



Federal Reserve
Bank of Dallas

Mexico awaits ‘nearshoring’ shift

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DISCLAIMER: The views expressed are the authors' and do not necessarily reflect the views of the Federal Reserve Bank of Dallas or Federal Reserve System.

Overview

- Recent events have boosted incentives to move US-destined production away from China to other countries including Mexico—”nearshoring”
- So far, anecdotal accounts of such shifts abound
- Hard data is consistent but not conclusive
 - Trade
 - FDI
- Outlook for nearshoring

Nearshoring: Incentives for US-destined production to move to Mexico

- Tariffs: In 2018, the Trump administration hiked tariffs on imports from China. China retaliated.
- Supply chains: Pandemic-related disruptions led to shortages, delays, and higher shipping costs, especially on goods from China.
- Geopolitical tensions: China and Taiwan, Russia-Ukraine war raise the risks to future supply chain disruptions leading firms to focus on reliability and security over costs.

Evidence of nearshoring in Mexico

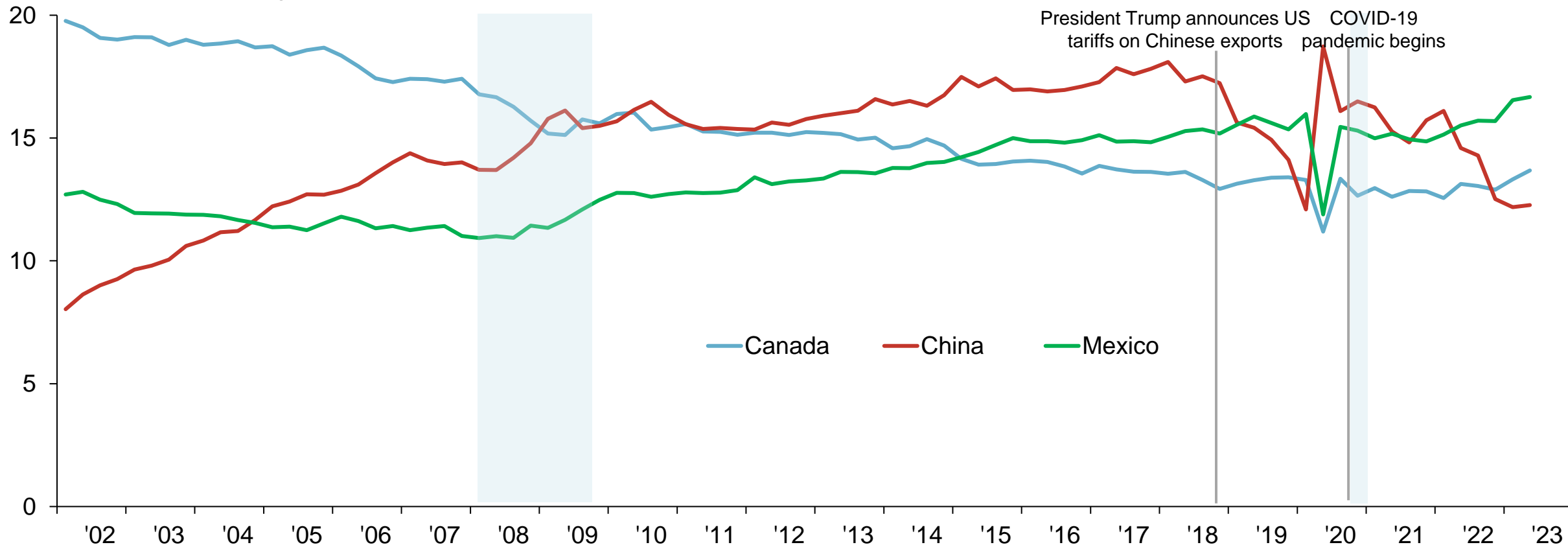
- Increase in US Mexico trade during the first half of 2023
- Banco de Mexico survey of private firms finds an increase in demand of their products and services due to nearshoring, and FDI
- Citi Banamex study of record low vacancy rates in industrial property
- Highly publicized events: Tesla to invest about \$5 billion in Mexico Plant

What about FDI?

