

MEXICO IN LATIN AMERICAN INTERNATIONAL FINANCE: CAPITAL FLOWS, EXCHANGE-RATE INTERDEPENDENCE, AND REGIONAL INTEGRATION UNDER GLOBAL VOLATILITY

ALBERTO MERCED CASTRO VALENCIA

Department Department of Business Management,
National Technological Institute of Mexico / José Mario Molina Pasquel y Henríquez
Technological Institute, Zapopan City, Mexico.

FABIOLA GUADALUPE ARRIAGA LOPEZ

Department Department of Business Management,
National Technological Institute of Mexico, / José Mario Molina Pasquel y Henríquez
Technological Institute, Zapopan City, Mexico

CELINA BELTRAN HERNANDEZ

Department Department of Business Management,
National Technological Institute of Mexico, / José Mario Molina Pasquel y Henríquez
Technological Institute, Zapopan City, Mexico.

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ABSTRACT

This article analyses Mexico's position in international finance and its relationship with Latin America through a comparative macro-financial lens. The study starts from a central problem: although Mexico is one of the largest and most financially sophisticated economies in the region, its external financial structure is deeply conditioned by global markets and the United States, while its links with Latin America remain important but uneven, partial, and often mediated by broader global shocks. The objective is to explain how Mexico's balance-of-payments structure, capital-flow composition, exchange-rate dynamics, and regional financial ties shape its role with in Latin American finance. Methodologically, the article adopts a qualitative-quantitative research design based on structured secondary-data analysis and critical literature review. It combines official sources from Banco de México, the International Monetary Fund, the World Bank, the Bank for International Settlements, the Economic Commission for Latin America and the Caribbean, and the OECD with academic literature on financial integration, capital mobility, foreign direct investment, and regional macro-financial spillovers. The article's analytical focus is on the interaction between stable financing channels, such as foreign direct investment, and more volatile channels, such as portfolio and banking flows, as well as on the asymmetrical

relationship between Mexico's North American financial anchoring and its Latin American regional relevance. The derived contribution of the study is twofold: first, it argues that Mexico should be understood as a bridge economy rather than a purely regional financial anchor; second, it proposes an analytical framework that links international finance theory with Latin American structural asymmetries. The findings suggest that Mexico's regional importance lies less in full financial integration with Latin America than in its role as a benchmark, transmitter, and potential institutional hub for selective regional financial coordination.

KEYWORDS: - International finance, Mexico, Latin America, capital flows, exchange rates, financial integration.

JEL Classification: F21, F31, F32, F36, O54.

1.0 INTRODUCTION

International finance has returned to the center of macroeconomic and policy debate because the transmission of external shocks has become faster, more nonlinear, and more deeply intertwined with domestic financial structures than in earlier waves of globalization. The contemporary literature no longer treats capital mobility as a purely beneficial mechanism of inter temporal smoothing. Instead, it recognizes that cross-border finance simultaneously expands access to investment resources, magnifies valuation effects, deepens exposure to foreign interest rates, and reshapes the macroeconomic room for maneuver of emerging economies [1–4]. This shift is particularly relevant for Latin America, a region historically marked by volatile capital inflows, external debt cycles, exchange-rate pressures, and repeated episodes of contagion.

Within this regional landscape, Mexico occupies a singular position. It is one of Latin America's largest economies and one of the most internationally connected financial systems in the region, yet its external financial structure is not primarily organized around an autonomous Latin American axis. Rather, it is strongly influenced by North American production networks, United States monetary conditions, and global portfolio allocation decisions [5–7]. This dual condition gives Mexico an analytically rich and policy-relevant role. Official data from Banco de México show that in 2024 the country recorded a current account deficit of US\$5.986 billion, net direct-investment liabilities of US\$43.857 billion, net portfolio liabilities of US\$6.410 billion, and an increase of US\$13.876 billion in reserve assets [8]. These figures underscore a financing structure in which relatively stable foreign direct investment coexists with more volatile portfolio and financial-account dynamics.

Mexico's relationship with Latin America must therefore be interpreted beyond a simple geographic frame. The regional context itself is changing. The IMF's 2025 Regional Economic

Outlook for the Western Hemisphere highlights slower regional growth, more heterogeneous monetary-policy stances, and rising sensitivity to import prices and currency depreciations [6]. Meanwhile, the BIS reports that cross-border bank credit to Latin America grew by 6% year-on-year at end-Q32025, indicating that the region remains highly exposed to international liquidity cycles even when country-specific fundamentals differ [10]. At the same time, OECD and ECLAC analyses emphasize that sustainable development in Latin America increasingly depends on how the region mobilizes external financing, channels foreign direct investment into productive transformation, and strengthens market infrastructure [7,9].

