IFF Score, which was developed in the course of this thesis, is a first attempt at conceptualizing such an index. There is diverse potential for further research here. First, the weighting of the four determinants included in the score, which was proposed on the basis of the expert interviews, should be further explored. Future studies can take up the approach and test it quantitatively through broad surveys of corporate international investors. Statistical research methods are also envisageable, contrasting the hypothetical weights of the determinants with actual private capital flows. Second, there is the question of the extent to which the state of the private sector could be incorporated into such a score. Here, the development of a scoring model based on the theoretical foundation of the Porter Diamond appears opportune.

| Assessing the determinant Sociocultural Fitness in the Adapted IFF Model by calculating the difference between the Hofstede scores of the two countries involved seems insufficient. This emerges from discrepancies between the score results and the interviewees' perceptions. Future projects should therefore investigate

which socio-cultural factors favor and disfavor FDI.

| Development cooperation is a useful addition to the topic of FDI. Against the background of the auxiliary iterative & incremental model proposed in this thesis, further studies would be appropriate in the future, dealing with the effects of different DC projects on competitiveness, education, compliance with international standards, etc. in the recipient country. Also, qualitative studies of the quality assurance systems applied in the implementation of DC projects would be worthwhile.

| The centerpiece of this thesis, the Comprehensive FDI Analysis Model, was confronted with practical insights through the empirical survey. However, even the model as updated to include this data remains theoretical. A future research project could consist of a long-term practical test in which companies with FDI ambitions run the model from start to finish in an experimental research setup.

| A desirable by-product of qualitative research with expert interviews, such as the one in this thesis, is the coding guide that is produced. It allows qualitative data to be quantified. After completion of the study, it thus forms an excellent basis for creating questionnaires as part of future quantitative studies on the topic.

| In summary, there is already a large body of research on FDI. The approaches in this thesis are not entirely new, but combine existing research to work toward a comprehensive, contemporary FDI model that is applicable to practitioners and also takes into account peripheral subjects such as DC. The models proposed in this thesis pave the way for future studies testing their cogency.

CLOSING REMARKS

The power structures on the world stage have always been in a state of flux. Europe, the old continent, is sometimes more sometimes less at the forefront of this global power contest. However, its current course is characterized by a risky degree of complacency; Europeans, especially Germans, like to rest on past greatness, tuning out global economic tendencies that could threaten their prosperity for as long as possible. One such risk is the disruption of international value chains, especially when they are increasingly controlled by actors who are not politically sympathetic to European values. How can Western nations address this?

The answer proposed in this thesis is diversification. By diversifying value chains, building production capacities in different geographic regions and near sales markets, and opening up new sales markets altogether, concentration-related risks of economic dependence are partially mitigated. Latin America, led by Mexico, is a large region with enormous potential to play a leading role in such a diversification strategy. The reasons why this potential has so far only been scratched at superficially are manifold: Latin America is seen by many Western investors as a proverbial pig in a poke, is difficult to estimate in terms of growth forecasts and political stability and is geographically in a position where it can essentially be disregarded in a certain sense. Moreover, many economies in the region have difficulty positioning themselves with a clear competitive advantage. These are among the reasons why Latin America has received relatively little attention from the European private and public sector in recent years. This is an omission that should be reversed as soon as possible.

With Mexico, Germany and the EU have a long-standing partner in Latin America, that – from a geographical point of view – is

excellently suited for supplying the United States and for future expansion into Latin American markets, as well as for maritime transport. The country is politically stable and generally open to foreign investors. The populace is young and ambitious. Cultural barriers between Mexicans and Europeans, especially Germans, are relatively low. There are also excellent production capacities and extensive networks of established foreign investors. Mexico's advantages clearly outweigh its disadvantages.

It is time for actors from the European private and public sector to take a closer look at Latin America, and Mexico in particular. There is great potential for political alignment and large-scale initiatives to direct European investment toward the region. All that remains is to muster the political will to do so; private sector companies with even a hint of business in the Western hemisphere definitely have something to gain from considering Mexico as a production location.

Foreign direct investment is an integral part of a globalized world. But even if the misgivings of de-globalization should materialize, FDI will not disappear; the key locations will simply change. Given the tumultuous experiences with global supply chains in the recent past, it is most probable that nearshoring will experience a major upswing in the coming years. The way things are currently developing globally in political terms, it is not unlikely that friend-shoring – whether explicitly declared as such or not – will also become more widespread. Either way, private sector investors and policymakers will benefit from practically applicable tools to evaluate potential FDI host countries. This thesis is the proposal of such a tool.

The subject will continue to be relevant.



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A handwritten signature in blue ink that reads "Jan M. Esslinger". The script is cursive and fluid, with the first letters of each name being capitalized and prominent.

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List of Abbreviations

ADR	American depository receipt
AHK	Außenhandelskammer (German foreign chamber of commerce)
AMLO	Andrés Manuel López Obrador (President of Mexico since 2018)
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
BOP	Balance of payments
CAMEXA	Cámara Mexicano-Alemana de Comercio e Industria (German chamber of commerce in Mexico)
CFE	Comisión Federal de Electricidad (Federal Electricity Commission of Mexico)
CN	China (ISO 3166-1 alpha-2 code)
DC	Development cooperation
DE	Germany (ISO 3166-1 alpha-2 code)
DESTATIS	Statistisches Bundesamt (Federal Statistical Office of Germany)
EPW	Entwicklungspartnerschaft mit der Wirtschaft (development partnership with the private sector)
ETF	Exchange traded fund
FDI	Foreign direct investment
FDIR	Framework for Direct Investment Relationships
FPI	Foreign portfolio investment
FTA	Free trade agreement
GDP	Gross domestic product
GDR	Global depository receipt
GNI	Gross national income
GTAI	Germany Trade and Invest
HBS	Harvard Business School
HHI	Herfindahl-Hirschman index
ICIO	Inter-Country Input-Output
IFFT	Institutional FDI Fitness Theory
IGO	Intergovernmental organization
IMF	International Monetary Fund
ISO	International Organization for Standardization
LAC	Latin America and the Caribbean
LDC	Least developed country
MDB	Multilateral development bank
MNC/MNE	Multinational corporation/multinational enterprise
MX	Mexico (ISO 3166-1 alpha-2 code)
NAICS	North American Industry Classification System
OECD	Organization for Economic Cooperation and Development
OEM	Original equipment manufacturer
PEMEX	Petróleos Mexicanos (Mexican Petrol)
PPP	Purchasing power parity
SDG	Sustainable Development Goal
SE	Secretaría de Economía (Mexican ministry of economy)
SME	Small and medium-sized enterprises
TiVA	Trade in Value Added
UNCTAD	United Nations Conference on Trade and Development
US	United States of America (ISO 3166-1 alpha-2 code)
WBG	World Bank Group
WEF	World Economic Forum
WTO	World Trade Organization

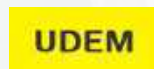
Toward a Model of Foreign Direct Investment and Development Policy for Strategic Diversification

The Case of Germany and Mexico

Jan M. Esslinger

Master Thesis Summary

Original Approaches
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