- If nearshoring is happening, FDI should be increasing
 - FDI definition: an investor acquires interest (10 percent or more of capital) and influence in an enterprise operating in a foreign country.

Mexico becomes No.1 U.S. trading partner

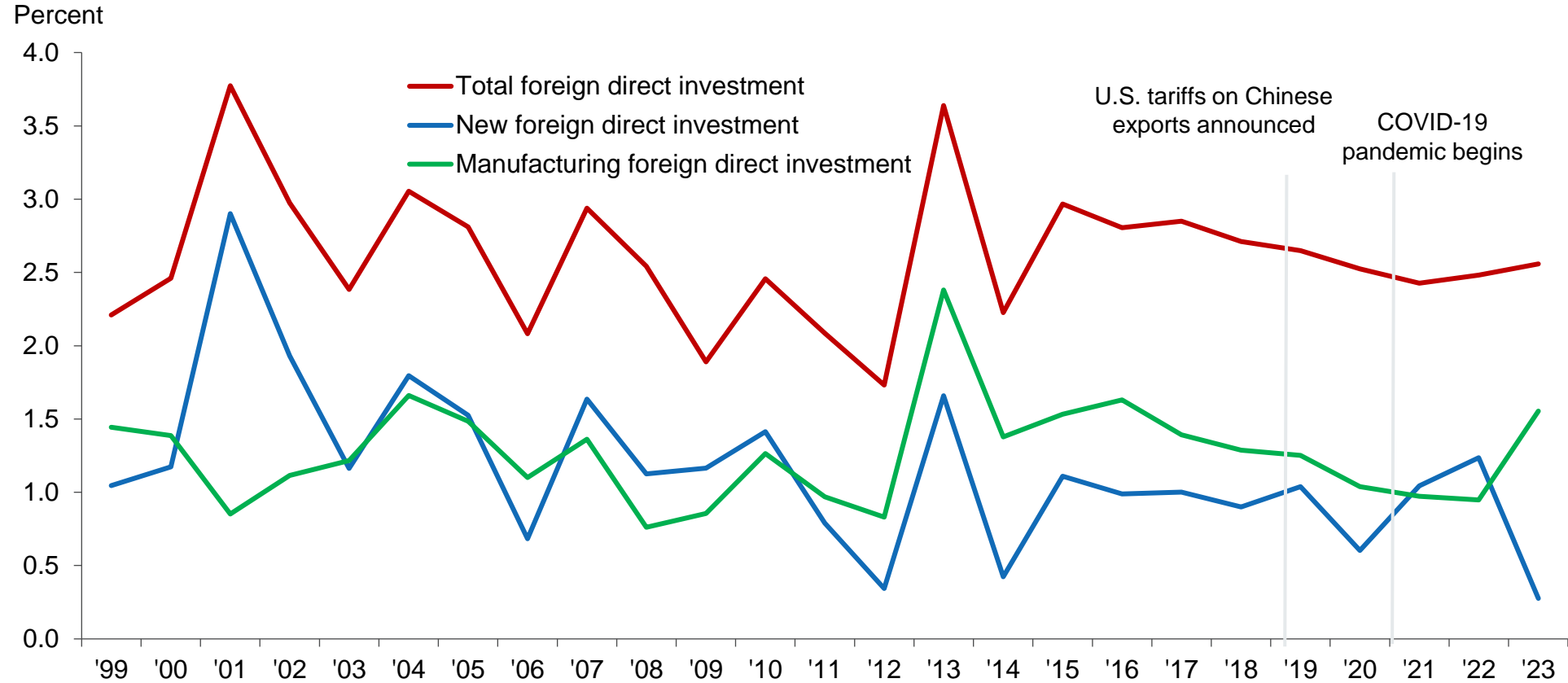
Share of total manufacturing trade, percent



NOTES: Seasonally adjusted. Quarterly data. Shaded area refers to recessions. Total manufacturing trade is the sum of manufacturing exports and imports. Data through 2Q23. SOURCE: U.S. Census Bureau.

