KAS Paper

KONRAD ADENAUER STIFTUNG

Nearshoring in Mexico: Opportunities and Challenges

Nearshoring in Mexico:
Opportunities and Challenges

Dr. Luz María de la Mora Sánchez

First edition: December 2023
Mexico City, Mexico

Konrad Adenauer Foundation, A.C. (KAS-México)
Río Guadiana #3, Cuauhtémoc
Zip Code 06500, Mexico City
www.kas.de/mexiko/es/
kasmex@kas.de
FB/X/IG: @kasmexiko

ISBN: in process

Printed in Mexico

Index

Presentation

Freedom, justice, and solidarity are the principles promoted by the Konrad Adenauer Foundation (KAS, in German). The main goal of its work is the strengthening of democracy in all its dimensions, and with this focus, it carries out projects in Germany and in more than 120 countries worldwide, through 111 offices globally. In Mexico, it collaborates mainly with like-minded political parties, state institutions, universities, *think tanks*, humanist foundations, and civil society organizations.

The areas of work at the Mexico office include political training, strengthening the rule of law, promoting the political participation of Mexican civil society, promoting the Social Market Economy model, and international and security policy. Also of special interest are topics related to environmental policies, indigenous political participation, youth leadership development, human rights, and democratic transition in Cuba. KAS produces a wide variety of publications, policy papers, and research documents.

In 2016, the KAS office in Mexico launched a new product called *KAS Paper*. This is a series of political analysis documents aimed at generating debate on different nationally relevant issues and proposing policy recommendations for decision-makers. They documents are aimed for public and private organizations interested in social, economic, and environmental policies. The purpose of these papers is that the decision-makers can use them as inputs in their respective areas of action. All the released issues will be available both in print and digital format on the *KAS website* to facilitate access for the public.

In 2023, we decided to analyze and discuss the phenomenon of *"nearshoring"* and its impact on the development of Mexico's economy. The purpose is to broaden the discussion and review which sectors are undergoing this supply chain restructuring and identify the scope and limits are for Mexico's participation. Additionally, the goal is to provide recommendations for both the public and private sectors on how to capitalize on and better use this international opportunity for Mexico.

This document was prepared by engaging with various experts and academics on the topic, to whom we thank for their valuable participation and contributions to the analysis and conclusions reached. The opinions, comments, and positions expressed in *KAS Papers* do not necessarily represent the views of the Konrad Adenauer Foundation.

Introduction

The terms *nearshoring/friendshoring/allyshoring* have become ubiquitous, featuring prominently on the agendas of governments, the private sector, international organisms, academia, and both local and international media. Discussing nearshoring today entails delving into the restructuring of supply chains that seems to be leading towards a "de-globalization" of the world economy. Several factors contribute to this reconsideration of supply chains, including the trade war between China and the United States unleashed by President Donald Trump (2017-2021) and continued during President Biden's administration (2021-2025). Likewise, the rivalry between the United States and China triggered by the Made in China 2025 initiative, aimed at positioning the Asian giant as the technological leader of the 21st Century, has sparked a resurgence of industrial policy in the US to facilitate a decoupling of supply chains from China due to geopolitical imperatives and national security concerns.

Similarly, the global impact of the COVID-19 pandemic underscored the fragility and overreliance of supply chains on a single provider for a whole range of critical products, be they minerals, active ingredients for medications, or semiconductors.

Russia's invasion of Ukraine in February 2022 further exacerbated the strain on supply chains disrupting the flow of critical goods such as fertilizers, grains, critical materials, fuels, and more. This escalation heightened uncertainty and propelled inflation to double-digit figures, levels unseen in decades. Additionally, the challenges posed by climate change underscore the importance of shortening supply chains to curb carbon emissions generated by transportation.

Amidst this backdrop, Mexico has emerged as a key player in the reshaping of supply chains, prompting questions about its potential role in the *nearshoring* trend and the supply chain restructuring. What steps should Mexico take to leverage this opportunity effectively? How can it harness this momentum to drive economic growth and development?

Mexico has reaped the benefits of the *nearshoring* wave, even if this was not the result of a national decision to promote it. Nonetheless, both Mexico's inclusion in the United States, Mexico and Canada Agreement (USMCA) and its extensive experience in global value chains since the 1980s have positioned it as a prime choice for companies seeking to relocate and streamline their supply chains for enhanced reliability and resilience. In this document we examine two categories of sectors undergoing supply chain restructuring, and discuss the scope and limits for Mexico's involvement.

First, we analyze the critical sectors the United States has prioritized, where specific policies have been enacted to incentivize companies to set up operations within its borders, aiming to reduce the risks associated with overreliance on Chinese supply chains particularly in high-tech and other sensitive areas, with implications for national security. The Biden Administration has introduced a series of domestic policies offering support and industrial subsidies to encourage more companies to set up or expand their operations in the United States. These critical sectors include semiconductors, critical minerals, electric batteries suitable for clean energy transitions, and pharmaceuticals. We find that Mexico's capacity to replace Chinese or Asian providers in these supply chains is constrained by factors such as limited local resources, inadequate access to clean and renewable energy, and the absence of public policies incentivizing investment akin to those offered by the United States to attract these supply chains towards Mexico for their integral development.

Discussing *nearshoring* today entails delving into the restructuring of supply chains that seems to be leading towards a "de-globalization" of the world economy. Several factors contribute to this reconsideration of supply chains, including the trade war between China and the United States unleashed by President Donald Trump (2017-2021) and continued during President Biden's administration (2021-2025).

Second, we examine the extent to which Mexico has benefitted from the commercial decoupling between China and the United States catalyzed by the trade war unleashed by then-President Trump in 2018. We assess Mexico's potential to attract increased investment from companies seeking to mitigate the ramifications of this conflict. Invoking Section 301 of the Trade Act of 1974, the United States has imposed punitive tariffs of up to 30% on imports totaling 300 billion (bn) USD of imports from China, thereby undermining China's competitiveness in the US market.[1] Consequently, several companies switched their supply source for products like textiles, footwear, furniture, travel accessories and more away from China and toward alternative destinations, including Mexico.[2] Leveraging its integrated production with the US market, this document explains that Mexico has enticed investment in certain sectors such as vehicles and auto parts where Mexico was already a key player in the US market. Mexico has been able to capture investment from companies relocating part of their manufacturing operations out of China and into Southeast Asian nations and Mexico to evade the punitive US

1 Prior to this commercial brinkmanship, products of Chinese origin paid tariffs under the Most Favored Nation (MFN) scheme in order to access the US market, with tariffs at between 0% and 3.4% on average. World Trade Organization (WTO). *World Tariff Profiles 2019. Applied MFN Tariffs*, p. 12.

2 Gabriella Beaumont Smith. *Section 301 Tariffs Cost Americans, Not the Chinese*. CATO Institute. February 27 2023. Available at: https://www.cato.org/blog/section-301-tariffs-cost-americans-not-chinese

tariffs and diversify their supply chains. Moreover, companies relocating to Mexico have capitalized on the trade advantages offered by the USMCA for accessing the US and Canadian markets.[3]

Our research reveals that Mexico's ability to participate alongside the US and Canada in the restructuring of supply chains for critical sectors, as identified by the Biden administration is constrained. However, in sectors where punitive tariffs under Section 301 have made Chinese exports to the United States more expensive, Mexico has emerged as an attractive destination for company relocation due to its proximity to the US market and preferential access through the USMCA, though it hasn't been the only country to benefit. Mexico must compete with producers in other world regions, especially in Asia, to secure China's former US' market share. This explains how the country has, over a five-year period, increased its share of US imports by more than 3% (from 12.7% in January 2018 to 15.9% in June 2023).[4]

Finally, this document identifies imperative for reinforcing public policies to capitalize on this opportunity and boost the restructuring of supply chains towards Mexico, thereby bolstering its growth and development with a long-term outlook. Furthermore, it highlights potential actions the public sector could undertake to more effectively and efficiently participate in the *nearshoring* wave.

Methodology

In elaborating this document, we extensively consulted secondary sources. Our analysis delved into public policies and trade and investment data for Mexico, with a particular emphasis on a number of sectors. The databases of the International Trade Center (ICC) Trade Map served as valuable resources in our research.

Furthermore, this study was enriched by insights gathered during a round-table discussion held on August 16th, 2018, in Mexico City. Industry experts, academics, and Mexican and international public officers shared their analyses and recommendations concerning the necessary policies for both the public and private sectors in Mexico to adopt, aiming to optimize the potential of investment relocation.

3 Data gathered between June 27 and July 21 as part of the Banco de México interview program (responses to the question: "In your view, to what factor or factors do you attribute the arrival of larger numbers of foreign companies in Mexico seeking to benefit from our proximity to the United States?").

4 US Government US Census Bureau. June 2023. Available at: https://www.census.gov/foreign-trade/statistics/highlights/ topcm.html

■ I. Analysis of the Situation

De-globalization and the de-coupling of supply chains for geopolitical and national security reasons have become tangible realities. The two main actors in international trade are presently engaged in commercial and political rivalries that are fracturing and disconnecting their economic relations. Following China's accession to the World Trade Organization (WTO) in 2001, China and the United States deepened their commercial and investment ties. By welcoming China, the international community hoped the country would adhere to the rules of the WTO's multilateral trading system, while China leveraged its membership to significantly expand its involvement in international trade, thereby boosting the growth of global trade and the world economy. Today, China is the world's top exporter, yet its economic and commercial dynamism has come under extensive scrutiny due to commercial and investment practices which both industrialized and developing countries view as contravening its WTO obligations. Consequently, China has been brought before the Organization's Dispute Settlement body on 49 separate occasions, with only the US and the European Union (EU) having faced more disputes than the Asian powerhouse.[5]

The US administration has voiced its apprehensions regarding China's trade policy, characterizing it as a "large non-market economy, with the unique capacity to distort the market through disloyal and uncompetitive practices. By concentrating the production of certain goods, these non-market policies and practices also undermine the resilience of supply chains and harm consumers who, in the long term, are deprived of the innovation and choice that fair competition would provide".[6] It has also identified certain commercial concerns regarding China's unfair and distorting measures, illicit acquisition of foreign technologies and intellectual properties, lax environmental regulations, lack of labor protections, and state-sponsored forced labor.

5 The US has faced 158 cases to the EU's 92. WTO. Dispute Settlement. The Disputes by Member. https://www.wto.org/english/tratope/dispue/dispubycountrye.htm

6 United States Trade Representative (USTR). *The President's 2023 Trade Policy Agenda*, p. 10

> Today, China is the world's top exporter, yet its economic and commercial dynamism has come under extensive scrutiny due to commercial and investment practices which both industrialized and developing countries view as contravening its WTO obligations.

In the US. President's Commercial Policy Agenda for 2023, the Biden administration acknowledges that the relationship between its country and China is "complex and competitive".[7] Specifically, it contends that the WTO's rules are no longer useful for the United States in disciplining China's trade policies that distort commerce. The Organization appears to lack the ability to discipline said commercial practices, let alone compel China to abandon "public policies that are unfair and incompatible with the principles of market competition, and create and perpetuate significant distortions in the global market".[8] The Office of the United States Trade Representative (USTR), in its report on China, finds that the country "has a long history of violations, disdain, and evasion of WTO norms in order to achieve its industrial policy goals... using numerous policies and unfair, non-market and distorting practices that constantly evolve in pursuit of harmful and uncompetitive industrial policy objectives".[9]

This perspective is further underscored within the context of the Made in China 2025 plan, unveiled by the Asian giant in 2015. This initiative outlined a strategy to attain a leading position and technological self-sufficiency in ten key sectors, such as Artificial Intelligence, robotics, 5G networks, biotechnology, aerospace technology, and new materials, as well as its technological supremacy and dominant position in global markets by 2049. The United States conducted a thorough investigation on China's business practices, revealing discriminatory treatment of foreign investment, forced technology transfers, intellectual property theft, and cyber-espionage designed to bolster Chinese companies.[10] These plans by China have also raised concerns among other WTO members, who view them as a threat to the organization's rules, which have proven insufficient in disciplining China in these areas.[11]

This geopolitical and strategic rivalry provides insight into why the United States government and US companies are advocating for *nearshoring* and are now seeking to sever links with China in certain sectors related to 21st Century technology. They are also actively working to forge alliances that will support these goals. In this context, Mexico can play a relevant role and benefit greatly by attracting investment and boosting its economy through sectors essential to advanced manufacturing.