The research problem addressed in this article arises precisely at that intersection. Existing studies often examine Mexico's financial relationship with the United States, or they treat Latin America as a collective case without adequately isolating Mexico's specific role within the region. As a result, a key analytical question remains insufficiently explored: how should Mexico's position in Latin American international finance be understood when its main external anchor lies outside Latin America, yet its financial relevance within the region is undeniable? This problem matters because Mexico may function simultaneously as a receiver of global shocks, a transmitter of regional financial sentiment, and a potential platform for selective regional integration.

The objective of the article is to analyse Mexico's role in international finance and its relationship with Latin America through five interconnected dimensions: capital-flow composition, trade-finance linkages, exchange-rate and interest-rate interactions, external debt and bond-market development, and regional financial integration under global volatility. Three research questions guide the discussion. First, what explains Mexico's distinctive position within Latin American international finance? Second, through which channels does Mexico interact financially with the rest of Latin America? Third, why has financial integration in the region remained partial and asymmetric despite decades of trade liberalization and market opening?

The contribution of the article is threefold. First, it develops a comparative and conceptually integrated interpretation of Mexico as a bridge economy that is regionally central but externally anchored. Second, it brings together international-finance theory, regional macro-financial evidence, and Latin American structuralist insights to explain why Mexico's relationship with Latin America is characterized by asymmetrical interdependence rather than full regional integration. Third, it offers an analytical model that can guide future empirical work on capital flows, exchange-rate spillovers, and regional financial coordination. The article is organized as follows: Section2 reviews the literature; Section3 develops the theoretical framework; Section4 explains the methodology; Section5 presents the core analysis and discussion; Section6 formalizes the analytical finance perspective through equations; Section7 specifies the role of

tables and figures in a journal-style presentation; and Section 8 concludes with policy implications, limitations, and research recommendations.

2.0 LITERATURE REVIEW

2.1 International finance, globalization, and the changing meaning of integration

The classical case for international financial integration is rooted in efficiency: capital mobility should improve inter temporal allocation, allow countries with lower domestic savings to finance investment, diversify risks, and support growth [1]. Later work on external balance sheets deepened this view by showing that financial globalization is not only about net borrowing and lending, but also about the size, composition, and valuation of gross foreign assets and liabilities [2]. As cross-border portfolios have grown, exchange-rate changes and asset-price revaluations have become central to macroeconomic adjustment. This is especially important for emerging economies whose balance sheets contain different mixes of foreign-currency debt, equity liabilities, reserves, and portfolio claims.

Yet the benefits of financial integration have always coexisted with persistent controversy. The recent review literature emphasizes that integration is easier to document than its welfare effects. Financial integration has expanded over time, but the empirical evidence linking it consistently to higher growth, lower volatility, or better risk sharing remains mixed [4]. This ambiguity is particularly relevant for emerging markets, where openness may coincide with shallow local markets, liability dollarization, procyclical flows, and institutional weaknesses. The international-finance literature therefore increasingly stresses sequencing, institutional quality, and the composition of flows instead of capital-account openness alone.

This shift also helps explain why the old “trilemma” framework has been reinterpreted. Rey argues that under conditions of deep financial globalization, countries face not a clean choice between exchange-rate flexibility and monetary autonomy, but a global financial cycle that limits autonomy even when exchange rates float [3]. In this view, capital flows, leverage, risk appetite, and United States monetary conditions affect domestic financial conditions through channels that are only partially neutralized by floating regimes.

For emerging Latin American economies, this framework provides a more realistic point of departure than models that assume international capital markets transmit only benign signals.

2.2 Latin American financial integration and regional co-movement

The Latin American literature has long emphasized that the region’s external insertion is shaped by recurring patterns of boom, bust, and reallocation rather than by a linear progression toward stable integration. The IMF’s regional work has argued that Latin America has scope to gain

from both global and regional financial integration, especially through deeper markets, more diversified investor bases, and reduced fragmentation [11–13]. However, these gains depend on market infrastructure, legal harmonization, macroeconomic credibility, and domestic financial depth. In other words, regional integration is not simply a matter of more cross-border flows; it also requires institutions capable of transforming flows into resilience and investment.

Empirical studies support this nuanced interpretation. Ganguly and Benelli show that financial linkages between the United States and Latin America vary across tranquil and turbulent periods, and that external bond markets in Latin America became increasingly sensitive to other emerging-market bond movements even when some direct links to U.S. corporate bonds weakened [14]. More recent evidence suggests that trade agreements can strengthen financial-market comovement, but not necessarily in ways that imply autonomous regional convergence. Izaguirre, Shin, and Zirek find increased comovement with the United States in several Latin American markets, including Mexico, after trade agreements, while Brazil exhibits a different dynamic [15]. Their results suggest that integration may intensify through North-South institutional arrangements rather than through a purely Latin American financial bloc.