After declining for 6 years, FDI increases slightly

Investment as share of GDP



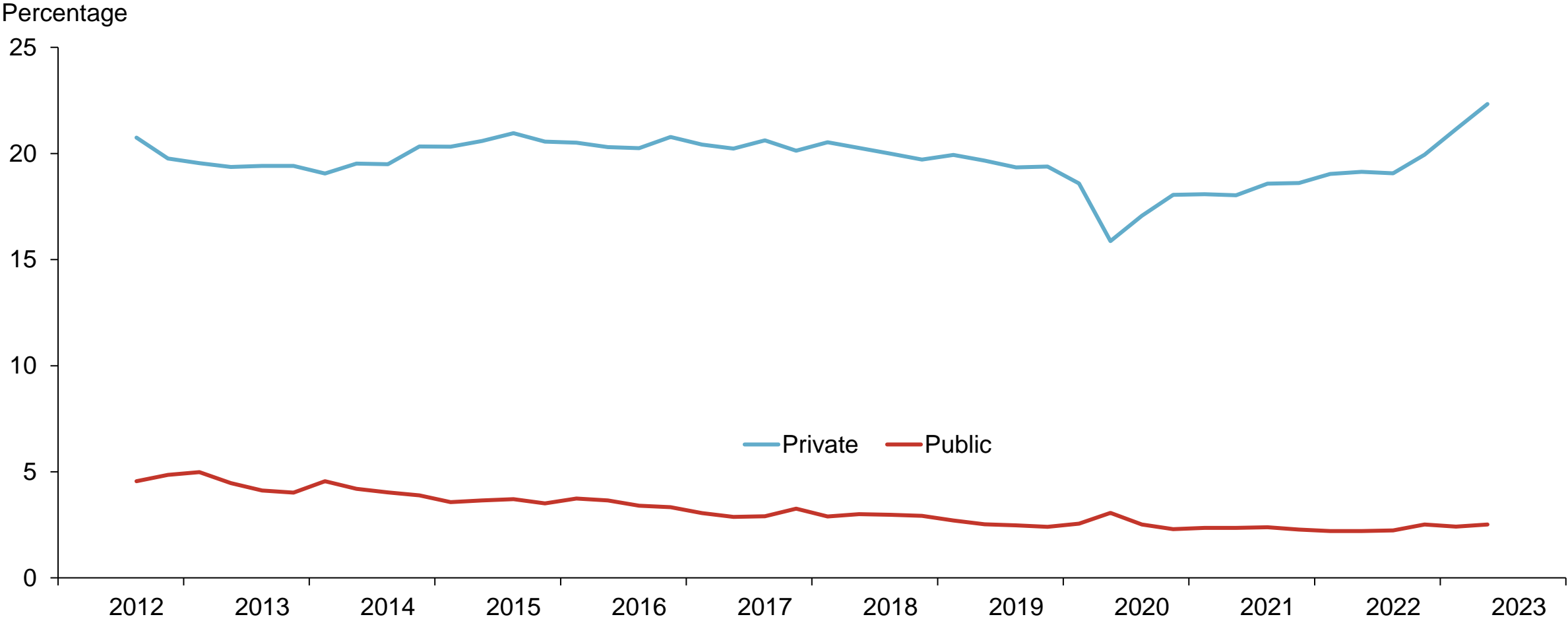
NOTE: Calculations use nominal figures. FDI data up to 2Q2023.

SOURCES: Secretaría de Economía (Secretariat of the Economy); adjustments by the Federal Reserve Bank of Dallas.

Federal Reserve Bank of Dallas

Mexico's private investment surges

Investment as a share of GDP



SOURCES: Banco de México; Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Outlook for nearshoring

- Reallocation of production by firms takes time.
- Firms are moving production across Asia and other regions, not only Mexico.
- Challenges for nearshoring in Mexico
 - Electricity production and distribution
 - Land and industrial space
 - Rule of law
 - Infrastructure
 - Labor force
- Pernicious for global growth and equality.