---

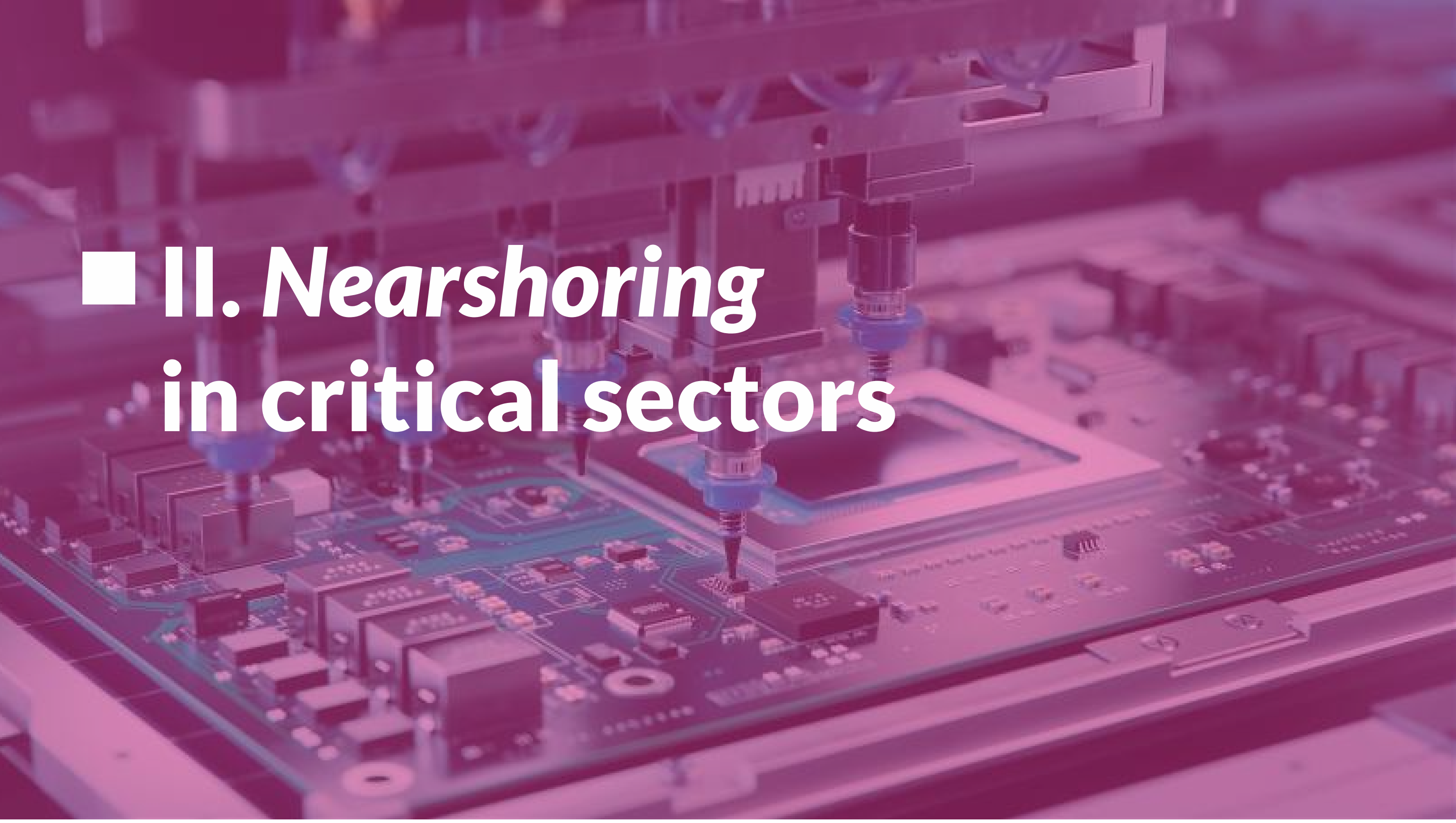
7 *Ídem.*

8 USTR. *The President's 2023 Trade Policy Agenda*, p. 14

9 USTR. *2022 USTR Report to Congress on China's WTO Compliance. February 2023*, p. 2.

10 USTR. *Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974.* March 22, 2018.

11 James McBride and Andrew Chatzky. *Is 'Made in China 2025' a Threat to Global Trade?* May 13, 2019. Available at: https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade



II. *Nearshoring* in critical sectors

During the pandemic, the vulnerabilities of the US economy due to excessive dependence on China were laid bare, especially in sectors where China served as the sole or primary provider, such as semiconductors or pharmaceutical products. President Biden's industrial policy aims to mitigate these risks, by advocating for the restructuring and relocation of supply chains, particu-larly in sectors deemed critical or essential for various agricultural, manufacturing, and service activities.

On February 24, 2021, President Biden ordered a 100-day review of supply chains to evaluate potential risks. In June 2021, the findings were disclosed, focusing on four critical supply chains: 1) semiconductor manufacturing, 2) high-capacity batteries, 3) critical minerals and materials, and 4) pharmaceutical products and active ingredients. The Biden administration determined it needed to recover its production capacity and cooperate with friends, allies and partners to relocate supply chains to bolster "national competitiveness and strengthen these supply chains".[12]

Likewise, the Biden administration launched an aggressive industrial policy focused on safeguarding national security through a variety of public policy instruments. These include fiscal poli-cies, industrial subsidies, establishing export and investment controls on China, or setting production requirements with a mandated percentage of domestic content, even if these may be incompatible with the US' WTO obligations.[13] This policy is also focused geared towards advancing US national security interests *vis-à-vis* China to secure the country's technological lead. To this end, the Biden Administration enacted the

[12] The White House. *FACT SHEET: Biden- Harris Administration Announces Supply Chain Disruptions Task Force to Address Short-Term Supply Chain Discontinuities*. 8 de junio de 2021. Available at: https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/08/fact-sheet-biden-harris-administration-announces-supply-chain-disruptions-task-force-to-address-short-term-supply-chain-discontinuities/

[13] On December 15 2022, China called the US for consultation within the WTO's framework over its measures to control the export of semiconductors, technologies and related services to China. See: https://www.wto.org/english/news_e/news22_e/ds615rfc_15dec22_e.htm

following legislation:

1. Inflation reduction (Inflation Reduction Act, IRA), with a budget of around US$389 billion.
2. Semiconductors (CHIPS Act), funded with a US$52 billion.
3. Infrastructure (Bipartisan Infrastructure Law, BIL), supplemented with an additional US$440 billion budget for rebuilding efforts across several sectors.

These approved subsidies are meant to encourage companies to relocate critical production to the United States. To qualify for these incentives, companies must fulfill specific criteria, such as meeting requirements for local content or investment.

Biden's policy includes restructuring the supply chains of critical sectors with the involvement of neighbors, friends and allies. According to US Treasury Secretary Janet Yellen, restructuring supply chains towards friends and allies allows the creation of "benefits of continuous efficiency in production by having a group of partners working to bolster supply chains and make them more resilient".[14] This means that production, trade, investment and exchange take place among countries and companies that share common values.

As part of this strategy aimed at reducing dependence on China, on August 9th, 2024. President Biden announced his decision to limit investments by US companies in China's high-tech sector –specifically targeting advanced semiconductors, artificial intelligence and quantum computing– from 2024 onwards. Under this directive, companies would need approval from the US government before investing in China. The rationale behind this economic measure stems, once again, from national security concerns and the objective of preventing these technologies from bolstering China's capabilities.[15]

In the strategy of relocating and restructuring supply chains, along with the trend of the US fostering closer ties with friendly nations, Mexico has emerged as a pivotal player, as underscored by high-level political encounters. Notably, during the 10th North American Leaders' Summit on January 10th 2023, held in Mexico City among the leaders of Canada, the United States and Mexico, an agreement was reached to "forge more robust regional supply chains, as well as promote targeted investment in key future technologies, such as semiconductors and electric vehicle batteries".[16] Emphasizing the significance of critical minerals for sustained regional development, the agreement outlined a roadmap wherein the three nations pledged to maximize the potential of critical mineral and semiconductor supply chains, aiming to boost investment, enhance resource mapping efforts, and foster capacity development.[17]

At the ministerial level, in the context of the US-Mexico High-Level Economic Dialogue (HLED), a dedicated supply chains task force was created to determine investment needs and reduce vulnerabilities to disruptions in critical sectors such as semiconductors and Information and Communications Technologies (ICT).[18] Likewise, during the launch of the Canada-Mexico HLED in

14 Atlantic Council. Transcript: US Secretary of the Treasury Janet Yellen on the Next Steps for Russia Sanctions and "Friend-shoring" supply chains. 13 de abril de 2022. Available at: https://www.atlanticcouncil.org/news/transcripts/transcript-us-treasury-secretary-janet-yellen-on-the-next-steps-for-russia-sanctions-and-friend-shoring-supply-chains/

15 Ellen Nakashima y David J. Lynch. Biden order proposes new restrictions on China tech investment. *The Washington Post.* August 9, 2023.

16 Presidencia de la República. North America Statement. January 10, 2023. Available at: https://www.gob.mx/presidencia/prensa/declaracion-de-norteamerica-dna

17 Ídem Roadmap: Key deliverables from the X North American Leaders Summit. Available at: https://www.gob.mx/presidencia/prensa/hoja-de-ruta-entregables-clave-de-la-x-cumbre-de-lideres-de-america-del-norte

18 Secretaría de Relaciones Exteriores (SRE). 2nd Annual Meeting of the Mexico-United States High Level Economic Dialogue (HLED). Available at: https://www.gob.mx/sre/prensa/2a-reunion-anual-del-dialogo-economico-de-alto-nivel-mexico-estados-unidos-dean

August 2022, both countries agreed to streamline the operation of supply chains across North America.[19] Furthermore, business dialogues involving Mexico, the US and Canada have centered on strengthening supply chains throughout the region.[20]

Given Mexico's recognized significance in this nearshoring process, it prompts the question: What opportunities does Mexico really have to enhance its involvement in these critical sector supply chains? Beyond mere political declarations, a detailed analysis is warranted to identify specific areas where Mexico could maximize the relocation of supply chains in four critical sectors the United States has prioritized. Additionally, it is essential to ascertain what measures Mexico could undertake to secure its position in these sectors, which will be pivotal for the region's future industrial production.

Beyond mere political declarations, a detailed analysis is warranted to identify specific areas where Mexico could maximize the relocation of supply chains in four critical sectors the United States has prioritized. Additionally, it is essential to ascertain what measures Mexico could undertake to secure its position in these sectors, which will be pivotal for the region's future industrial production.

1. Semiconductors

Mexico has positioned itself as a significant player in the testing, assembly and packaging stages of the semiconductor industry with notable involvement from companies like Texas Instruments, Intel, Infineon and Skyworks. In 2021, Mexico ranked 17th among global semiconductor exporters, boasting exports valued at 792 million dollars (md), primarily destined for the United States (521 md).[21] On the import front, Mexico recorded purchases amounting to 2.6 billion dollars, mostly from the United States, China, Malaysia, Singapore and The Philippines.[22]

Despite these achievements, Mexico's high-technology sector remains underdeveloped due to insufficient investment.[23] If this sector is to be developed, it will require heavy investment and the granting of subsidies and government support, as well as the training of highly qualified labor and collaboration with academic institutions.[24]

A significant milestone was reached in May 2023, with the first North American Semiconductor Conference aiming to catalyze regional collaboration for semiconductor development and production This initiative seeks to harness the collective of all three countries to work towards an integral ecosystem that can be more competitive in the world stage.[25]

19 Global Affairs Canada. "Canada strengthens ties with Mexico through inaugural Canada-Mexico High-Level Economic Dialogue". August 15, 2022. Available at: https://www.canada.ca/en/global-affairs/news/2022/08/canada-strengthens-ties-with-mexico-through-inaugural-canada-mexico-high-level-economic-dialogue.html.

20 US Chamber of Commerce. "U.S. Chamber Co-Hosts 12th U.S.-Mexico CEO Dialogue; Calls for Improvement in USMCA Implementation". Available at: https://www.uschamber.com/international/u-s-chamber-co-hosts-12th-u-s-mexico-ceo-dialogue-calls-for-improvement-in-usmca-implementation

21 Observatory of Economic Complexity (OEC). Semiconductor Devices in Mexico. Available at: https://oec.world/en/profile/bilateral-product/semiconductor-devices/reporter/mex

22 *Ídem.*

23 Chris Miller & David Talbot. Mexico's Microchip Advantage. *Foreign Affairs.* August 28, 2023.

24 Chris Miller (2022). Chip War, p. xxv.

25 SIA. Rina Pal-Goetzen. North America Semiconductor Conference Meets in Washington to Advance Ambitious Plan to Rebalance Supply Chain. May 19, 2023. Available at: https://www.semiconductors.org/north-america-semiconductor-conference-meets-in-washington-to-advance-ambitious-plan-to-rebalance-supply-chain/

Recent developments indicate growing interest from United States, Taiwan, and South Korean firms in integrating Mexico into their North American supply chains. In June 2023, semiconductor giants from Taiwan including Foxconn, Unimicron, Invetec and Pegatron visited Mexico to explore investment options.[26] Similarly, South Korean semiconductor manufacturers have shown some interest in establishing production sites in Mexico.[27] These investments have yet to materialize, however.

At the state level, Jalisco has set in motion a public policy for attracting investments in the semiconductor supply chain by promoting talent development. In November 2022, the state launched the Jalisco Tech Hub Act, which promotes secondary and higher education focused on advanced technology and trains professional semiconductor designers.[28] Meanwhile, the state of Sonora renowned for its lithium reserves is spearheading projects to attract investment via the establishment of a binational center for semiconductor development. This center aims to improve research and training with participation from the Sonora State government, Mexico's National Humanities, Sciences and Technology Council (Consejo Nacional de Humanidades, Ciencias y Tecnologías, Conahcyt) and the University of Arizona.[29] Similarly, the governments of Nuevo Leon, Chihuahua and Baja California are also rolling out their own sets of incentives to attract semiconductor investments to their respective states.[30]

For Mexico to take full advantage of the opportunities offered by the semiconductor supply chain, it must develop a comprehensive strategy involving collaboration among the public and private sectors, along with academia. This strategy should encompass support and incentives, as this industry requires substantial investment, highly skilled workforce, renewable energy and efficient customs processes, among other critical elements.[31]

2. Electric Batteries

Regarding electric batteries, Mexico stands poised to contribute to the transition towards renewable energies, and electric vehicle and EV battery production. The country ranks 7th in global vehicle production and 4th in exports, meaning it already has the necessary industrial infrastructure to support investment in electric battery production.

Currently, Asia dominates production of electric batteries, with China leading in the processing the rare earths required for their production. However, most of the investment in this sector is taking place in the United States due to the incentives offered by the IRA. As of 2023, several new projects for electric vehicle production in Mexico were announced by major companies such as GM, Ford, BMW and Tesla. For instance, BMW has confirmed plans to produce batteries for their electric vehicle production in Mexico.[32] Likewise, Tesla's announcement in March 2023

[26] Roberto Morales. "20 empresas de microchips de Taiwán buscan invertir en México," *El Economista*. June 18 2023. [Accessed July 2 2023]. Available at: https://www.eleconomista.com.mx/empresas/20-empresas-de-microchips-de-Taiwan-buscan-invertir-en-Mexico-20230618-0014.html

[27] Enrique Hernández. "Unas 80 empresas de Corea del Sur quieren invertir en electromovilidad y chips en México" *Forbes*. July 11, 2023. [Accessed on July 13, 2023]. Available at: https://www.forbes.com.mx/unas-80-empresas-de-corea-del-sur-quieren-invertir-en-electromovilidad-y-chips-en-mexico/

[28] Gobierno del Estado de Jalisco. Jalisco Tech Hub Act. February 3, 2023.

