OPINION

Nearshoring paradox: Why trade tells a different story than investment in Mexico

The nearshoring paradox: Why trade tells a different story than investment in Mexico

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Guest columnist

For some time now, I've discussed the challenges of quantifying the nearshoring phenomenon in Mexico during my keynote presentations. The need for more data has made it difficult to separate reality from expectations. However, recent outcomes from Deloitte's Mexico Investment Monitor, released this October, provide insights into this complex narrative — and the story it tells is not what many expected, including me.

Nearshoring suggests that as companies seek to diversify their supply chains away from China, Mexico will naturally emerge as a primary beneficiary. The reality, as revealed by the data in this report, presents a more nuanced picture that challenges our assumptions about the nearshoring boom.

First, let's examine the global context. According to Deloitte's report, foreign direct investment (FDI) worldwide has been on a downward trend, having decreased by 31% from its 2016 peak. This decline has been particularly apparent in China, where net FDI has declined by almost 90% since 2021. However, the investments exiting China have yet to find their way to Mexico. Instead, other Asian economies have captured the biggest share of redirected investment flows.

The numbers are impressive. Countries like the United Arab Emirates with 124 percent growth, Japan with 115 percent growth, Singapore with 67 percent growth, Korea with 45 percent growth, and Vietnam with 33 percent growth, have seen significant increases in cumulative FDI over five-year periods, specifically comparing 2014-2018 to 2019-2023, Mexico's growth has been almost flat at 1 percent. This disparity raises important questions about Mexico's competitiveness in attracting global investment despite its apparent advantages in proximity to the U.S. market and its integration with North American supply chains.

Foreign Direct Investment is typically categorized into three components: reinvestments of profits by established companies, new investments from first-time investors, and intercompany accounts between subsidiaries. Looking specifically at new investments, which best indicate Mexico's appeal to first-time investors, Deloitte's analysis shows that in the second quarter of 2024, new investments in Mexico amounted to $29 billion, with FDI new investments as a share of GDP in 2023 sitting at 0.3% — the same level as in 1972. More recent data from Mexico's Ministry of Economy shows that total FDI reached $64 billion from January to September 2024, compared to $110 billion for all of 2023, representing a 41.8% decrease. While there are still three months left in 2024 to make up for this deficit, it seems unlikely that such a gap can be closed quickly.

However, this is where the narrative takes an unexpected turn. While investment figures paint a sobering picture, trade data tells a remarkably different story. Mexico's export sector has undergone an extraordinary transformation, with trade volume growing at more than six times the rate of the overall economy. According to Deloitte's report, since December 2019, trade volume has averaged an impressive 8.3% year-over-year growth, while economic activity has grown at just 1.3%.

The manufacturing sector, in particular, has been noteworthy, growing at an average annual rate of 2.3% since December 2019. Certain subsectors have shown particularly strong performance within this manufacturing growth: electrical equipment manufacturing has grown by 5.5%, the automotive industry by 4.8%, and computer and mobile accessories production by 3.4%. These figures suggest that existing capacity is being utilized more intensively, even without substantial new investment.

This divergence between investment and trade patterns has resulted in a historic shift: last year, Mexico surpassed China and Canada to become the United States' top trading partner, maintaining the same trend this 2024. U.S. imports from Mexico have continued to grow steadily while those from China have declined, highlighting the increasing integration of North American supply chains. The strong regional ties are particularly evident in states like Texas, California, and Michigan, which lead the nation in imports from Mexico.

The implementation of the USMCA and U.S. tariffs on Chinese goods have undoubtedly contributed to these shifting trade patterns. However, this encouraging panorama faces significant uncertainty as we approach the U.S. presidential elections. Both Donald Trump and Kamala Harris have expressed positions that could impact the current trading status quo.

President Trump has proposed tariffs of up to 200% on Mexican imports, while Vice-President Harris has criticized aspects of the USMCA, suggesting that the agreement's scheduled 2026 review could be used to address environmental and labor concerns. Both candidates' previous experiences in the White House — Trump as president and Harris as vice president — offer insights into how they might approach these issues if elected.

The rhetoric around imposing tariffs deserves particular attention. North American supply chains are now so deeply integrated that any significant tariffs would negatively impact U.S. companies and consumers. The automotive industry, one of the most integrated sectors under the USMCA, would be particularly vulnerable to disruption.

In this context, the scheduled 2026 USMCA review takes on critical importance. Mexico must prepare for these negotiations by highlighting its achievements while focusing on opportunities in technological development and the semiconductor industry. Establishing Mexico as a critical player in high-technology supply chains could provide a powerful argument for maintaining and strengthening regional economic integration.

However, Mexico faces its own challenges in providing legal certainty for foreign investment. Recent judicial reforms have generated considerable controversy, raising concerns among international investors and observers about their potential negative impact on nearshoring opportunities. Mexico must find a balance between pursuing reforms and maintaining a stable, predictable legal environment — which is crucial for sustaining and attracting investment in an increasingly competitive global context.

The trade relationship between Mexico and the United States has proven resilient and mutually beneficial. Despite electoral rhetoric and global challenges, both countries must recognize the strategic importance of maintaining and strengthening these economic ties. The future of North America as an economic powerhouse will largely depend on the ability of these trading partners to adapt and collaborate.

Looking ahead, the data suggests that while the nearshoring story is more complex than initially presented from an investment perspective, the integration of North American supply chains continues to deepen and evolve.

Policymakers will have to translate this increased trade activity into sustained investment and economic development. This will require addressing infrastructure needs, strengthening institutional frameworks, and maintaining political stability—all while navigating the complexities of an increasingly uncertain global economic landscape.

The nearshoring story in Mexico may not be unfolding as many expected, but it's far from over. The real question is whether Mexico can leverage its current trade advantages to attract the investment needed for long-term sustainable growth. The answer will depend not just on global economic conditions but also on the policy choices made on both sides of the border in the coming years.

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