Thank you!
**Please visit dallasfed.org for more
information**



Appendix

Benefits and costs of nearshoring

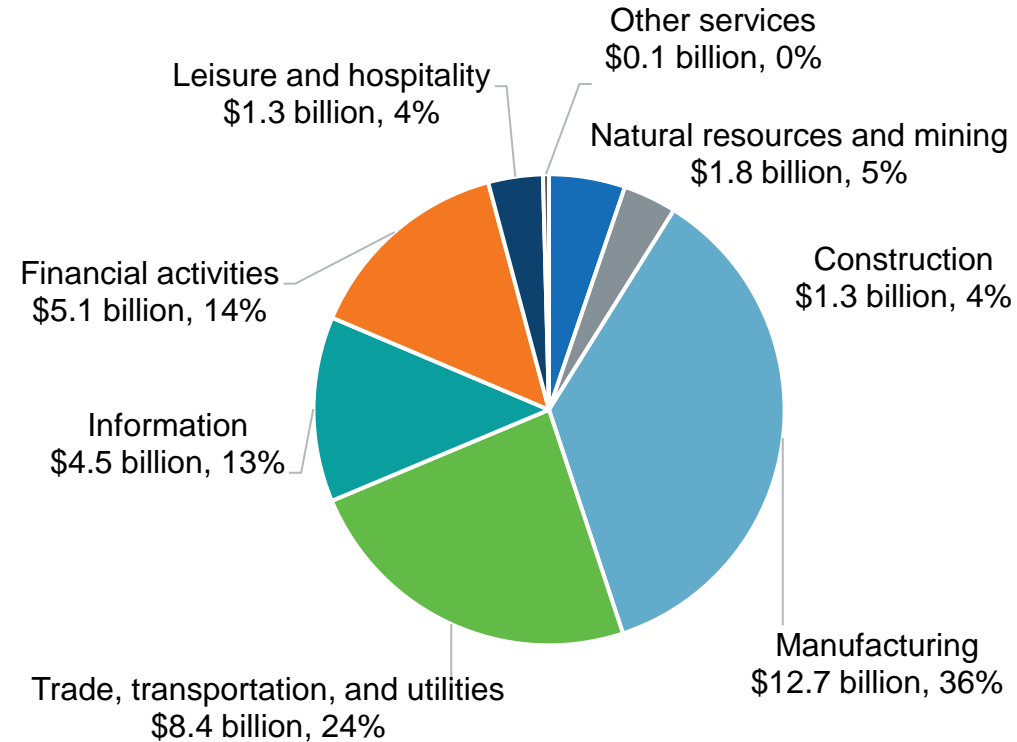
- Boosts economic growth in Mexico through job creation, incentives for human capital development and technology transfers.
- Along the U.S. border, growth in U.S. service sector industries that complement manufacturing production and international trade.
- Mexico, the U.S. and Canada increase regional integration and reliability of supply chains.
 - U.S. auto industry relies heavily on parts produced in Mexico, 24.5 percent of total bilateral manufacturing trade is transportation equipment.
- Higher costs, investment and trade distortions result in relatively higher prices for producers and consumers.

Mexico has a long history of FDI...

- Maquiladoras foreign-owned labor-intensive assembly plants for export.
- Production sharing:
 - A US plant typically produces an intermediate good that is then exported to Mexico where it becomes part of the assembly process before a final good is then imported back into the US.
- NAFTA(1994)
- USMCA(2020)