The literature on financial-market integration within Latin America also points to fragility and incomplete convergence. Dias and coauthors show that financial crises altered the memory and integration properties of Latin American markets, confirming that crisis episodes change the architecture of regional linkage patterns instead of merely interrupting them [16]. Research on the Mercado Integrado Latinoamericano (MILA) reaches a similar conclusion. After Mexico's entry, some bilateral and trilateral long-run relations emerged, but there was no evidence of full long-run cointegration across all members [17]. These findings are highly relevant because they suggest that regional financial integration in Latin America is selective, episodic, and differentiated by market size, regulation, and investor structure.

2.3 Mexico's external financial relations and the regional gap in the literature

Mexico-specific research has advanced significantly on capital flows, exchange rates, and foreign direct investment, but often without a sustained regional lens. Tellez-Leon and Ibarra show that different components of Mexico's financial account react differently to push and pull factors, with foreign interest rates, global risk, and domestic macro conditions having heterogeneous effects across portfolio, direct, and other investment flows [18]. This line of inquiry is analytically important because it moves beyond aggregate capital flows and highlights the institutional and behavioral diversity of financial-account items. Dabós and Juan-Ramón also demonstrate that capital flows matter for Mexico's real exchange rate dynamics, confirming that the exchange rate is a key adjustment variable in the country's macro-financial configuration [19].

The literature on foreign direct investment likewise reveals a structurally differentiated pattern. Waldkirch shows that NAFTA increased foreign direct investment in Mexico from partner countries, especially the United States and Canada, but not from the rest of the world in the same way [20]. This result is central to understanding Mexico's external position: its most powerful FDI channel has historically been tied to North American integration rather than to Latin America as a region. At the broader Latin American level, Cruz Vásquez, Mendoza Velázquez, and Pico González find that the relationship between FDI, openness, and growth is heterogeneous across countries, which supports the idea that capital inflows do not generate uniform regional outcomes [21].

Finally, studies on Mexico's regional strategy indicate that the country's economic integration with Latin America has remained important but subordinated to its northern insertion. Puchet Anyul, Moreno-Brid, and Ruiz Nápoles argue that Mexico's regional integration efforts have faced enduring strategic and policy constraints, even though trade, investment, and migration ties with both North America and Latin America have evolved significantly [25]. The gap in the literature lies here: the Mexico-U.S. connection has been widely studied, and Latin American financial integration has also been examined, but far fewer works place Mexico within Latin America's international-finance architecture in a way that joins capital flows, exchange rates, FDI, regional co-movement, and structural asymmetry into one analytical framework. This article addresses that gap.

3.0 THEORETICAL FRAMEWORK

3.1 International capital mobility and portfolio allocation

The first pillar of the theoretical framework is the international-capital-mobility perspective. In standard open-economy finance, cross-border capital movements respond to expected returns, perceived risks, and institutional barriers. In that view, a financially integrated region should exhibit lower segmentation, narrower pricing gaps, more diversified portfolios, and a higher degree of co-movement in asset prices and yields [1,2,4]. For Mexico and Latin America, however, this logic must be qualified. Integration may increase access to capital, but it also intensifies the transmission of external financial conditions, especially when local markets differ in depth, liquidity, and investor composition.

Portfolio theory is helpful because it explains why investors treat Mexico differently from smaller Latin American markets. Mexico is large enough to be a benchmark allocation within emerging-market portfolios, and liquid enough for its assets to serve both investment and hedging functions. This means that Mexico is not merely another Latin American recipient of capital; it is also a node through which global investors price regional exposure. Under these conditions, Mexico's relationship with Latin America is shaped less by symmetric bilateral

dependence than by differentiated portfolio roles. The region is relevant to Mexico, but Mexico is often more relevant to the region as a pricing benchmark than as a destination of purely intra-regional capital.

3.2 Balance-of-payments logic, exchange-rate theory, and financial conditions

The second pillar is the balance-of-payments approach. This perspective treats current-account balances, the capital and financial account, reserve accumulation, and valuation effects as interconnected expressions of a country's external position. For Mexico, balance-of-payments analysis is essential because the country combines persistent openness with a flexible exchange rate, inflation targeting, active participation in international capital markets, and sizable foreign direct investment liabilities [2,8]. The external position cannot therefore be interpreted through trade alone; it must be read through the composition and volatility of financing.

Exchange-rate theory adds a further layer. In financially open economies, exchange rates reflect not only trade fundamentals but also interest-rate differentials, expectations, risk premia, and global liquidity conditions. Rey's global financial cycle argument and Bruno and Shin's work on the risk-taking channel imply that exchange-rate flexibility does not fully insulate emerging markets from external monetary conditions [3,22]. Instead, currency values, capital flows, and bank leverage become mutually reinforcing. For Mexico, this means that peso dynamics cannot be understood solely as a domestic response variable. They are part of a regional and global macro-financial interface in which U.S. rates, risk appetite, and Latin American spread movements jointly matter.

This framework also helps explain why Mexico's financial interaction with Latin America is often strongest in episodes of stress. When global risk rises, investors reassess emerging markets comparatively. Under such conditions, Mexico's sovereign and exchange-rate pricing may influence, and be influenced by, the broader Latin American risk environment. The relevant concept is not full monetary or financial union, but interconnected financial conditions under differentiated exposure [14,24].