[29] Camila Ayala Espinosa. Sonora instalará centro binacional para el desarrollo de semiconductores. *El Economista*. January 19, 2023. Available at: https://www.eleconomista.com.mx/estados/Sonora-instalara-centro-binacional-para-el-desarrollo-de-semiconductores-20230118-0133.html

[30] Chris Miller & David Talbot. Mexico's Microchip Advantage. *Foreign Affairs*. August 28, 2023, p. 6.

[31] *Ídem*, pp. 7 y 8.

[32] BNAmericas. México se convertirá en imán para inversiones en vehículos eléctricos. February 8, 2023. Available at: https://www.bnamericas.com/es/analisis/mexico-se-convierte-en-iman-para-inversiones-en-vehiculos-electricos

regarding production in the State of Nuevo Leon "is expected to catalyze their Chinese suppliers to follow suit",[33] thus fostering the development of the supply chain in Mexico, including electric battery manufacturing.

Moreover, US legislation regarding the IRA includes a provision granting a 7,500-dollar tax break for US buyers of electric vehicles made in Mexico over a five-year period (2023-2027). This is an incentive for producing electric vehicles in Mexico.

These investment decisions also align with the necessity of complying with the USMCA rules of origin, which require that electric batteries must be produced in the region starting in the 7th year (July 1st, 2027) for the vehicle to qualify as originating.

As for the electric vehicle sector, US imports witnessed remarkable growth between 2018 and 2022 increasing by over 3 thousand percent. In 2022, Germany remained the top supplier, accounting for 33% of US imports, followed by South Korea with a 25% market share, and Mexico in third place with 22%.[34]

As of now, only a handful of companies in Mexico manufacture electric batteries. The leading global electric battery producer, Chinese company Contemporary Amperex Technology Co. (CATL), had announced plans to invest in northern Mexico. However, the terms of the IRA, which require a share of the minerals used in electric batteries to originate from the United States or countries with which the United States has trade agreements with, scuttled this investment. Since CATL sources its minerals from China, its products would fail to meet the criteria necessary for an electric car to be eligible for the IRA tax incentives.[35]

Table 1. Chapter 870380 – Electric Automobiles (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$ 328		$ 1,577		$ 1,764		$ 5,360		$ 10,722		3171%
GERMANY	1	$ 100	31%	$ 206	13%	$ 685	39%	$ 1,872	35%	$ 3,549	33%	3442%
SOUTH KOREA	2	$ 34	10%	$ 366	23%	$ 415	24%	$ 568	11%	$ 2,642	25%	7740%
MEXICO	3	$ 43	13%	$ 21	1%	$ 25	1%	$ 1,734	32%	$ 2,341	22%	5312%
BELGIUM	4	$ 4	1%	$ 582	37%	$ 317	18%	$ 723	13%	$ 1,081	10%	28775%
CHINA	2	$ 5	1%	$ 7	0%	$ 138	8%	$ 234	4%	$ 430	4%	8657%
JAPAN	6	$ 59	18%	$ 173	11%	$ 171	10%	$ 137	3%	$ 362	3%	514%

Source: TradeMap. https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c%7c870380%7c%7c%7c6%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1

3. Critical Minerals

Mexico ranks among the top 10 producers of 16 minerals and metals worldwide, including copper, manganese, lead, and iron. However, it lacks a sizeable production of critical minerals like lithium, cobalt, or nickel, which are vital for the manufacture of semiconductors or electric batteries.

33 R. Evan Ellis. El compromiso de México con China y las opciones para su futuro. August 11 2023, p. 2.

34 CATL frena plan de inversión en baterías para vehículos eléctricos en EEUU y México. *Portal Movilidad*. October 24 2022. Available at: https://portalmovilidad.com/catl-frena-plan-de-inversion-en-baterias-para-vehiculos-electricos-en-eeuu-y-mexico/

35 Cámara Minera de México (Camimex). Situación de la Minería en México 2022, p. 25.

Table 2 shows that, in 2022, Mexico was the 7th largest supplier of minerals to the United States. However, the country experienced a 38% reduction in mineral imports from Mexico under Chapter 26 of the Harmonized system. Mexico's share in US imports declined, from 6% in 2018 to only 3% in 2022. Additionally, the recently approved Mining Law reform could pose obstacles to accessing critical minerals, specifically rare earths of which production and processing are now 85% controlled by China. It is worth noting that President Andrés Manuel López Obrador's government has "reduced the territory granted for mining activities in Mexico, from 10.64% in 2018 to 8.59% in 2022".[36]

Starting in May 2023, changes to the country's Mining Law were adopted, which that could discourage investment in the sector. The new concession period was reduced from 50 to 30 years, extendable for a single 25-year period. Furthermore, concession titles will only be granted for the minerals mentioned and approved in the concession applications.[37] This new regulatory context is unlikely to facilitate Mexico's participation in the relocation of supply chains for critical minerals, as was proposed in the Declarations of the North American Leaders' Summit (NALS) or the High-Level Economic Dialogue (HLED).

Table 2. Chapter 26 – Minerals (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$ 3,121		$ 3,268		$ 2,289		$ 3,266		$ 3,674		18%
CANADA	1	$ 434	14%	$ 458	14%	$ 407	18%	$ 727	22%	$ 698	19%	61%
BRAZIL	2	$ 465	15%	$ 494	15%	$ 290	13%	$ 529	16%	$ 483	13%	4%
S. AFRICA	3	$ 500	16%	$ 545	17%	$ 367	16%	$ 247	8%	$ 428	12%	-14%
PERU	4	$ 366	12%	$ 336	10%	$ 164	7%	$ 304	9%	$ 419	11%	15%
MEXICO	7	$ 191	6%	$ 246	8%	$ 120	5%	$ 130	4%	$ 117	3%	-38%
CHINA	8	$ 48	2%	$ 39	1%	$ 52	2%	$ 87	3%	$ 91	2%	88%

Fuente: TradeMap. https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c%7c26%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1

México ranks among the three top providers of gold, strontium, and fluoride to the United States. However, the four critical minerals identified by the Biden Administration for electric battery production (nickel, cobalt, lithium and manganese), Mexico's production is limited specifically to manganese (see Table 3). As for lithium, there is yet a long road ahead for the newly-created State-owned enterprise LitioMx before it can explore, extract, and integrate this mineral into North American supply chains. Lithium in Mexico is primarily locked in clay deposits and "the technological capacity to explore and produce it is still being developed". [38] Although Mexico has

36 Quoted in Marco Mares. Ley Minera, menos beneficios, más obligaciones. *El Economista*. March 30 2023. Available at: https://www.eleconomista.com.mx/opinion/Ley-Minera-menos-beneficios-mas-obligaciones-20230329-0138.html

37 Secretaría de Gobernación (Segob). DECRETO por el que se reforman, adicionan y derogan diversas disposiciones de la Ley Minera, de la Ley de Aguas Nacionales, de la Ley General del Equilibrio Ecológico y la Protección al Ambiente y de la Ley General para la Prevención y Gestión Integral de los Residuos, en materia de concesiones para minería y agua. DOF. May 8 2023 Available at: https://www.dof.gob.mx/notadetalle.php?codigo=5688050&fecha=08/05/2023#gsc.tab=0

38 Jhon Bernal. Baterías de Litio: oportunidades y desafíos en México. *Metalmecánica*. July 28 2023. Available at https://www.metalmecanica.com/es/noticias/baterias-de-litio-oportunidades-y-desafios-en-mexico

Table 3. Mexican Mineral Exports to the USA, by share importance (Million Dollars)

Category	Product description	Mexican Exports to the US in 2022	US global imports in 2022	Mexico's Share in total US Imports
2613	Molybdenum ores and concentrates	72.3	589.6	12%
2602	Manganese ores and concentrates, incl. ferruginous manganese ores and ...	18.2	146.5	12%
2620	Ashes and residues, containing arsenic, metal or metallic compounds (excl. those of ...	16.7	368.5	4.5%
2619	Steel slag, slag and other waste (excl. granulated slag)	5.5	12	46%
2616	Precious metal ores and concentrates thereof (gold)	2.5	3.3	77%
2621	Slag and ash, incl. algae ash; ashes and waste from incineration ...	1.6	46.8	3.4%
2615	Niobium, tantalum, vanadium or zirconium ores and concentrates thereof	0.3	202.4	0.17%

Source: Trademap. https://www.trademap.org/Bilateral_TS.aspx?nvpm=3%7c842%7c%7c484%7c%7c26%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1

proven lithium reserves equivalent to 1.7 million tons, ranking it 9th in the world, significant investment is required to fully leverage this resource.[39]

4. Pharmaceutical Products

Among the critical sectors prioritized by the Biden Administration is the pharmaceutical industry, in which Mexico has not significantly participated as a major supplier, despite boasting a well-developed industry with over 200 pharmaceutical companies, including 20 multinationals who lead the sector. Likewise, clusters have developed in various regions across Mexico, including Mexico City, Jalisco, State of Mexico, Puebla, and Michoacan. Additionally, Mexico has cultivated a robust generics industry, though the active ingredients are mostly imported from India.[40]

Table 4. Chapter 30 – Pharmaceutical Products (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWHT 2022/2018
TOTAL		$115,525	100	$128,135	100	$139,431	100	$149,410	100	$164,993	100	42.8%
IRELAND	1	$ 26,658	23%	$25,874	20%	$27,714	20%	$28,821	19%	$32,643	20%	22.5%
GERMANY	2	$ 15,435	13%	$17,312	14%	$20,173	14%	$22,123	15%	$17,861	11%	15.7%
SWITZ.	3	$ 14,138	12%	$15,672	12%	$17,718	13%	$21,109	14%	$17,639	11%	24.8%
CHINA	4	$ 1,586	1%	$1,585	1%	$2,190	2%	$3,469	2%	$10,394	6%	555.3%
BELGIUM	5	$ 3,328	3%	$6,375	5%	$10,092	7%	$7,186	5%	$10,187	6%	206.1%
MEXICO	24	$ 611	1%	$574	0.4%	$611	0.4%	$654	0.4%	$826	0.5%	35.2%

Source TradeMap. https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c%7c30%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1

[39] Paloma Duran. What is the potential of Mexico's lithium reserves? September 6 2021. Available at: https://mexicobusiness.news/mining/news/what-potential-mexicos-lithium-reserves

[40] Guillermo Máynez Gil. Planeación y política industrial, claves para la industria farmacéutica nacional. Comercio Exterior. Bancomext, 2021. Available at: https://revistacomercioexterior.com/planeacion-y-politica-industrial-claves-para-la-industria-farmaceutica-nacional

In 2018 Mexico accounted for 1% of all US Chapter 30 imports, totaling 611 md. In 2022, Mexico's sales in this sector jumped to 826 md, a 35.2% growth above its 2018 value. Nevertheless, in spite of this growth, Mexico's market share in the total share of US imports reduced by 0.5%. Meanwhile, despite the trade war launched against China in 2018, exports from the latter into the US grew from 1.586 billion in 2018 to 10.394 billion in 2022, representing a remarkable growth of 555.3%, and increasing its market share from 1% to 6% (see Table 4).

Among the pharmaceutical products that Mexico exports to the United States we find gauzes, bandages and similar items, as well as certain preparations and products (see Table 5). However, if Mexico is to have a greater share of this supply chain in North America, it must address various regulatory issues. Accessing the US pharmaceutical market and integrating into its supply chain, requires compliance with sanitary regulations issued by the Food and Drugs Administration (FDA). An essential requirement is demonstrating compliance with Best Manufacturing Practices (BMP). Therefore, garnering support from Mexico's Federal Commission for the Protection Against Sanitary Risks (Comisión Federal para la Protección contra Riesgos Sanitarios COFEPRIS) would be vital for Mexico's industry to effectively meet the US' regulatory requirements and thus participate in its northern neighbor's pharmaceutical supply chain.

Table 5. Exports of pharmaceutical products from Mexico to the U.S., by importance of participation (thousand dollars)

Category	Product Description	Mexico Exports to the U.S. in 2022	U.S. Imports Worldwide in 2022	Mexico's Share of U.S. Imports
3004	Medicinal products consisting of mixed or unmixed products prepared for therapeutic purposes	495,099	91,962,179	0.54%
3005	Dressings, plasters, synapisms, wadding, gauze, bandages and the like, impregnated	184,839	1,891,873	9.77%
3006	Pharmaceutical preparations and products of subheadings 3006.10.10 to 3006.93.00	112,545	4,256,717	2.64%
3002	Human blood, animal blood prepared for therapeutic, prophylactic or diagnostic uses	29,761	64,786,028	0.05%
3001	Glands and other organs for opotherapepic uses, dried, whether or not powdered; extracts	3,633	442,254	0.82%
3003	Medicinal products consisting of products mixed with each other, prepared for therapeutic purposes	17	1,654,367	0.00%

Source: Trademap. https://www.trademap.org/Bilateral_TS.aspx?nvpm=3%7c842%7c%7c484%7c%7c30%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1

III. *Nearshoring* opportunities resulting from the US-China trade war

In 2018 **President Trump unleashed a trade war with China, ostensibly in response to the significant trade deficit, which that year reached a record US$418 billion.** US exports to China amounted to US$120 billion, while imports surpassed US$538 billion, with 21.5% of all US imports originating from China. **China imposed tariffs on its imports from the US, sparking a commercial escalation.**

Since China's accession to the WTO in December 2001, the Asian country quickly conquered world markets, with the US market being no exception. In 2018 President Trump unleashed a trade war with China, ostensibly in response to the significant trade deficit, which that year reached a record US$418 billion. US exports to China amounted to US$120 billion, while imports surpassed US$538 billion, with 21.5% of all US imports originating from China.[41] During his campaign, President Trump blamed the loss of manufacturing jobs in the US on China, proposing the unilateral imposition of tariffs on Chinese imports under Section 301 of the Trade Act of 1974 as a means to repatriate those jobs.[42] In retaliation, China imposed tariffs on its imports from the US, sparking a commercial escalation. Presently, the United States levies punitive tariffs averaging 19.3% on two-thirds of products originating in China, over six times greater than the previous tariff rate. Conversely, China has applied average tariffs of 21.1% on 60% of all its US imports.[43] Despite the change in administration with President Biden taking office in January 2021 this policy has remained unchanged, reflec-

41 US Census Bureau. [Accessed on June 30 2023]. Available at: https://www.census.gov/foreign-trade/balance/c5700.html

42 Between 2000 and 2017, the United States lost 5.5 million manufacturing jobs because of automatization, as well as imports, mainly from China. Quoted in Robert Reich. Biden is turning away from free trade-and that's a great thing. The Guardian. August 28 2023. Available at: https://www.theguardian.com/commentisfree/2023/aug/29/biden-is-turning-away-from-free-trade-and-thats-a-great-thing

43 Chad P. Bown. US-China Trade War Tariffs: An Up-to-Date Chart. April 6 2023. Available at: https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart

ting the bipartisan consensus that exists regarding the decision to decouple the US economy from China.