Typically, manufacturing has accounted for more than one third of FDI

2022 Mexican FDI, U.S. dollars

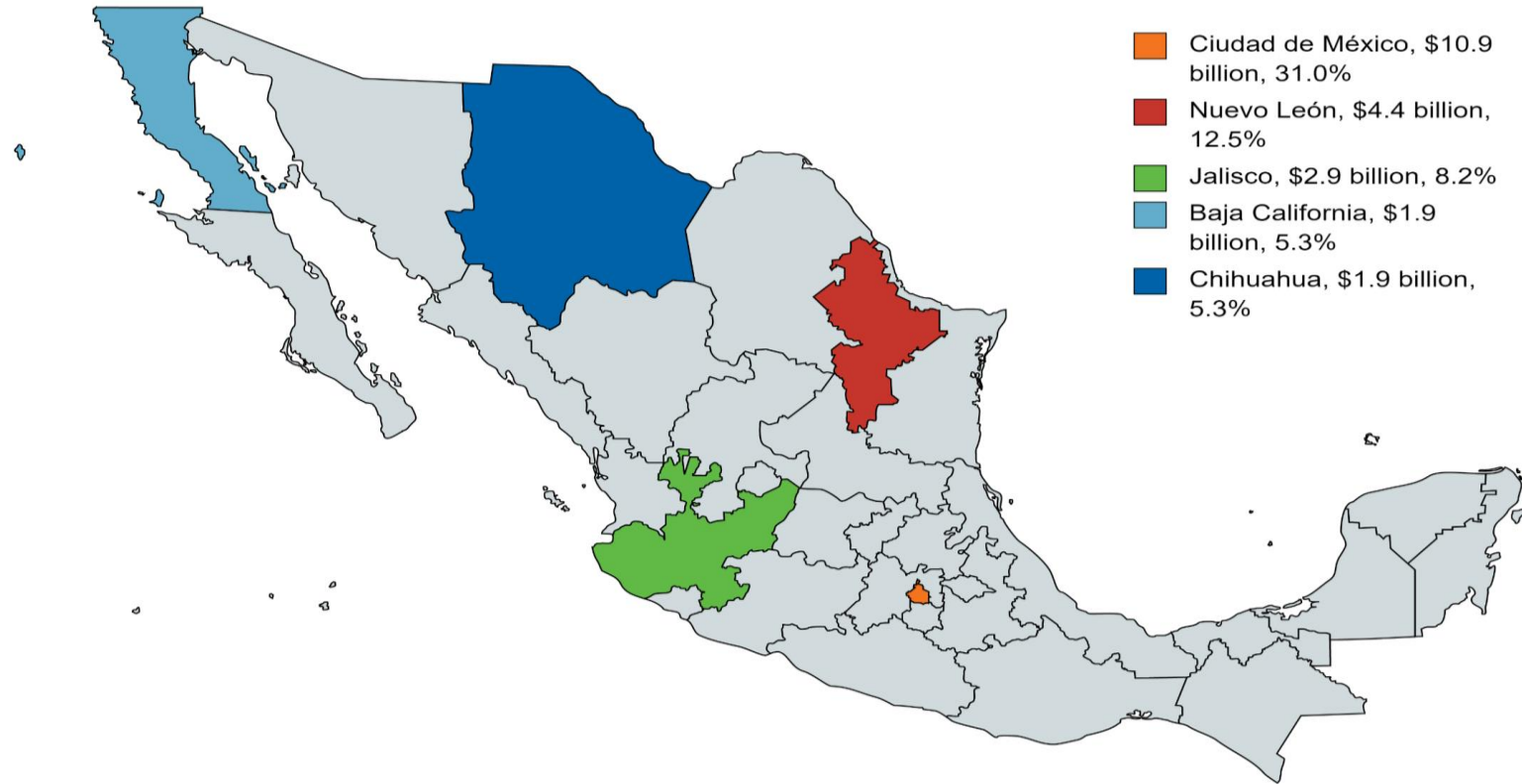


NOTE: Data are nominal.
SOURCE: Secretaria de Economia.