3.3 Structuralist and regional integration perspectives

The third pillar draws on Latin American structuralism and dependency-oriented political economy. Prebisch's center-periphery approach remains useful because it highlights how external insertion is mediated by production structure, terms of trade, and unequal bargaining positions in the world economy [26]. Vernengo extends this tradition by emphasizing the links between technology, finance, and dependency, showing that financial relations are embedded in broader structural hierarchies [27]. These ideas matter for a study of Mexico and Latin America

because they remind us that financial integration is not a neutral process. The effects of openness depend on productive specialization, institutional asymmetry, and external anchoring.

Applied to the present case, the structuralist lens suggests that Mexico's role in Latin American finance cannot be explained by market size alone. Mexico is both part of Latin America and partially external to it in functional terms. Its manufacturing-heavy integration with North America, the importance of U.S. monetary conditions, and the structure of its foreign direct investment make it different from several South American economies whose external cycles remain more closely tied to commodities and China. This does not place Mexico outside Latin America, but it does create a dual insertion. The country's relation with the region is therefore best understood as asymmetrical interdependence: there is meaningful co-movement and common vulnerability, yet the underlying engines of external finance are not identical.

Regional integration theory complements this interpretation. Regional financial integration requires more than coincident crises or correlated asset prices. It requires institutional infrastructure, payment and settlement systems, investor participation across borders, legal compatibility, and often some degree of macroeconomic coordination [11–13]. When these conditions are partial, integration becomes segmented. This is precisely the pattern that best fits Mexico's relationship with Latin America: substantial interaction, incomplete regionalization, and persistent structural asymmetries.

4.0 METHODOLOGY

This study adopts a comparative macro-financial research design based on secondary data analysis and critical literature synthesis. The article is not presented as a thesis or as a purely narrative essay. Rather, it follows the logic of a journal article by combining a structured analytical problem, a theoretical framework, explicit data sources, a defined temporal scope, and an interpretive methodology suitable for international-finance research. The approach is best described as mixed in orientation: qualitative in its treatment of theory and institutional interpretation, and quantitative in its use of official macro-financial indicators, although it does not estimate a full econometric model in this version.

The period of analysis is 2010–2024, with 2025 and early-2026 official updates used where relevant to contextualize ongoing regional developments. This timeframe is appropriate for four reasons. First, it captures the post-global-financial-crisis environment in which advanced-economy monetary accommodation stimulated renewed capital flows to emerging markets. Second, it includes the 2013 taper-tantrum episode, which remains essential for understanding the sensitivity of Latin American assets to shifts in U.S. monetary expectations. Third, it covers the COVID-19 shock and the subsequent tightening cycle. Fourth, it allows the analysis to

incorporate newer discussions on near shoring, supply-chain reconfiguration, and renewed debates on regional financial resilience.

The empirical focus is organized around a comparative core composed of Mexico, Brazil, Chile, Colombia, and Peru. These countries are selected because they combine regional relevance, relative market depth, and recurring presence in the literature on financial integration and macro-financial spillovers. Argentina appears as a contextual reference in the discussion of crisis transmission and regional asymmetry, but it is not treated as part of the comparative core because capital controls, restructuring episodes, and repeated market discontinuities make direct comparison less straightforward. The aim is not to generate a synthetic regional average, but to position Mexico within the most analytically relevant segment of Latin American finance.

The analysis relies on official and institutional data sources: the IMF’s World Economic Outlook database and Regional Economic Outlook, Banco de México balance-of-payments tables, ECLAC’s 2024 report on foreign direct investment, the BIS international banking statistics and global liquidity indicators, OECD’s Latin American Economic Outlook 2024, and the World Bank’s World Development Indicators [5–10,31]. These sources are complemented by peer-reviewed articles and IMF working papers on regional integration, capital flows, exchange-rate dynamics, bond markets, and crisis transmission [11–30]. Using these sources, the study examines five key dimensions: external financing structure, capital-flow composition, regional spillovers, policy transmission, and institutional integration.

Table 1 summarizes the analytical dimensions, core variables, and main sources used in the study.

Table 1: Analytical dimensions, variables, and data sources

Analytical dimension	Core variables	Main sources	Interpretive purpose
External position	Current account balance, reserve accumulation, financial account, external financing mix	Banco de México, IMF, World Bank	Identify whether Mexico’s international-finance profile is dominated by stable or volatile funding channels and how it compares with regional patterns.
Capital-flow composition	Foreign direct investment, portfolio flows, other investment, cross-border bank credit	Banco de México, ECLAC, BIS, IMF	Distinguish between productive and more reversible flows and assess the relative weight of regional versus global drivers.
Financial	Policy rates, inflation,	IMF, BIS,	Explain how monetary

conditions	exchange-rate movements, sovereign spreads, global risk indicators	OECD, central-bank releases	transmission and exchange-rate adjustment interact with global and regional financial conditions.
Regional integration	Market co-movement, trade agreements, MILA/Pacific Alliance dynamics, institutional coordination	Academic literature, OECD, IMF	Assess the extent to which Mexico is integrated with Latin America through actual financial channels rather than rhetorical regionalism.
Structural asymmetry	Productive specialization, external anchors, bond-market depth, vulnerability to external shocks	Academic literature, ECLAC, BIS, World Bank	Interpret differences between Mexico and selected Latin American economies in terms of asymmetric interdependence.