This trade war, as well as the decision to decouple the US from China, has significantly impacted bilateral trade. In 2020 China was still the US' top supplier; however, this is no longer the case, despite trade continuing to flow between them, albeit at a slower pace. The imposition of tariffs on two-thirds of Chinese imports led to a decline from its peak of 21.6% in 2017 to 12.95% of total US imports during the first five months of 2023, an eight percentage point drop in the US market share.

From January to July 2023, US trade with China accounted for 11% of the country's total worldwide trade.[44] Meanwhile, other US partners have gained ground. Mexico emerged as the top US' trade partner during the first seven months of 2023, with a share of 15.7% of US trade. Additionally, Mexico was the US' second largest export market, with 16% of its total exports, only behind Canada's, which held the top position with 17.7%. Mexico has solidified its position as the top single provider in the US market, with 15.5% of imports into the US, followed by Canada at 13.7% and China in third place with 13.5%[45] (see Table 6).

Table 6. United States: China's Imports and Exports, U.S. Dollar Value, and Market Share

Year	Imports (bn)	Share of US Worldwide Imports	Exports (bn)	Share of US Worldwide Exports
2023*	239.1	13.5%	83.2	7.1%
2022	536.3	16.5%	154.0	7.5%
2021	506.4	17.9%	151.1	8.6%
2020	435.4	18.6%	124.6	8.7%
2019	452.2	18.1%	106.6	6.5%
2018	539.5	21.2%	120.3	7.2%
2017	505.6	21.6%	130.4	8.4%

*January-July
Source: US Census Bureau. https://www.census.gov/foreign-trade/statistics/highlights/top/top2112yr.html y https://www.census.gov/foreign-trade/balance/c5700.html

The data presented above illustrates the gradual decoupling of both economies, particularly evident in US imports from China. The trade war has prompted China to redirect its trade towards other global destinations, including Mexico, as well as various Asian countries such as Vietnam, Taiwan, The Philippines, Thailand, or South Korea. This would seem to present opportunities for Mexico to draw investment from companies located in China seeking to circumvent the punitive tariffs imposed by the US, which show no signs of abating. For example, several Chinese-owned firms have already moved their China-based operations to Mexico, settling in states such as Nuevo León (Monterrey), Coahuila (Saltillo), Baja California (Tijuana), Chihuahua (Ciudad Juárez), as well as central states like Querétaro and Mexico City. Among these Chinese arrivals we find “Hengli Group, Lizhong, Citic Dicastal, Alibaba, CF Moto, BOE Vizion Electronic Technology, Eson Multiwin, TCL Moka Manufacturing, Trend Smart CE, Curtain Wall System Engineering, and SWI”.[46]

44 https://www.census.gov/foreign-trade/statistics/highlights/topyr.html

45 US Census Bureau. Top Trading Partners, June 2023. Available at: https://www.census.gov/foreign-trade/statistics/highlights/topyr.html

46 Enrique Hernández. *Nearshoring*: México ya es el centro manufacturero de las empresas chinas. *Forbes*. Available at: https://

The *nearshoring* strategy would apparently provide opportunities for Mexico to attract companies located in China enabling them to access the US market while avoiding punitive tariffs, and instead benefiting from the trade advantages offered by the USMCA. In this sense, Mexico has the necessary business and industrial infrastructure to facilitate the influx of these new investments or to expand on existing ones.[47] Nonetheless, there remain a limited number of sectors where Mexico has thus far capitalized on this *nearshoring* trend, a point we elaborate on below.

1. Apparel Sector

In labor-intensive sectors, such as apparel and footwear, China has decreased its US' market share. However, this reduction has not been picked up by Mexico, which also experienced a decrease in its market share from 3% to 2% between 2018 and 2022, keeping the 14th position in the rankings. Specifically, in Chapter 61, China saw a decline of 10 percentage points in its market share during the same period, accompanied by a 12% decrease in total US imports. This decline could be attributed to the punitive tariffs of 7.5% imposed by the Trump administration applied in addition to the Most Favored Nation tariffs on products in this sector originating in China.[48] Consequently, supply chains have moved to Southeast Asian countries such as Vietnam, Bangladesh, Cambodia and Indonesia, which have experienced an expansion in their market share in the United States (see Table 7).

Table 7. Chapter 61 – Apparel And Complements (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$47,682		$ 48,160		$ 38,254		$ 52,250		$ 60,785		27%
CHINA	1	$15,389	32%	$ 14,234	30%	$ 9,343	24%	$ 13,072	25%	$ 13,586	22%	12%
VIETNAM	2	$ 7,395	16%	$ 7,954	17%	$ 7,418	19%	$ 9,127	17%	$ 10,896	18%	47%
BANGLADESH	3	$ 1,533	3%	$ 1,684	3%	$ 1,680	4%	$ 2,734	5%	$ 3,352	6%	119%
CAMBODIA	4	$ 1,876	4%	$ 2,117	4%	$ 2,194	6%	$ 2,738	5%	$ 3,308	5%	76%
INDONESIA	5	$ 2,399	5%	$ 2,283	5%	$ 1,952	5%	$ 2,521	5%	$ 3,143	5%	31%
MEXICO	14	$ 1,337	3%	$ 1,124	2%	$ 820	2%	$ 1,073	2%	$ 1,156	2%	14%

Source: TradeMap. https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c%7c61%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 Consultado el 3 de junio de 2023.

In the case of Chapter 62, concerning Clothing apparel, Mexico has largely maintained its market share unchanged, maintaining its 6th position in the supplier ranking, even as China has lost 11% of its market share in the United States, dropping from 34% in 2018 to 23% in 2022 (see Table 8). While China saw a drop of 25% in the value of its exports to the US in this Chapter, the US itself increased worldwide purchases over the same period by 14%, with its suppliers now found in Vietnam, Bangladesh, India and Indonesia.

Despite China witnessing a 25% decrease in the value of its exports to the US in this chapter, the US itself has augmented its global purchases by 14% during the same period. Consequently, US importers have increasingly turned to suppliers in Vietnam, Bangladesh, India, and Indonesia.

Mexico's apparel sector thrives in the states of Puebla, Mexico and Oaxaca, encompassing 43,700 firms, with 92% classified are micro-

www.forbes.com.mx/nearshoring-mexico-ya-es-el-centro-manufacturero-de-las-empresas-chinas/

47 OEC. México. Access at: https://oec.world/es/profile/country/mex

48 To see the list of products included in Chapter 61, visit: https://ustr.gov/sites/default/files/enforcement/301Investigations/NoticeofModification%28List4AandList4B%29.pdf

Table 8. Chapter 62 – Textile Apparel And Complements (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$ 39,015		$ 39,224		$ 32,912		$ 35,038		$ 44,568		14%
CHINA	1	$ 13,437	34%	$ 12,204	31%	$ 10,206	31%	$ 8,914	25%	$ 10,062	23%	25%
VIETNAM	2	$ 5,205	13%	$ 5,920	15%	$ 5,764	18%	$ 5,960	17%	$ 7,971	18%	53%
BANGLADESH	3	$ 3,896	10%	$ 4,234	11%	$ 3,604	11%	$ 4,554	13%	$ 6,474	15%	66%
INDIA	4	$ 2,145	5%	$ 2,250	6%	$ 1,658	5%	$ 2,146	6%	$ 3,122	7%	46%
INDONESIA	5	$ 2,279	6%	$ 2,282	6%	$ 1,716	5%	$ 1,864	5%	$ 2,778	6%	22%
MEXICO	6	$ 2,179	6%	$ 2,152	5%	$ 1,619	5%	$ 1,929	6%	$ 2,142	5%	-2%

Source: TradeMap https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c %7c62 %7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 Consultado el 6 de junio de 2023.

businesses employing up to ten individuals each. Nationally owned companies dominate this sector, having received approximately 67.3 md in Foreign Direct Investment (FDI), or 0.2% of the total FDI inflows.[49] While the garment industry presents an opportunity to draw investments for relocating production, especially from Asia, which dominates this sector's production. However, the challenge lies in integrating these small and medium-sized enterprises (SMEs) into global supply chains, which requires their modernization and adoption of cutting-edge technology.[50] According to a study conducted by the US Fashion Industry Association (USFIA), Mexico's apparel industry is not primarily cost-competitive. Instead, its strengths lie in its speed in servicing the market, as well as its flexibility, and adaptability.[51] However, the study highlights potential for US fashion companies to leverage the preferential treatment offered by the USMCA, as only 48% currently exploit these benefits.[52] The apparel industry holds significant potential to increase its participation in this *nearshoring* of supply chains, yet a cohesive strategy is imperative to capitalize on the country's advantages while mitigating associated risks.

2. Footwear sector

In the case of Footwear (Chapter 64), US imports for the period 2018-2022 experienced a notable

Table 9. Chapter 64 – Footwear (million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$ 27,536		$ 28,171		$ 21,504		$ 28,408		$ 37,967		38%
CHINA	1	$ 14,639	53%	$ 14,033	50%	$ 9,154	43%	$ 12,068	42%	$ 14,780	39%	1%
VIETNAM	2	$ 6,419	23%	$ 7,265	26%	$ 6,725	31%	$ 7,828	28%	$ 11,460	30%	79%
INDONESIA	3	$ 1,593	6%	$ 1,721	6%	$ 1,434	7%	$ 2,075	7%	$ 3,262	9%	105%
ITALY	4	$ 1,570	6%	$ 1,613	6%	$ 1,366	6%	$ 2,175	8%	$ 2,501	7%	59%
CAMBODIA	5	$ 342	1%	$ 504	2%	$ 522	2%	$ 749	3%	$ 1,137	3%	233%
MEXICO	7	$ 505	2%	$ 443	2%	$ 332	2%	$ 578	2%	$ 818	2%	62%

Source: TradeMap https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c %7c62 %7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 Consultado el 6 de junio de 2023.

49 Comisión Nacional de Inversiones Extranjeras. *Informe estadístico sobre el comportamiento de la inversión extranjera directa en México (enero-diciembre de 2022)*, p. 13.

50 Secretaría de Economía (SE). Data México. Fabricación de prendas de vestir. Access at: https://www.economia.gob.mx/datamexico/es/profile/industry/apparel-manufacturing

51 Sheng Lu. 2023 *Fashion Industry Benchmarking Study. United States Fashion Industry Association*. July 2023, p. 16.

52 *Íbid*, p. 31

KONRAD ADENAUER STIFTUNG

growth of 38%. However, imports from China specifically only grew by 1%, but lost market share by dropping from 53% to 39% of US global imports. Meanwhile, Mexico's exports grew by an impressive 62%. Asian countries (Vietnam, Indonesia and Cambodia) witnessed even greater increases in sales to the US, consequently expanding their market share of the. In contrast, Mexico's market share has remained stagnant at 2% (see Table 9).

The footwear sector is primarily located in the states of Guanajuato, Michoacan and Jalisco, boasting over 9,500 , the majority of which are microbusinesses employing fewer than 10 individuals.[53] While this sector is predominantly comprised of national companies, there is some foreign involvement, as evidenced by the cumulative FDI in the footwear sector reaching US$138 million between January 1999 and 2023.[54] To attract investment for production relocation, particularly from Asia, Mexico can leverage its geographic proximity to the US market as a key advantage. However, for Mexican companies to position themselves as reliable suppliers to US and Canadian brands, they must focus on enhancing their "professional training, social responsibility, customs security, competitiveness, and productivity".[55]

Table 10. Chapter 87 – Vehicles (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$306,130		$309,650		$254,387		$282,899		$ 329,648		8%
MEXICO	1	$ 93,527	31%	$101,685	33%	$ 83,292	33%	$ 94,302	33%	$ 111,685	34%	19%
JAPAN	2	$ 52,436	17%	$ 50,225	16%	$ 40,954	16%	$ 43,400	15%	$ 45,174	14%	-14%
CANADA	3	$ 53,501	17%	$ 53,606	17%	$ 40,676	16%	$ 38,375	14%	$ 43,806	13%	-18%
SOUTH KOREA	4	$ 18,898	6%	$ 21,475	7%	$ 21,138	8%	$ 23,917	8%	$ 29,820	9%	58%
GERMANY	5	$ 25,744	8%	$ 24,845	8%	$ 18,576	7%	$ 23,029	8%	$ 28,253	9%	10%
CHINA	6	$ 18,724	6%	$ 14,911	5%	$ 13,573	5%	$ 17,042	6%	$ 19,596	6%	5%

Source: TradeMap. https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c%7c87%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 Consultado el 3 de junio de 2023.

3. Vehicle Sector

Regarding the vehicle sector (Chapter 87), due to the North American Free Trade Agreement (NAFTA), and later the USMCA, Mexico has solidified its position as the top provider to the US market, facilitated by the integration of regional production chains. Between 2018-2022, Mexico's market share increased from 31% to 34%, while sales grew 19%. In contrast, South Korea, experienced a notable 58% growth and an increase in its share of the market, from 6% to 9%, while China maintained a static 6% market share despite facing punitive tariffs imposed by the USA, with exports only growing by 5% within the same timeframe (see Table 10).