One third of FDI concentrated along the Mexican border states of Nuevo León, Baja California and Chihuahua

Most FDI in Mexico destined for border states, Mexico City

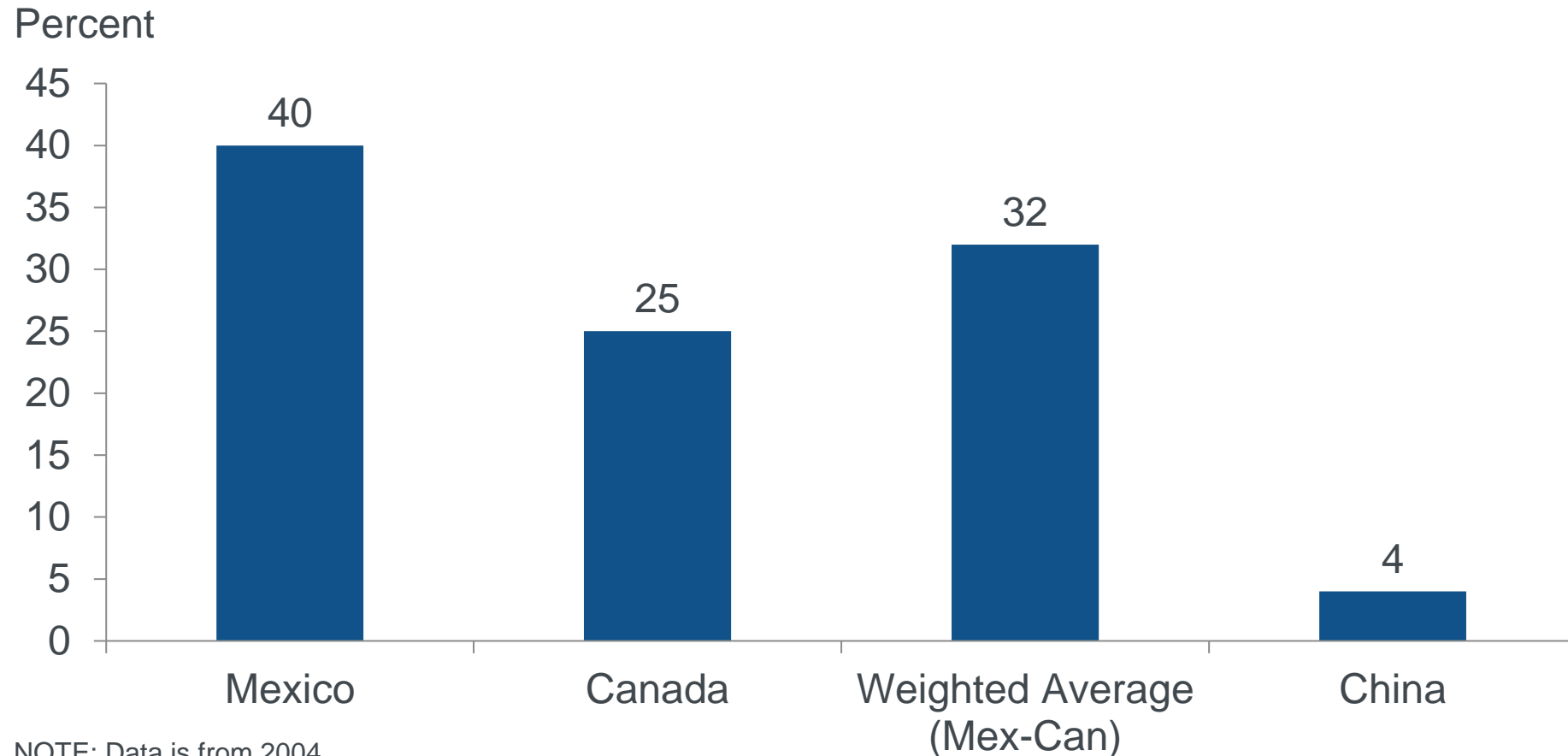
2022 Mexican FDI, U.S. dollars and share of total



NOTE: Data are nominal.

SOURCE: Secretaria de Economía. Chart created with mapchart.net.

Intra-industry trade high within NAFTA: U.S. content highest in imports from Mexico, Canada



NOTE: Data is from 2004.

SOURCE: Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, "Give Credit Where Credit is Due," NBER Working Paper No. 16426, 2011.