Methodologically, the article proceeds in three stages first; it reconstructs the state of the literature on international finance and Latin American financial integration. Second, it organizes official macro-financial evidence to compare the channels through which Mexico interacts with the rest of Latin America. Third, it formalizes the interpretation through an analytical model that links exchange-rate movements, interest differentials, regional risk, and capital flows.

The article does not claim to estimate this model econometrically in the present version. Instead, the model serves as a finance-oriented representation of the mechanisms identified in the analysis, making the article suitable for later empirical extension.

This methodological choice is deliberate. A fully econometric design would require harmonized series for high-frequency financial variables, sovereign spreads, cross-border banking claims, and disaggregated capital flows across multiple Latin American countries, as well as explicit identification strategies for global versus regional shocks. Such an exercise is feasible and desirable, but it would shift the article from a comparative analytical manuscript to a specialized econometric paper. The present design is justified because the research objective is interpretive and synthetic: to explain Mexico's regional financial position rather than to estimate one narrow causal channel. Even so, the article remains empirically grounded through official evidence and finance-oriented analytical reasoning.

The study has three limitations. First, not all relevant indicators are reported with identical frequency or comparability across countries. Second, The article does not model bank-level or firm-level data, which would be necessary to identify micro transmission channels. Third, the

regional comparison necessarily abstracts from some country-specific institutional differences. These limitations do not invalidate the analysis; rather, they define its scope and make explicit the agenda for future research.

5.0 ANALYSIS AND DISCUSSION

5.1 Mexico's role in international finance within Latin America

Mexico's role in Latin American international finance is best understood through a paradox. On the one hand, the country is among the most internationally exposed and financially sophisticated economies in the region. On the other hand, the main anchor of its external financial structure is not Latin America itself, but the broader North American and global system [5–8,25]. This duality makes Mexico highly relevant to Latin America without making it a purely regional financial center in the conventional sense.

Several features support this interpretation. Mexico combines a flexible exchange rate, deep domestic government-bond markets, an active sovereign and quasi-sovereign issuer base, and broad access to global investors [29,30]. It also maintains an external position in which foreign direct investment remains structurally important, while portfolio and other investment react more strongly to changes in external interest rates and risk conditions [8,18]. In 2024, Banco de México's balance-of-payments data showed a modest current account deficit and a financing pattern in which direct investment liabilities remained large while reserve assets increased materially [8]. This configuration reflects a country that can absorb substantial cross-border capital while still relying on precautionary buffers.

For Latin America, Mexico matters not only because of its own macroeconomic size, but because its markets often function as a reference point for investors evaluating the region. This role is reinforced by its liquidity, policy reputation, and global market visibility. Yet this does not mean that Mexico and the rest of Latin America form a tightly integrated financial bloc. Rather, Mexico often acts as a transmission node through which global and U.S.-origin shocks are reinterpreted in regional pricing. In this sense, Mexico's importance within Latin American finance lies less in symmetric reciprocity and more in benchmark status.

This helps explain why Mexico's regional position can appear simultaneously central and distant. It is central because investors, policy analysts, and regional institutions routinely place Mexico alongside Brazil, Chile, Colombia, and Peru in discussions of Latin American financial conditions [6,11–13,24]. It is distant because Mexico's production structure, FDI geography, and trade-finance nexus remain strongly tied to the United States, making its external cycle partly different from that of commodity-oriented South American economies [20,25]. The regional relationship is therefore substantial, but not homogenizing.

5.2 Trade-finance linkages and foreign direct investment patterns

The relationship between trade and finance is essential for understanding why Mexico's international-finance profile differs from, yet still interacts with, Latin America's broader dynamics. In Latin America as a whole, external financial cycles have often been shaped by commodity-price swings, sovereign spread compression, and global liquidity conditions. Mexico shares exposure to these external factors, but its trade structure introduces an additional mechanism: dense manufacturing and investment integration with North America. This makes Mexico more responsive to U.S. industrial conditions and supply-chain reorganization than several South American economies, even when those economies experience similar monetary or portfolio shocks.