53 SE. Data México. Fabricación de calzado. Access at: https://www.economia.gob.mx/datamexico/es/profile/industry/footwear-manufacturing
54 *Ídem.*
55 Assomac. Nearshoring effects: Mexican footwear exports to the USA increase. May 27 2022. Available at: https://assomac.it/en/news/news-from-world/nearshoring-effects-mexican-footwear-exports-to-the-usa-increase/

Mexico's automotive sector has attracted new investment, explained by its solid industry established since the inception of NAFTA. In 2022 the sector received US$4.361 bn in FDI, accounting for 12.4% of the total, and accumulated more than US$14.3 bn between 2020 and 2022..[56] In addition, Chinese automakers have recently established their own factories, including First Auto Works (FAW) in Michoacan and Foton in Veracruz, while Chery an BYD have plans to set up shop in Mexico in the future.[57]

Mexico's integral role in the North American vehicle supply chain is unquestionable. It was born out of NAFTA and continued under the USMCA. New investments in the sector are a direct response to new USMCA rules of origin, poised to reinforce and enhance regional supply chains.

Table 11. Chapter 90 – Optical Devices (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$ 93,313		$ 96,567		$ 90,552		$105,979		$ 115,033		23%
MEXICO	1	$ 15,053	16%	$ 16,025	17%	$ 15,028	17%	$ 17,122	16%	$ 18,874	16%	25%
CHINA	2	$ 13,032	14%	$ 11,600	12%	$ 12,364	14%	$ 14,044	13%	$ 14,084	12%	8%
GERMANY	3	$ 10,736	12%	$ 11,115	12%	$ 9,888	11%	$ 11,638	11%	$ 12,410	11%	16%
IRELAND	4	$ 7,649	8%	$ 8,234	9%	$ 6,849	8%	$ 7,566	7%	$ 8,701	8%	14%
JAPAN	5	$ 7,143	8%	$ 7,074	7%	$ 6,093	7%	$ 7,357	7%	$ 7,590	7%	6%
SWITZ.	6	$ 3,931	4%	$ 3,981	4%	$ 3,798	4%	$ 4,274	4%	$ 4,449	4%	13%

Source: TradeMap. https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c%7c90%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 Accessed June 3 2023

4. Optical Devices Sector

Between 2018 and 2022, Mexico retained its position as the top provider to the US market for optical devices (Chapter 90). Its market share remained steady at 16%, while its sales grew 25%. In contrast, China witnessed an 8% increase in exports, but its market share declined from 14% to 12% within the same period (see Table 11).

Based on information from Data México, states that produce and export optical, photographic, technical and medical devices include Baja California (with exports of US$6.995 bn), Tamaulipas (US$2.969 bn), Jalisco (US$1.765 bn), and Sonora (US$1.22 bn).[58] In 2022 México's exports in this sector exceeded US$22.8 bn, mostly directed to the United States, which accounted for 90% of total sales, positioning Mexico as its primary provider.[59] Leveraging the existing business networks in this sector, Mexico stands poised to capitalize on the *nearshoring* opportunity, with technological sophistication being crucial to maintaining its role in the North American supply chain.

57 R. Evan Ellis. China. August 11 2023, p. 3.
58 SE. Data México. Aparatos Ópticos, Fotográficos, Técnicos, Médicos, etc. Access at: https://www.economia.gob.mx/datamexico/es/profile/product/optical-photo-technical-medical-etc-apparatus
59 *Ídem.*

Table 12. Chapter 95 – Toys (Million Dollars)

	RANK 2022	2018	% IMP.	2019	% IMP.	2020	% IMP.	2021	% IMP.	2022	% IMP.	GROWTH 2022/2018
TOTAL		$ 34,377		$33,961		$ 36,344		$51,737		$ 55,201		61%
CHINA	1	$ 27,883	81%	$26,636	78%	$ 27,827	77%	$ 40,334	78%	$ 42,769	77%	53%
VIETNAM	2	$ 746	2%	$ 1,324	4%	$ 2,232	6%	$ 2,495	5%	$ 3,394	6%	355%
TAIPEI	3	$ 1,107	3%	$ 1,301	4%	$ 1,782	5%	$ 2,972	6%	$ 1,986	4%	79%
MEXICO	4	$ 1,116	3%	$ 950	3%	$ 879	2%	$ 1,235	2%	$ 1,440	3%	29%
INDONESIA	5	$ 288	1%	$ 341	1%	$ 340	1%	$ 495	1%	$ 621	1%	115%
JAPAN	6	$ 262	1%	$ 332	1%	$ 403	1%	$ 501	1%	$ 551	1%	110%

Source: TradeMap https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=3%7c842%7c%7c%7c%7c95%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 Consultado el 3 de junio de 2023.

In the Toys sector (Chapter 95), China remained the largest supplier to the US from 2018 to 2022, although its market share dropped from 81% to 77%. Mexico maintained its 3% market share, even though sales experienced a 29% growth. On the other hand, Vietnam surged from 2% to a 6% market share achieving a remarkable 335% increase in sales to the US. This seems to suggest this country has capitalized more effectively on the sector's relocation opportunities compared to Mexico (see Table 12).

With over 40 companies in this sector, Mexico ranks as the world's fourth largest toymaker, with half of these companies benefiting from FDI, including global industry leaders Mattel and Lego.[60] Given the opportunities presented by this sector, a proposal to create a toy manufacturing hub in Monterrey and Puebla is under review.[61] To position themselves favorably in the *nearshoring* rearrangement, companies in this sector must possess "the necessary infrastructure to meet current regulations in North America [such as] lab testing protocols to completely eliminate any potential toxic substances".[62]

6. Medical Devices Sector

Mexico is the world's sixth largest exporter of medical devices, with nearly all of its exports destined for the US market. This industry has mostly concentrated in northern states (Baja California, Chihuahua and Nuevo León), as well as in Mexico City and Jalisco, that hosts the Center for Industrial Innovation in Medical Device Design (Centro de Innovación Industrial para el Desarrollo de Dispositivos Médicos). Baja California is a leader in the medical device sector, contributing over 30% of exports. This is a sector where Mexico could find great potential for supporting the relocation of supply chains towards North America. However, "health regulation for medical devices is the main bottleneck, [insofar as] innovation in medical devices is limited".[63] Companies face a substantial regulatory burden, with approximately 15 thousand annual processes,

60 Daniel Eliseo Zetina Islas. Análisis de la participación de la industria del juguete mexicano en el mercado internacional. *Revista El Buzón de Pacioli*, Year XX, No.115 October-December 2020, p. 7. Available at: https://www.itson.mx/publicaciones/pacioli/SiteAssets/Paginas/pacioli/Pacioli-115-eBook.pdf

61 Juguetes pueden consolidar el mayor clúster del país. October 7 2021. Available at: https://urbeconomica.com.mx/sectores-economicos/comercio-y-servicios/32053-juguetes-pueden-consolidar-el-mayor-cluster-del-pais

62 "Industria del juguete en México tendrá crecimiento anual de 5.6% gracias al nearshoring". *El Financiero*. August 9 2023. Available at: https://www.elfinanciero.com.mx/empresas/2023/08/09/industria-del-juguete-crecera-56-anual-en-mexico-por-nearshoring/

63 Citado en Sandra Cervantes y Alan Gutiérrez. Industria mexicana de dispositivos médicos mantiene liderazgo, Mexico Industry. 1 de diciembre de 2022. [Consultado el 2 de julio de 2023] https://mexicoindustry.com/noticia/industria-mexicana-de-

primarily overseen by COFEPRIS.[64] The recent amendment to Article 376 of Mexico's General Health Law (Ley General de Salud, May 10, 2023) established that medical devices require a sanitary registration number from the proper authority, with the exception of low-risk devices, thereby escalating production costs in Mexico.[65] Additionally, the medical device industry heavily relies on the importation of raw materials, parts and components, requiring the development of national or regional Tier-2 and Tier-3 suppliers.

In summary, there remains a need to expand its market share, particularly in light of punitive tariffs on Chinese products.

In sum, while Mexico has witnessed an uptick in exports to the United States across various sectors, Mexico still has to do a lot of work to expand its market share in these sectors, where Chinese market share in the US has been reduced by punitive tariffs. Despite preferential access under the USMCA, supply chains have diversified to third countries, particularly in Asia, driven by cost considerations. Mexico benefits from duty-free access to the US market under the USMCA, while in Asia only South Korea and Singapore have preferential treatment in the US market since the US stopped applying its Generalized System of Preferences (GSP) that expired on December 30, 2020 during the administration of President Trump and President Biden did not seek to renew it.

In this regard, David Dollar finds little evidence that *nearshoring* is succeeding in decoupling the US economy from China towards North America, since Canada is a high-income country without the capacity to manufacture the products that the US imports from Asia. Mexico meanwhile is a low-income country, but one that "presents severe weaknesses in terms of investment climate."[66]

It is possible to foresee that this supply chain restructuring towards US friends, partners and allies will continue in the coming years. This is because these shifts stem from geopolitical and national security considerations, aiming at ensuring the US' technological edge. In this context, Mexico has the opportunity to formulate sector-specific policies for the four critical sectors, as well as for those where it could seek to establish a "China+1" supply strategy. Such an approach would facilitate supplier diversification mitigating the costs and risks associated with trade between China and the USA.

In sum, while **Mexico has witnessed an uptick in exports to the United States across various sectors, Mexico still has to do a lot of work to expand its market share in these sectors**, where Chinese market share in the US has been reduced by punitive tariffs.

In this context, **Mexico has the opportunity to formulate sector-specific policies for the four critical sectors, as well as for those where it could seek to establish a "China+1"** supply strategy

64 Mauricio Pineda. El nuevo escenario para el sector de dispositivos médicos. *Modern Machine Shop Mexico*. 1 de mayo de 2022. [Consultado el 20 de junio de 2023]. Disponible en: https://www.mms-mexico.com/articulos/el-nuevo-escenario-para-el-sector-de-dispositivos-medicos

65 Segob. DECRETO por el que se reforman, adicionan y derogan diversas disposiciones de la Ley General de Salud. May 10 2023. DOF. [Accessed on July 9 2023]. Available at: https://www.dof.gob.mx/notadetalle.php?codigo=5688291&fecha=10/05/2023#gsc.tab=0

66 David Dollar. The Future of Asia-Pacific Value Chains, in USMCA Forward 2023, p. 33.

IV. How could Mexico maximize this opportunity?

There has been a resurgence of interest in *The Mexican Moment*, reflecting a renewed enthusiasm among investors to pursue projects in Mexico, spurred by the trend of *Nearshoring*.[67] Mexico consistently ranks among the top global choices for FDI. According to the United Nations Conference on Trade and Development (UNCTAD) Global Report for 2022 Mexico ranked as the world's tenth largest taker of FDI in both 2020 and 2021, and the fifth largest among developing countries.[68] Moreover, the Kearny annual relocation index places Mexico eighth among developing markets in its FDI confidence index.[69] Projections from HSBC Research suggest that FDI in Mexico could reach a record US$40 bn in 2023, compared to US$31.5 bn in 2022, noting that Mexico had already attracted US$29.04 bn in the first half of 2023.[70]

México has emerged as a focal point in discussions surrounding the realignment of supply chains to cater to the US market, mitigating reliance on China and minimizing associated expenses. Recent polls shed light on perceptions of Mexico and Latin America amidst this supply chain restructuring.

In May 2020, at the start of the pandemic, a Thomas poll surveyed 878 manufacturing and industrial professionals in North America, revealing that 64% anticipated a probable shift in production and supplies back to North America, with 28% deeming it "extremely probable".[71]

---

67 Yolanda Morales. Nuevo mexican moment, confirma J.P.Morgan. July 3 2023. [Accessed on July 5 2023]. Available at: https://www.eleconomista.com.mx/economia/Nuevo-mexican-moment-confirma-J.P.-Morgan-20230703-0141.html

68 UNCTAD. *World Investment Report 2022*, p. 9. available at: https://unctad.org/publication/world-investment-report-2022

69 Kearney. *America is ready for reshoring. Are you? Kearney's annual Nearshoring Index*. 2023. 19 pp.

70 Roberto Noguez. Inversión extranjera en México podría llegar a 40,000 mdd en 2023: HSBC. *Forbes*. January 30 2023. Available at: https://www.forbes.com.mx/inversion-extranjera-en-mexico-podria-llegar-a-40000-mdd-en-2023-hsbc/ and México superó los 29,000 mdd de IED en el primer semestre. *Expansión*. August 10 2023. [Accessed on August 11 2023]. Available at: https://expansion.mx/economia/2023/08/10/mexico-ied-economia-primer-semestre-2023

Matt Leonard. 64% of manufacturers say reshoring is likely following pandemic: survey. *Supply Chain Dive*. [Accessed on July 5 2023]. Disponible en: https://www.supplychaindive.com/news/manufacturing-reshoring-pandemic-thomas/577971/

Likewise, in 2022, following the COVID-19 pandemic's peak, Mexico's Central Bank conducted a survey on factors driving increased foreign company arrivals in Mexico seeking to benefit from its proximity to the United States.[72] Over 49% said that their decisions to relocate were due to commercial tensions between China and the US, while 49% cited the USMCA's rules of origin.

Additionally, a 2022 ABB poll of 1,610 executives in the United States and Europe found that 70% intended to shift their operations, with 37% opting to repatriate and 33% favoring *nearshoring* operations, moving to a closer location.[73] That same year, Chinese businesses accounted for 40% of FDI of *nearshoring* in Mexico with 80% of new industrial facilities.[74]

These insights reflect private sector considerations about geopolitical and strategic decisions regarding China's participation in global value chains. Mexico's share of US imports increased by two percent, from 13.4% in 2017 to 15.5% in July 2023.

Table 13. United States: imports and exports from Mexico, value in US dollars and Market Share (2017- 2023*)

Year	Imports (bn dollars)	Share of Global US Imports	Exports (bn dollars)	Share of Global US Exports
2023*	275.0	15.5%	187.0	16.0%
2022	454.7	14.0%	324.3	15.9%
2021	384.7	13.6%	276.5	15.8%
2020	325.4	13.9%	212.7	14.9%
2019	358.1	14.3%	256.4	15.6%
2018	346.5	13.6%	265.0	15.0%
2017	314.0	13.4%	243.0	15.7%

*January-July
Source: US Census Bureau. https://www.census.gov/foreigntrade/statistics/highlights/top/top 1712yr.html y https://www.census.gov/foreign-trade/statistics/highlights/topyr.html

72 Other factors include the COVID-19 pandemic (33.25%) and Russia's invasion of Ukraine (29.31%). Information gathered between June 17 and July 21 as part of Banco de México's interview program (response to the question: "In your opinion,to what factor or factors would you attribute the arrival of a greater number of foreign businesses to Mexico looking to benefit from its proximity to the United States?"). Available at:https://www.banxico.org.mx/TablasWeb/reportes-economias-regionales/abril-junio-2022/401EC828-D8C9-4421-8491-C70377B0E4BE.html

73 ABB survey reveals re-industrialization at risk from global "education gap" in automation. Press release. September 13 2022. [Accessed on July 5 2023]. Available at: https://new.abb.com/news/detail/94493/prsrl-abb-survey-reveals-re-industrialization-at-risk-from-global-education-gap-in-automation

74 R. Evan Ellis. El Compromiso de México con China y las Opciones para su Futuro. August 11 2023.

The US trade tensions with China allowed Mexico to slightly increase its share of the US market, but not significantly. In fact, Asian countries have experienced substantial growth in their share of US imports, despite lacking the geographical proximity enjoyed by Mexico and Canada. This underscores Asia's robust, advanced and sophisticated industrial base rendering it globally competitive at a global level across various sectors.

Although Mexico presents appealing qualities for supply chain relocation, there are looming challenges that could dampen these prospects:

- **From a macroeconomic perspective, Mexico offers stability** as its debt still enjoys investment grade; its exchange rate is flexible with no capital controls. Mexico's Central Bank exercises autonomy to set interest rates and is committed to controlling and reducing inflation, which has come down from 8.7% in September 2022 to 4.64% in August 2023.[75] **However, to fight inflation the Central Bank has increased interest rates peaking at 11.25%.**[76] Throughout the first half of 2023 these high rates caused a 34% increase in the financial costs of public debt, while government revenue suffered "a real annual drop of 1.6%".[77] Lastly, the Central Bank's international reserves exceeded US$203 bn in August 2023, equivalent to roughly four months' worth of imports.[78]

- **Mexico boasts a privileged logistical advantage for accessing the North American market thanks to its over 3,000 kilometer border with the United States.** This border hosts 48 crossings facilitating the daily passage of approximately $2 billion and over 70,000 trucks. Likewise, Mexico is interconnected with the US and Canada through railroads, enabling swift merchandise transportation between Chicago, Illinois and San Luis Potosí in just 4 days, compared to the 27 to 36 days required from Quanzhou, Fujian province to Long Beach, California. Furthermore, Mexico shares time zones with the US, and major manufacturing hubs enjoy direct flights between key cities in both countries. **However, the recent decision to reduce operations at Mexico City's International Airport (AICM), from 52 to 43 per hour as of January 2024, appears counterproductive to efforts aimed at strengthening Mexico's appeal for *nearshoring* operations.**

- **One of Mexico's competitive advantages lies in its low salary costs and skilled workforce, qualified for production line assembly and management.** Despite the minimum wage hikes approved during the López Obrador administration, Mexico remains a low-wage country particularly outside the northern border, where wage increases have been more pronounced.[79]

---

75 INEGI. Índice Nacional de Precios al Consumidor (INPC). Inflación mensual anualizada. [Accessed on September 22, 2023]. Available at: https://www.inegi.org.mx/temas/inpc/

76 Banco de México. Anuncio de Política Monetaria. August 10 2023. [Accessed on August 30 2023]. Available at: https://www.banxico.org.mx/publicaciones-y-prensa/anuncios-de-las-decisiones-de-politica-monetaria/%7B3E88ECF2-3506-EF3D-FAC3-63E615972207%7D.pdf

77 SHCP. *Informe sobre las Finanzas Públicas*, p. 43. Available at: https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/congreso/infotrim/2023/iit/01inf/itinfp_202302.pdf

78 Banco de México. Sistema de Información Económica. Activos internacionales, crédito interno y base monetaria. Access at: https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CF106&sector=4&locale=es

79 National minimum wage has grown to 207 pesos per day (12 dollars a day, or 365 dollars a month), a 20% increase compared to its 2022 levels. In the Northern Border area, daily wages for 2023 reach 312.41 pesos (18 dollars a day), 20% more than in 2022 (550 dollars a month).

Notably, wages in China now surpass those in Mexico by around 30 dollars a month. However,[80] **Mexico must face the challenge of increasing labor productivity to attract more FDI.** According to the INEGI Global Labor Productivity Economic Index (Índice Global de Productividad Laboral de la Economía, IGPLE), the manufacturing sector experienced a 2.1% growth in the first quarter of 2023 compared to the previous year. However, when measured against hours worked, there is a 2.3% drop compared to 2022.[81] This underscores the imperative need for improvement, as "achieving sustained growth necessitates an annual increase of 4.8% in thar index".[82]

Mexico operates as an open[83] economy, with an average MFN tariff applied to non-agricultural products was 6% in 2022. Leveraging its network of 14 FTAs with 52 countries across the Western hemisphere, Asia, Europe and the Middle East, producers and investors can enjoy duty-free access to a potential market of 1.3 billion consumers, that as a whole represent 60% of world GDP. This network provides a competitive advantage to Mexican investors and producers facilitating operations in Mexico and enabling access to import and export markets in preferential conditions. Additionally, Mexico has bolstered its position to attract international investment given its network of 30 Bilateral Investment Treaties (BIT) with 31 countries around the world. **However, on August 15, 2023, Mexico announced an increase of its MFN tariffs ranging from 5% to 25% on the imports of 483 products** (including steel, oils, bamboo, cardboard, footwear, rubber, soap, musical instruments, furniture, electrical material, clothing apparel, ceramics, textiles, glass, and others). This decision may increase operation costs for companies reliant on these resources within their chains of production.[84] **This measure is set to apply until July 31, 2025.**

Since the implementation of NAFTA in 1994 and USMCA on July 1st 2020, Mexico has been able to consolidate its productive integration with the US and Canada. The USMCA included rules related to commercial facilities and regulatory improvements, intellectual property rights protections, and provisions concerning the digital economy and e-commerce, as well as conflict resolution mechanisms to deal with any difference that may arise among the parties. As a result, the United States-Mexico-Canada Agreement provides Mexico with a significant competitive advantage by integrating it into these supply chains. By 2022 Canada and Mexico had become the US' first –and second– largest suppliers respectively. This shift was driven by robust supply and production chains in key sectors such as the automotive, auto parts, electric-electronic, pharmaceu-

80 Datosmacro.com. Comparativa de la evolución de Salario Mínimo Dólares de México *vs* China. available at: https://datosmacro.expansion.com/paises/comparar/mexico/china?sc=XE0H

81 INEGI. *Indicadores de Productividad Laboral y del Costo Unitario de la Mano de Obra. Primer Trimestre de 2023*, p. 8. Access at: https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2023/ipl/ipl2023_06.pdf

82 Quoted in Gerardo Hernández. Productividad laboral anota su nivel más bajo en 14 años. *El Economista*. June 7 2023. Available at: https://www.eleconomista.com.mx/capitalhumano/Productividad-laboral-anota-su-nivel-mas-bajo-en-14-anos-20230607-0053.html

83 WTO. *World Tariff Profiles. 2022*. Access at: https://www.wto.org/english/tratope/tariffse/tariffdatae.htm

84 SE. Decreto por el que se modifica la Tarifa de la Ley de los Impuestos Generales de Importación y Exportación. Diario Oficial. August 15 2023. Available at: https://dof.gob.mx/nota_detalle.php?codigo=5698661&fecha=15/08/2023#gsc.tab=0

ticals, and medical device, among others. **It is vital that Mexico can ensure a proper implementation of all USMCA provisions, and to advocate for the adherence to the agreement's provisions.** One notable example is the ruling published in January 2022 by the panel on rules of origin in the automotive sector, which favored Mexico. However, the United States has yet to explain how it will comply with this ruling, highlighting the ongoing importance of monitoring and enforcing USMCA commitments.

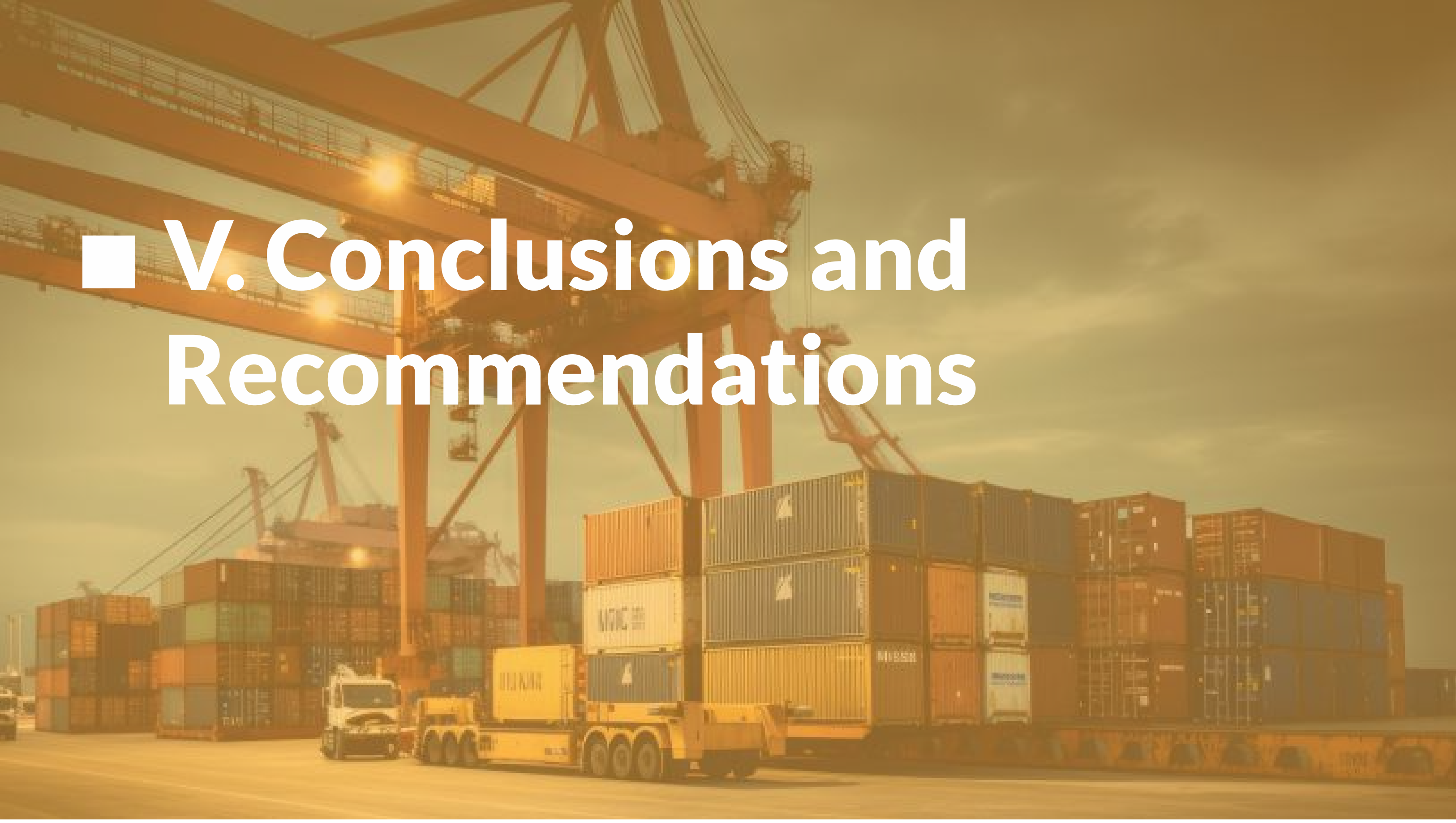
- **Mexico's boasts a diverse and complex economy, offering investors opportunities to set up operations across a wide variety of sectors and access the necessary infrastructure, skilled personnel and supportive business ecosystems for successful project development.** In 2021 Mexico ranked 15th among the world's largest economies, 12th as exporter and as importer, and 23rd among the most complex economies according to the Economic Complexity Index (ECI).[85] Likewise, Mexico and the United States have established joint production schemes with manufacturing contributing 18% of Mexico's GDP.[86]

- Foreign trade programs, such as the Program for the Manufacturing and Export Services Industry (Programa de la Industria Manufacturera, Maquiladora y de Servicios de Exportación (IMMEX), the Eighth Rule ('Regla Octava') or the Sector Promotion Program (Promoción Sectorial, PROSEC) allow duty-free imports of inputs, machinery and equipment. These imports play a vital role in supporting Mexico's overall exports.

Nearshoring has offered Mexico a one-of-a-kind opportunity to boost its productive investments, foster economic development and spur growth. However, it is equally important for Mexico to develop comprehensive public policies to tackle the various challenges identified by businesses and investors seeking to establish a presence in the country. These challenges include issues related to crime and safety, the rule of law, enhancing transportation and 5G communications infrastructure, and human resources upskilling, among others.

Nearshoring has offered Mexico a one-of-a-kind opportunity to boost its productive investments, foster economic development and spur growth. However, it is equally important for Mexico to develop comprehensive public policies to tackle the various challenges identified by businesses and investors seeking to establish a presence in the country. These challenges include issues related to crime and safety, the rule of law, enhancing transportation and 5G communications infrastructure, and human resources upskilling, among others.