This asymmetry is visible in the composition of foreign direct investment. The literature on Mexico shows that trade agreements and production integration have played a decisive role in structuring FDI into the country. Waldkirch's analysis of NAFTA demonstrated that regional trade integration increased FDI from partner countries more than from the rest of the world [20]. This historical pattern remains analytically relevant because it shows that Mexico's international finance cannot be reduced to generic emerging-market behavior. Its more stable external financing channels have been shaped by institutionalized production integration, not simply by yield-seeking global capital.

At the same time, Mexico's relation with Latin America through FDI is not negligible. ECLAC's 2024 regional report emphasizes that FDI remains central for productive development in Latin America and the Caribbean and that its benefits depend on sectoral composition, territorial distribution, and policy frameworks [9]. Mexico occupies a distinctive place in this landscape because it combines large inward FDI with the potential to act as a source and platform for regional corporate strategies. However, the financial relationship is not evenly regionalized. The evidence suggests that Mexico's more stable FDI profile is still more strongly linked to North American value chains than to a consolidated Latin American investment architecture [9,20,21,25].

The analytical implication is important. If Mexico's main stable financing channel is disproportionately tied to North America while its more volatile channels are affected by region-wide risk re-pricing, then Mexico's relationship with Latin America is structurally segmented. In tranquil periods, the North American anchor dominates. In turbulent periods, regional co-movement and contagion channels become more visible. This segmented pattern helps explain why Mexico may appear less regionally integrated than South American economies in some institutional dimensions, but more central in market-based measures of spillovers and pricing.

5.3 Exchange-rate interactions, interest rates, and monetary transmission

Exchange-rate dynamics are a crucial part of Mexico's relation with Latin America because they reveal how international finance translates into macroeconomic constraint. Mexico's exchange-rate regime is formally flexible, and that flexibility has improved the country's ability to absorb external shocks relative to the rigid arrangements of earlier decades. However, the global-financial-cycle literature makes clear that flexibility does not eliminate the influence of foreign monetary policy, global risk appetite, or cross-border leverage [3,22]. For Mexico, this means that the peso is both a shock absorber and a carrier of financial signals.

Mexico's exchange-rate interaction with Latin America operates through several channels. First, sovereign spread movements and regional risk sentiment affect emerging-market allocations in ways that can influence peso pricing even when Mexico's domestic fundamentals remain relatively stable [14,24]. Second, interest-rate differentials vis-à-vis the United States affect carry-trade incentives and portfolio allocations, especially in an environment of globally mobile capital [3,18,22]. Third, because Mexico is comparatively liquid, its exchange rate can respond earlier and more visibly than those of smaller Latin American markets, making it a high-frequency barometer of external risk conditions.

This does not mean that Mexico's exchange-rate dynamics are identical to those of the region. Brandão-Marques and Perez Ruiz show that financial conditions affect the main Latin American economies differently, with variation in both the sources and the impact of shocks [24]. That heterogeneity matters. It implies that Mexico should not be treated as a representative average of Latin America. Rather, its role is that of a large, relatively liquid emerging-market economy whose currency and rates can lead regional repricing even when the structural drivers of its external balance differ from those of neighboring economies.

The consequences for monetary transmission are significant. A change in U.S. rates does not reach Mexico only through trade; it moves through portfolio reallocations, exchange-rate expectations, debt-market pricing, and regional financial spillovers. Tellez-Leon and Ibarra show that different components of Mexico's capital flows react differently to foreign rates and global risk [18]. That finding supports a key argument of this article: Mexico's international-finance relationship with Latin America is not simply about bilateral ties, but about how Mexico sits inside a layered hierarchy of monetary and financial transmission. Regional integration matters, but it operates within a broader global architecture.

5.4 Regional financial integration, capital-flow interdependence, and institutional limits

If Mexico is regionally important but externally anchored, the next question is whether Latin America has developed the institutional basis to transform market co-movement into deeper

regional financial integration. The answer suggested by the evidence is: only partially. IMF analyses argue that Latin America could gain from more regional financial integration through deeper markets, better infrastructure, and stronger risk sharing [11–13]. Yet the same studies make clear that actual integration remains below potential. Fragmented investor bases, legal heterogeneity, insufficient scale, and differences in domestic financial development continue to limit regionalization.

Mexico illustrates both the promise and the limits of this process. On the promising side, the country's market depth, policy credibility, and institutional capacity make it a plausible hub for regional initiatives in local-currency finance, payment systems, market infrastructure, or development-bank coordination. On the limiting side, Mexico's strongest external ties remain extra-regional and several Latin American markets continue to be more connected to global financial conditions than to one another. The MILA experience is revealing. Sandoval Àlamos and Olea Rodríguez find that after Mexico's entry there was no full long-run cointegration across all members, even though some bilateral and trilateral links strengthened [17]. This suggests that market integration has advanced unevenly and without producing a fully shared financial space.

Recent evidence on trade agreements reinforces this conclusion. Izaguirre, Shin, and Zirek show that trade agreements increased financial-market comovement with the United States for several Latin American countries, including Mexico [15]. In institutional terms, this means that the region's financial integration has often proceeded through external anchors rather than through inward regional consolidation. Mexico is especially emblematic of this pattern because its strongest trade-based financial integration emerged through North America, not through Latin America alone.