[85] WTO. *World Trade Statistical Review. 2022*, p. 58. Available at: https://www.wto.org/english/rese/bookspe/wtsr2022e.pdf
[86] INEGI. Economía y Sectores Productivos. Estructura Porcentual (corrientes). Available at: https://www.inegi.org.mx/temas/pib/



V. Conclusions and Recommendations

The trade war between China and the US has sparked a trend towards decoupling supply chains over national security considerations, particularly in high-value technological sectors. This shift has led to nearshoring for Mexico on two fronts: with the US, where Mexico seeks to increase its market share, and with China, which remains a major supplier of resources, components, machinery and the equipment crucial for Mexico's export platform.[87]

According to the Global Businesses Council (2023), "Mexico has a 6-year window to draw in these new investments... generate between 2 and 4 million jobs by 2030, attract between 20 and 50 billion dollars annually, increase Mexico's GDP by 1.5% to 2.5% over the long term, and increase Mexico's labor productivity by 15-30% by 2030".[88]

The restructuring of supply chains does not mean that Global value chains (GVC) will disappear. However, opportunities will arise for investors to diversify beyond China, in a strategy commonly known as "China+1".[89]

We must consider that, while nearshoring is the result of a variety of factors, the Mexico's

87 Juan Carlos Moreno Brid. Taller de la KAS. August 16 2023.
88 Consejo de Empresas Globales. *NEARSHORING*. Cómo aprovechar esta oportunidad única e histórica para México y la región. 2023. P. 34. Available at: https://ceeg.mx/nearshoring/
89 C. Garrido. *México en la fábrica de América del Norte y el 'nearshoring'*. Cepal, 2022, p. 20.

"Mexico has a 6-year window to draw in these new investments... generate between 2 and 4 million jobs by 2030, attract between 20 and 50 billion dollars annually, increase Mexico's GDP by 1.5% to 2.5% over the long term, and increase Mexico's labor productivity by 15-30% by 2030".[88]

We must consider that, while nearshoring is the result of a variety of factors, the Mexico's opportunities stem from decisions made abroad, and particularly in the United States. There is a noticeable trend of supply chain relocalization from the US, particularly in four critical sectors the US has identified as essential for waging its technological rivalry with China.

opportunities stem from decisions made abroad, and particularly in the United States. There is a noticeable trend of supply chain relocalization from the US, particularly in four critical sectors the US has identified as essential for waging its technological rivalry with China. Mexico has potential in these sectors, but needs to adopt appropriate policies to capitalize on them. For example, if Mexico intends to draw part of the semiconductor production chain it will need to develop an integral strategy to compete against the support and subsidies offered by the US through the CHIPS Act or the IRA. This would entail robust support for research and development with financial resources and by supporting research projects. Likewise, the relocation of critical sectors will require Mexico to offer clean, reliable, and competitively priced energy, which so far has been a challenge due to inadequate investment in the electric sector and the legal uncertainties following the 2022 Electric Industry reform. A significant concern is the impact of Mining Law reforms in May 2023, affecting the supply chains of critical sectors that require critical minerals and rare earths to ensure their viability. Mexico should explore a way to ensure the mining sector will continue to be attractive to national and foreign investment to help with the relocation of supply chains.

Regarding sectors where decoupling has taken place due to the trade war between China and the US, Mexico has gained market share, primarily in sectors where it has traditionally excelled due to the regional value chain integration fostered by NAFTA, and now the USMCA. The best opportunities for Mexico lie in developing local businesses capable of creating supply chains that would allow it to produce inputs, parts and components required along the value chain. This trend is evident in the auto parts sector, where Tier 2 and Tier 3 companies from France and Germany are establishing operations in Mexico to participate in this integrated supply chain. The USMCA's strict rules of origin for the auto sector have spurred increased investment from different global players interested in integrating with the North American production chain.

Mexico has opportunities, but also major challenges. The priority should be to secure a good business investment environment that can

Opportunity beckons for Mexico, yet realizing its full potential requires the development of strategic public policies. These policies must enable supply chains to integrate deeply into the country's production network, engaging a broader spectrum of businesses, sectors, and regions.

offer certainty, and safety, and guarantee the Rule of Law. Likewise, if Mexico wants to secure its place in the North American supply chains it must ensure that all USMCA partners fully comply with it, as this would provide certainty and predictability for investors, and is the best insurance policy against government arbitrary decision.

Opportunity beckons for Mexico, yet realizing its full potential requires the development of strategic public policies. These policies must enable supply chains to integrate deeply into the country's production network, engaging a broader spectrum of businesses, sectors, and regions. This moment is pivotal for catalyzing national development; we cannot rely solely on market forces or the individual decisions of global and local companies. A cohesive national strategy involving all three branches of government, the private sector, and academia is imperative for seizing this opportunity and driving sustainable growth.

Public Policy Recommendations

Irrespective of the public policy decisions adopted by the US for relocating production of supply chains to their country or to nearby partners, friends and allies, Mexico can and should develop its own nearshoring public policy. This should offer the productive sector, at least, some basic conditions, to allow it to leverage the one-of-a-kind opportunities that nearshoring presents:

1. **Strengthen the Rule of Law and its institutions** by aggressively fighting corruption, prioritizing public safety and enhancing efforts against crime.

2. **Increase public investment, particularly in infrastructure**, as current levels are insufficient for significant economic growth. In the first quarter of 2023, total investment accounted for 22.2% of GDP, with private investment contributing 19.3% and public investment lagging at 2.9% of GDP, below the 3.3% of 2022. Investment levels are currently comparable to those seen in the first quarter of 2019, reflecting a 5% decline from the third quarter of 2015, which marked its recent peak.[90]

3. **Likely the most powerful economic instrument for making Mexico attractive for FDI is adhering to the USMCA.** Therefore, the three governments, and Mexico's in particular, must ensure that the USMCA terms are fully complied with by the three. To pick and choose which terms each country wishes to comply with would send the wrong signal to investors, as that creates uncertainty. Likewise, adhering only to provisions that benefit each individual country would undermine the integrity of the USMCA, creating an impression that governments are not fully co-

[90] México Cómo Vamos. Inversión privada repunta como proporción del PIB en el 1T2023. June 21 2023. [Accessed on August 20 2023]. Available at: https://mexicocomovamos.mx/publicaciones/2023/06/inversion-privada-repunta-como-proporcion-del-pib-en-el-1t2023/

mmitted to honoring international commitments with their primary trading partners. A scheduled review of the USMCA in 2026, offers a fresh opportunity to comprehensively assess the agreement's implementation. This review should ensure that the agreed-upon terms as endorsed by the countries' legislators in 2019 and 2020, are faithfully applied.

4. Building and modernizing infrastructure for land transportation, ports, airports, access to water, and telecommunications to guarantee access to 5G networks. Avoid introducing new requirements such as the SAT's "Carta Porte" that create unnecessary barriers to trade, particularly for SMEs.

5. Develop a skilled labor who can participate efficiently and effectively in high-tech businesses that set up in Mexico. Update the academic curriculum to align with the realities and needs of the manufacturing sector thereby generating more better paying jobs. Promote collaboration between business and academia and review the new terms of the General Law on Humanities, Sciences, Technologies, and Innovation (Ley General en Materia de Humanidades, Ciencias, Tecnologías e Innovación) to enable such cooperation. Additionally, advocate for enhanced English language training in both basic and higher education to bolster Mexico's competitiveness in the global labor market.

6. To benefit from nearshoring, the country must take advantage of its best and greatest resource: its human talent. One of the main challenges is to reduce labor informality, which in the second quarter of 2023 represented 51.4% of the economically active population, with women accounting for 54.8% and men for 48.7%. Even worse, states like Michoacan, Oaxaca, Veracruz or Zacatecas show levels above the national average.[91] A policy to promote labor formalization would allow more workers across the country to benefit from *nearshoring*.

7. Develop a public policy for the gradual yet sustained integration of local industry into supply chains, thereby promoting import substitution from China and other Asian countries. This requires supporting SMEs from easing regulations to offering support for training and certification, as well as guarantees from the State to secure preferential financing, allowing businesses to more easily join supply chains.

8. Ensure compliance with zero emissions and access to clean, cheap and renewable energy to participate in supply chains that demand clean energy and zero emissions production. Currently, consumers and businesses alike are committed to the use of clean energy as established in international agreements, such as the Paris Agreement or the Sustainable Development Goals (SDG). Thus, to bring in new investment, Mexico needs to offer renewable energies, and reliable power supply, at affordable prices and from clean sources. Likewise, advanced manufacturing and 4.0 industries require access to reliable and affordable electric power. While the Federal budget for 2023 included a 1.4% increase for Federal Electricity Commission (Comisión Federal de Electricidad, CFE) projects, it is "not enough to implement the energy transition".[92] Mexico urgently requires the

91 México Cómo Vamos. Semáforos Económicos. Informalidad Laboral. Consult at: https://mexicocomovamos.mx/semaforo-nacional/informalidad-laboral/

92 México Cómo Vamos. Paquete Económico 2023, ¿castillos en el aire? September 12 2022. Available at: https://mexicocomovamos.mx/paquete-economico-2023/

modernization of its electric sector if it wants to be a relevant actor in *nearshoring*, particularly in critical sectors.

9. There is a risk that this restructuring of supply chains will lead to greater inequality between north, central, and southern Mexico. Therefore, it is important to identify the sectors in which the southern and southeastern states of Mexico can effectively be integrated into the various supply chains in the production of goods and services. The incentives announced by the Ministry of Finance (Secretaría de Hacienda y Crédito Público, SHCP) on September 1, 2023, for all activities that take place in the government Development Centers (Polos de Desarrollo para el Bienestar, Podebis) will be eligible for a fiscal stimulus tied to their income tax, ally reaching up to 100% for a three year-period, contingent upon depending on the number of permanent jobs created.[93] This incentive can be extended for an additional three years with reductions ranging from 50% to 90% if additional jobs are created. This kind of incentive is valuable for attracting investment to the south and southeast but falls far short of the stimuli offered by the US or Canada as they try to attract investment in other critical sectors, with schemes including financial and credit stimuli, tax breaks for new equipment, deductions for generating clean energy or purchasing electric vehicles, among others. The kind of incentives Mexico is offering will be insufficient to draw in semiconductor investment in the south-southeast region.[94]

10. Mexico needs to break down the bottlenecks caused by its customs operations, as these have a direct effect on business competitiveness. Customs should not be seen only as a source of government revenue, but rather as the gateway for accessing international markets and connecting Mexico's economy with the world. Supply chains require effective and efficient customs operations. Mexico must work to professionalize customs personnel and invest in new equipment and systems that can ensure safe crossing of merchandise and expeditious handling of customs. Mexico is a signatory to the WTO Trade Facilitation Agreement, and has incorporated chapters on trade facilitation in major trade agreements such as the USMCA, the Comprehensive and Progressive Transpacific Partnership (CPTPP), and the Pacific Alliance. Through these agreements Mexico has committed to implementing all essential measures to promote efficiency and safety in customs operation.

11. Analysis of various policies and programs for promoting states that receive investment, such as Baja California, Jalisco, Nuevo Leon or Queretaro, to replicate Best Practices at the Federal and State level.

12. Continue with the negotiation of trade agreements with countries that could grant Mexico preferential access, such as South Korea, Ecuador, or Associated States to the Pacific Alliance. This network must continue to be reinforced, as Mexico's preferential access to several markets is a competitiveness factor that is taken into consideration by global manufacturing companies.

93 SHCP. LINEAMIENTOS para el otorgamiento de beneficios fiscales a los contribuyentes que realicen actividades económicas productivas al interior de los Polos de Desarrollo para el Bienestar del Istmo de Tehuantepec. *Diario Oficial*. September 1 2023.

94 Miller, C. & David Talbot. Mexico's Microchip Advantage. *Foreign Affaris*. August 28 2023 2023. P. 7.

Recommendations for the Private Sector

The private sector must make its own efforts and investments to fully leverage the nearshoring opportunity:

1. I**Identify market needs to understand the specific needs and demands, identifying products or services with competitive advantages in the relocation of supply chains.** It is recommended to carry out exploratory business missions to gain first-hand insights into the requirements of businesses interested in relocating to Mexico. While Mexico lacks a dedicated agency for attracting investment or promoting exports, some states have established agencies that conduct targeted business missions providing valuable information informed decision-making within the private sector. Additionally, private sector institutions, such as the Mexican Business Council on Foreign Trade, Investment and Technology (Consejo Empresarial Mexicano de Comercio Exterior, Inversión y Tecnología, Comce), play a crucial role in accessing international markets, particularly in Asia, where partnerships companies can be forged to bolster Mexico's supply chain capabilities.

2. **To become a supplier in global value chains, businesses must prioritize compliance with regulations and technical norms, for which they must have the relevant certifications.** While obtaining these certifications typically involves initial investment, they are the most effective way for integrating into the supply chain of large corporations. Certifications serve as an objective validation of a business's technical capabilities, demonstrating its ability to deliver goods or services at the highest industry standards.

3. **Adopt Environmental, Social and Governance (ESG) strategies** that are key to showing a company's commitment to the environment, the community, and to their management and operation. Moreover, for access to the North American market, businesses must adhere to labor and environmental standards, including initiatives such as reducing carbon emissions, implementing anti-corruption measures, and fulfilling other relevant requirements. Compliance with these standards is essential for market entry under the terms outlined in the USMCA agreement.

4. **Businesses must ensure they comply with intellectual property laws and regulations**. They must demonstrate they meet the relevant standards and consider investing in technology and innovation, as well as establish partnerships with academic centers to help drive innovation.

5. **Firms that relocate their supply chains often adopt digitization techniques in both their production and administrative processes**, which also require training their employees in the latest technologies. Therefore, Mexican companies interested in becoming suppliers must implement digitalization strategies. These may include, for example inventory management systems, streamlined production processes and efficient supply chains. Equally critical is ensuring cybersecurity measures and compliance with data privacy regulations to safeguard sensitive information.

6. **Ensure the financial sustainability of the business and secure access to credit lines** that enable operational continuity without compromising the company's viability.

7. **Perhaps one of the greatest challenges for businesses leveraging *nearshoring* and playing a pivotal role in supply chain relocation is their access to skilled human resources.** Businesses must make sure their employees receive comprehensive training across all areas to meet the quality and safety standards required by these supply chains.

8. **Companies should be prepared to forge alliances, partnerships, and strategic collaborations with local firms, and establish themselves close to clusters**. Cultivate strong relationships with suppliers and distributors to bolster operational efficiency and market reach.

9. **Invest in logistics** to take advantage of the country's geographic proximity to the US market.

10. **One of Mexico's key advantages for nearshoring is the preferential access that the USMCA offers.** Therefore, businesses must familiarize themselves with the terms of the USMCA and other Free Trade Agreements (FTAs) relevant to their sector. This knowledge enables businesses to assist their customers in complying with rules of origin, technical standards, environmental regulations, global certifications, and other crucial aspects.