Cross-border banking data point in the same direction. The BIS reports continued expansion of cross-border bank credit to Latin America [10]. Yet the existence of cross-border claims does not by itself signal dense intra-Latin-American intermediation. Much of the intermediation remains shaped by global banks, reserve-currency funding structures, and international bond markets. For Mexico, therefore, the policy challenge is not merely to attract capital, but to shape the regional institutional conditions under which capital becomes development-enhancing and less crisis-prone.

5.5 Vulnerabilities, opportunities, and structural asymmetries

The evidence reviewed above suggests that Mexico's financial relationship with Latin America is characterized by asymmetrical interdependence. This concept is analytically superior to both extremes that dominate public discourse: it is more precise than saying Mexico is fully integrated with the region, and more accurate than claiming Mexico is effectively external to it.

Interdependence is real because exchange rates, spreads, bank credit, and investor sentiment co-move during episodes of global stress [10,14,16,24,28]. It is asymmetrical because Mexico's main external anchor, productive structure, and institutional financial channels differ from those of several neighboring economies [20,25–27].

The vulnerabilities associated with this position are substantial. Mexico remains exposed to abrupt shifts in global risk appetite, changes in U.S. monetary conditions, and the possibility that portfolio reversals reprice local assets faster than domestic fundamentals warrant [3,18,22,23]. The region as a whole still faces old problems in new forms: refinancing risk, liquidity segmentation, and incomplete market depth in local-currency instruments [29,30]. Moreover, regional coordination remains limited, which means that common shocks are often met with national responses rather than with shared stabilizing mechanisms.

At the same time, opportunities are equally visible. Mexico's scale and liquidity mean that it can act as a benchmark issuer, an attractor of long-term institutional investors, and a platform for selective financial regionalism. Rather than aiming at an unrealistic vision of homogeneous Latin American integration, regional policy could focus on targeted areas: cross-border bond-market infrastructure, harmonized disclosure standards, settlement systems, local-currency hedging instruments, development-bank syndication, and green or sustainable finance platforms. Such a strategy would fit the actual structure of the region better than a blanket model of integration.

There is also a broader developmental implication. Caporale and Girardi show that for Latin America trade linkages have often been more important than capital flows in explaining business-cycle co-movement, especially in the short run [28]. This is an important caution. It suggests that finance cannot be treated independently from production structure. Mexico's financial role in Latin America will remain constrained if regional economic integration does not deepen through investment, productive complementarities, and institutional alignment. International finance can connect markets, but without stronger economic complementarities it will not automatically generate a coherent regional financial architecture.

6.0 EQUATIONS AND ANALYTICAL MODELS

To formalize the mechanisms discussed above, this section presents two analytical expressions suitable for a finance-oriented interpretation of Mexico's relationship with Latin America. These equations are not estimated in the present article; rather, they provide a structured framework for future empirical work and clarify the channels that organize the comparative analysis.

The first expression is a modified uncovered-interest-parity relationship with regional and global risk premia:

$$E_t(\Delta s_{MX/USD}) = (i_{MX} - i_{US}) - \rho_t \dots (1)$$

Where

$$\rho_t = \alpha_0 + \alpha_1 RP_{MX} + \alpha_2 RP_{LA} + \alpha_3 GFC_t \dots (2)$$

In this formulation, $E_t(\Delta s_{MX/USD})$ is the expected depreciation of the Mexican peso against the U.S. dollar; i_{MX} and i_{US} are domestic and U.S. interest rates, respectively; RP_{MX} is Mexico-specific risk; RP_{LA} captures a Latin American regional-risk component; and GFC_t denotes global financial conditions. The equation reflects the idea that Mexico’s exchange-rate dynamics are influenced not only by bilateral interest-rate differentials, but also by regional and global risk pricing. In the context of this article, the inclusion of RP_{LA} is crucial because it captures the fact that Mexico’s external-finance conditions are partly filtered through regional risk sentiment.

The second expression provides an analytical representation of capital-flow behavior:

$$CF_{MX} = \beta_0 + \beta_1 (i_{MX} - i_{US}) + \beta_2 VIX_t + \beta_3 \Delta Trade_{MX,LA} + \beta_4 Spread_{LA} + \beta_5 FDI_{prod} + \varepsilon_t \dots (3)$$

Here, CF_{MX} denotes net capital flows to Mexico; VIX_t is a proxy for global risk aversion; $\Delta Trade_{MX,LA}$ measures the change in trade intensity between Mexico and Latin America; $Spread_{LA}$ is a regional sovereign-spread indicator; and FDI_{prod} represents more stable, productivity-linked foreign direct investment. The expected signs are finance-theoretically intuitive but empirically contingent: higher interest-rate differentials may attract portfolio flows, greater global risk should reduce volatile inflows, stronger trade ties may support more stable capital connections, wider regional spreads may weaken investor appetite, and a stronger productive FDI base should improve the quality of external financing.

Together, these equations summarize the central argument of the article. Mexico’s international-finance position in Latin America cannot be explained by one variable alone. It is produced by the interaction of domestic policy, U.S. financial conditions, regional risk, trade-based integration, and the composition of external liabilities. This is precisely why Mexico appears as both part of Latin American finance and partially external to it.

Table 2: Suggested empirical outputs for an expanded journal version

Output	Core variables	Main sources	Analytical use
Comparative capital-flow table	FDI, portfolio flows, other investment, reserve accumulation, current-	Banco de México, IMF, ECLAC,	Compare the stability and composition of Mexico’s external financing with selected

	account balance	World Bank	Latin American economies.
Exchange-rate and spread figure	Mexico peso-dollar change, Latin American sovereign spreads, regional financial-conditions proxy	IMF, BIS, central-bank sources	Show how Mexico's currency behaves relative to regional stress and global volatility episodes.
Banking and bond-market figure	Cross-border bank credit, local-currency debt issuance, selected bond-market indicators	BIS, OECD, IMF	Illustrate the extent to which regional financial integration is mediated by global rather than purely intra-regional channels.
Trade-finance linkage table	Trade intensity, FDI orientation, trade-agreement status, market co-movement evidence	OECD, ECLAC, academic literature	Clarify why Mexico's trade structure shapes its financial relationship with Latin America differently from commodity-based economies.

Global risk aversion reinforces each other. For a journal submission, such figures should be accompanied by careful notes on frequency, transformations, and data sources, with all tables titled above and all figure captions placed below, in accordance with standard finance-journal formatting.

7.0 CONCLUSION

This article set out to analyse international finance in Mexico and its relationship with Latin America through a comparative, theoretically informed, and policy-relevant framework. The analysis has shown that Mexico occupies a structurally distinctive position within the region. It is neither simply another Latin American emerging market nor a country that can be analytically detached from Latin America because of its strong North American orientation. Rather, Mexico should be understood as a bridge economy: one whose financial architecture is deeply linked to global and U.S. conditions, yet whose market size, liquidity, and institutional profile give it an important regional role.

The main conclusion is that Mexico's relationship with Latin America is best characterized as asymmetrical interdependence. Mexico matters to Latin America through benchmark pricing, exchange-rate signaling, bond-market depth, and the transmission of investor sentiment. Latin America matters to Mexico through spread co-movement, comparative risk assessment, institutional initiatives such as MILA and the Pacific Alliance, and broader regional market narratives. But this relationship does not amount to full regional financial integration. The empirical and institutional evidence instead suggests selective, differentiated, and incomplete integration.

The research objective is therefore answered in a precise way. Mexico's financial position in Latin America is strong, but it is not hegemonic in an autonomous regional sense. Its centrality depends on extra-regional anchoring as much as on intra-regional linkages. This dual condition helps explain why stable financing channels in Mexico are more strongly tied to North American production structures, while volatile portfolio and financial conditions reveal stronger regional and global co-movement. In this regard, the article has argued that a meaningful analysis of Mexico's international finance must combine balance-of-payments logic, exchange-rate theory, portfolio integration, and Latin American structural asymmetry.

Several policy implications follow. First, Mexico and the region should deepen local-currency capital markets and reduce the sensitivity of long-term financing to abrupt shifts in global risk appetite. Second, selective regional integration should focus on practical instruments: cross-border settlement systems, harmonized disclosure standards, institutional-investor participation, development-bank co-financing, and hedging markets. Third, policymakers should avoid equating financial openness with successful regional integration. Without stronger productive complementarities and institutional coordination, capital mobility may intensify contagion more than development.

The regional implications are equally important. Latin America's financial future is unlikely to emerge from a uniform or centralized model of integration. A more realistic route is functional regionalism: targeted coordination in areas where market fragmentation is costly and where countries such as Mexico can contribute scale, credibility, and infrastructure. Mexico's role in such a strategy would be significant, but not solitary. It would have to be embedded in regional institutional arrangements that acknowledge heterogeneity rather than deny it.

This study has limitations. It does not estimate a full econometric model, it does not use bank- or firm-level data, and it cannot provide causal coefficients for each transmission channel. These limits are acknowledged explicitly. They also define a clear agenda for future research. Subsequent work should estimate dynamic models of Mexico-Latin America spillovers using high-frequency financial data, sovereign spreads, capital-flow decompositions, and cross-border banking statistics. Further research should also examine nearshoring, digital financial infrastructure, sustainable finance, and the role of regional development banks in reshaping the geography of international finance in the hemisphere.

In sum, Mexico's place in Latin American international finance is analytically central precisely because it is structurally hybrid. It is this hybridity—not any simplified idea of regional sameness—that best explains both the opportunities and the constraints of financial integration in the region.

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