Irrespective of the public policy decisions adopted by the US for relocating production of supply chains to their country or to nearby partners, friends and allies, Mexico can and should develop its own *nearshoring* public policy. This should offer the productive sector, at least, some basic conditions, to allow it to leverage the one-of-a-kind opportunities that *nearshoring* presents.

The private sector must make its own efforts and investments to fully leverage the *nearshoring* opportunity.

Acronyms

BIT	Bilateral Investment Treaties
bn	Billion
COFEPRIS	Mexico's Federal Commission for the Protection Against Sanitary Risks (Comisión Federal para la Protección contra Riesgos Sanitarios)
COMCE	Mexican Business Council on Foreign Trade, Investment and Technology (Consejo Empresarial Mexicano de Comercio Exterior, Inversión y Tecnología)
EU	European Union
FDA	US Food and Drug Administration
FDI	Foreign Direct Investment
GSP	Generalized System of Preferences
GVC	Global Value Chains
HLED	High-Level Economic Dialogue
IMMEX	Program for the Manufacturing and Export Services Industry (Programa de la Industria Manufacturera, Maquiladora y de Servicios de Exportación)
IRA	Inflation Reduction Act
NAFTA	North American Free Trade Agreement
NALS	North American Leaders' Summit
md	Million dollars
PROSEC	Sector Promotion Program (Promoción Sectorial)
SMEs	Small and Medium-sized Enterprises
UNCTAD	United Nations Conference on Trade and Development
USMCA	United States, Mexico and Canada Agreement
USTR	United States Trade Representative
WTO	World Trade Organization

Bibliography

Alix Partners. (2021). Revisiting Mexico: A critical link in global supply chains. May. https://www.alixpartners.com/media/17702/mexico-supply-chain-article_vf.pdf

ASSOMAC. Nearshoring effects: Mexican footwear exports to the USA increase. May 27 2022. https://assomac.it/en/news/news-from-world/nearshoring-effects-mexican-footwear-exports-to-the-usa-increase/

Banco de México. Sistema de Información Económica. Activos internacionales, crédito interno y base monetaria. https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CF106&sector=4&locale=es

Banco de México. Anuncio de Política Monetaria 10 de agosto de 2023. https://www.banxico.org.mx/publicaciones-y-prensa/anuncios-de-las-decisiones-de-politica-monetaria/%7B3E88ECF2-3506-EF3D-FAC3-63E615972207%7D.pdf Accessed on August 30, 2023.

Beaumont-Smith, G. (2023) Section 301 T*ariffs Cost Americans*, Not the Chinese. CATO Institute. February 27. https://www.cato.org/blog/section-301-tariffs-cost-americans-not-chinese Accessed June 2, 2023.

Bernal, Jhon. Baterías de Litio: oportunidades y desafíos en México. *Metalmecánica*. July 28, 2023. https://www.metalmecanica.com/es/noticias/baterias-de-litio-oportunidades-y-desafios-en-mexico Accessed on August 20 2023.

BNAmericas. (2023) México se convertirá en imán para inversiones en vehículos eléctricos. 8 de febrero de. https://www.bnamericas.com/es/analisis/mexico-se-convierte-en-iman-para-inversiones-en-vehiculos-electricos Accessed on June 2 2023

CATL frena plan de inversión en baterías para vehículos eléctricos en EEUU y México. Portal Movilidad. October 24, 2022. https://portalmovilidad.com/catl-frena-plan-de-inversion-en-baterias-para-vehiculos-electricos-en-eeuu-y-mexico/

Cervantes, S and A. Gutiérrez. (2022). Industria mexicana de dispositivos médicos mantiene liderazgo, *Mexico Industry*. December 1. https://mexicoindustry.com/noticia/industria-mexicana-de-dispositivos-medicos-mantiene-liderazgo

Comisión Nacional de Inversiones Extranjeras. Informe estadístico sobre el comportamiento de la inversión extranjera directa en México. (January-December 2022) 17 pp.

Consejo de Empresas Globales. Hacia una estrategia efectiva de relocalización de nuevas industrias en Norteamérica. Cómo aprovechar esta oportunidad única e histórica para México y la región. 2023.

Crowley, Emily, José Sevilla-Macip and Rafael Amiel. Mexico nearshoring potential for critical minerals. S&P Global Market Intelligence. Blog. July 26, 2022 https://www.spglobal.com/marketintelligence/en/mi/research-analysis/mexico-nearshoring-potential-for-critical-minerals.html Accessed on August 15, 2023.

Dezenski, E. K. and John Austin. (2023). *Ally Shoring: A Powerful Strategy for Near-shoring*, U.S.-Mexico Foundation. May.

Dollar, D. (2022). "Mexico's evolving role in global supply chains," in USMCA Forward: Building a more competitive, inclusive, and sustainable North American economy. February. https://www.brookings.edu/articles/usmca-forward-building-a-more-competitive-inclusive-and-sustainable-north-american-economy-supply-chain/ Accessed on June 15th 2023.

Dollar, D. (2023) "Chapter 2. The Future of Asia-Pacific Value Chains," en Joshua P. Meltzer y Brahima S. Coulibaly. *USMCA Forward 2023. Building More Integrated, Resilient and Secure Supply Chains in North America*. Global Economy and Development at Brookings. pp. 30-39. https://www.brookings.edu/articles/usmca-forward-2023-building-more-integrated-resilient-and-secure-supply-chains-in-north-america/ Accessed June 16 2023.

Ellis, R. Evan. El Compromiso de México con China y las Opciones para su Futuro. Diálogo Américas, August 11, 2023.

García, G. When China and the US have a trade war, Mexico Wins. https://oec.world/es/blog/post/when-china-and-the-us-have-a-trade-war-mexico-wins Accessed el 15 de julio de 2023.

Garrido, C. (2022). México en la fábrica de América del Norte y el nearshoring (LC/MEX/TS.2022/15/-*), Ciudad de México, Comisión Económica para América Latina y el Caribe (CEPAL). https://repositorio.cepal.org/bitstream/handle/11362/48056/4/S2200726_es.pdf Accessed July 5, 2023.

Government of Mexico. Data México. https://www.economia.gob.mx/datamexico/ Accessed August 1, 2023.

Government of Canada. Global Affairs Canada. "Canada strengthens ties with Mexico through inaugural Canada-Mexico High-Level Economic Dialogue." August 15, 2022. https://www.canada.ca/en/global-affairs/news/2022/08/canada-strengthens-ties-with-mexico-through-inaugural-canada-mexico-high-level-economic-dialogue.html. Consultado el 1 de agosto de 2023.

Hernández, E. (2023) "Unas 80 empresas de Corea del Sur quieren invertir en electromovilidad y chips en México" *Forbes*. July 11. https://www.forbes.com.mx/unas-80-empresas-de-corea-del-sur-quieren-invertir-en-electro movilidad-y-chips-en-mexico/ Accessed on July 13 2023

IMCO. (2023). *Nearshoring*: oportunidad que desafía a las entidades mexicanas. 29 pp.

INEGI. Índice Nacional de Precios al Consumidor (INPC). Inflación mensual anualizada. https://www.inegi.org.mx/temas/inpc/ Accessed on August 30 2023

INEGI. Indicadores de Productividad Laboral y del Costo Unitario de la Mano de Obra. Primer Trimestre de 2023, p. 8. https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2023/ipl/ipl2023_06.pdf Accessed on July 13 2023

INEGI. Economía y Sectores Productivos. Estructura Porcentual (current) https://www.inegi.org.mx/temas/pib/

Kearney. (2023). America is ready for reshoring. Are you? Kearney's annual Nearshoring Index. 19 pp

McBride, J. and Andrew Chatzky. (2019). Is 'Made in China 2025' a Threat to Global Trade? May 13. https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade Accessed on July 1 2023.

México. Presidencia de la República. (2023) Declaración de Norteamérica. January 10 2023. https://www.gob.mx/presidencia/prensa/declaracion-de-norteamerica-dna Accessed on August 20 2023.

México. Presidencia de la República. (2023) Hoja de ruta: Entregables clave de la X Cumbre de Líderes de América del Norte. https://www.gob.mx/presidencia/prensa/hoja-de-ruta-entregables-clave-de-la-x-cumbre-de-lideres-de-america-del-norte Accessed on August 20 2023.

Mexico. SRE. (2022). 2da Reunión Anual del Diálogo Económico de Alto Nivel México-Estados Unidos (DEAN). https://www.gob.mx/sre/prensa/2a-reunion-anual-del-dialogo-economico-de-alto-nivel-mexico-estados-unidos-dean Accessed on August 20 2023.

México Cómo Vamos. Inversión privada repunta como proporción del PIB en el 1T2023. June 21, 2023. https://mexicocomovamos.mx/publicaciones/2023/06/inversion-privada-repunta-como-proporcion-del-pib-en-el-1t2023/ Accessed on August 20 2023.

Miller, C. (2022). *Chip War. The Fight for the World's Most Critical Technology*. New York, Scribner.

Miller, C. and David Talbot. Mexico's Microchip Advantage. *Foreign Affaris*. August 28, 2023. 10 pp.

Noguez, R. (2023). Inversión extranjera en México podría llegar a 40,000 mdd en 2023: *HSBC Forbes*. January 30, 2023. https://www.forbes.com.mx/inversion-extranjera-en-mexico-podria-llegar-a-40000-mdd-en-2023-hsbc/ Accessed on August 20 2023.

WTO. Statistics. Evolution of Trade Under the WTO. https://www.wto.org/english/res_e/statis_e/trade_evolution_e/evolution_trade_wto_e.htm#fntext-1 Accessed on may 29 2023

WTO. Global Trade Outlook and Statistics. 28 pp. https://www.wto.org/spanish/res_s/booksp_s/trade_outlook23_s.pdf Accessed on may 29 2023

WTO. China initiates WTO dispute complaint targeting US semiconductor chip measures. December 15, 2022. https://www.wto.org/english/news_e/news22_e/ds615rfc_15dec22_e.htm Accessed on june 29 2023.

Ortiz-Mena, A. and Diego Marroquín Bitar. (2023). "Relocalización de las cadenas de suministro en México: atracción y repulsión," en *Grupo México en el Mundo. Doscientos años de relaciones diplomáticas entre México y el Mundo*. Cd. de México. February. pp. 61-68.

Pineda, M. (2022). *El nuevo escenario para el sector de dispositivos médicos*. Modern Machine Shop Mexico. 1 de mayo. https://www.mms-mexico.com/articulos/el-nuevo-escenario-para-el-sector-de-dispositivos-medicos Accessed on may 29 2023

SEGOB. DECRETO por el que se reforman, adicionan y derogan diversas disposiciones de la Ley General de Salud. 10 de mayo de 2023. DOF. https://www.dof.gob.mx/nota_detalle.php?codigo=5688291&fecha=10/05/2023#gsc.tab=0 Accessed on June 9 2023.

Shallal, A. y Joe Cash. (2023) "Yellen criticizes China's 'punitive' actions against US companies, urges market reforms," Reuters. 7 de julio. https://www.reuters.com/world/yellen-urges-china-adopt-market-reforms-insists-us-not-decoupling-2023-07-07/ Accessed on July 9 2023

UNCTAD. World Investment Report 2022. https://unctad.org/data-visualization/global-foreign-direct-investment-flows-over-last-30-years Accessed on may 29 2023

US Census Bureau. Trade data. https://www.census.gov/foreign-trade/balance/c5700.html

US Chamber of Commerce. U.S. Chamber Co-Hosts 12th U.S.- Mexico CEO Dialogue; Calls for Improvement in USMCA Implementation.

USTR. The President's 2023 Trade Policy Agenda. 2023.

USTR. 2022 USTR Report to Congress on China's WTO Compliance. February 2023.

USTR. Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974. March 22 2018. 215 pp.

USTR. (2019) Federal Register / Vol. 84, No. 161 / Tuesday, August 20/ Notices https://ustr.gov/sites/default/files/enforcement/301Investigations/Notice_of_Modification_%28List_4A_and_List_4B%29.pdf Accessed May 25 2023.

The White House, June 8, 2021. FACT SHEET: Biden-Harris Administration Announces Supply Chain Disruptions Task Force to Address Short-Term Supply Chain Discontinuities. https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/08/fact-sheet-biden-harris-administration-announces-supply-chain-disruptions-task-force-to-address-short-term-supply-chain-discontinuities/ Accessed on May 29 2023

WTO. *World Tariff Profiles 2022*. https://www.wto.org/english/tratop_e/tariffs_e/tariff_data_e.htm. Accessed on June 10 2023

WTO. *World Trade Statistical Review. 2022*. https://www.wto.org/english/res_e/booksp_e/wtsr_2022_e.pdf Accessed on May 20 2023.

Zetina Islas, Daniel Eliseo, María del Socorro Cruz Rivera and C. Iridian Divani Reyes Flores. Análisis de la participación de la industria del juguete mexicano en el mercado internacional. Revista El Buzón de Pacioli, Año XX, No. 115 October-December2020. Pp. 5-10. https://www.itson.mx/publicaciones/pacioli/SiteAssets/Paginas/pacioli/Pacioli-115-eBook.pdf Accessed on August 29 de 2023.

KAS Paper

KONRAD
ADENAUER
STIFTUNG

Dr. Luz María de la Mora
luzmadelamora@gmail.com
Twitter: @luzmadelamora

From December 2018 to October 2022, she served as undersecretary of foreign trade in the Mexican Secretariat of Economy. She was previously assistant undersecretary for economic relations and international cooperation in the Mexican Secretariat of Foreign Affairs and assistant undersecretary for international trade negotiations in the Mexican Secretariat of Economy.

De la Mora previously served as the representative of the Mexican Secretariat of Economy to the European Union and as an alternative representative of Mexico to the Latin American Integration Association. She served as economic counselor at the embassy of Mexico in Washington, DC, and was part of the North American Free Trade Agreement (NAFTA) negotiating team.

She holds a bachelor's degree in international relations from *El Colegio de México*, a master's degree in international political economy from Carleton University, and a PhD in political science from Yale University.