BIS Bulletin

No 94

Evidence of nearshoring in the Americas?

Ana Aguilar, Julián Caballero, Jon Frost and Alejandro Parada

October 2024

BIS Bulletins are written by staff members of the Bank for International Settlements, and from time to time by other economists, and are published by the Bank. The papers are on subjects of topical interest and are technical in character. The views expressed in them are those of their authors and not necessarily the views of the BIS. The authors are grateful to Claudio Borio, Denis Gorea, Deniz Igan, Benoît Mojon, Han Qiu, Alexandre Tombini and James Yetman for comments and to Maja Višček for administrative support.

The editor of the BIS Bulletin series is Hyun Song Shin.

This publication is available on the BIS website (www.bis.org).

© *Bank for International Settlements 2024. All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.*

ISSN: 2708-0420 (online)
ISBN: 978-92-9259-795-5 (online)

Ana Aguilar Julián Caballero Jon Frost Alejandro Parada
Ana.Aguilar@bis.org Julian.Caballero@bis.org Jon.Frost@bis.org Alejandro.Parada@bis.org

Evidence of nearshoring in the Americas?

Key takeaways

- *Trade and geopolitical tensions have coincided with a shift in US imports away from China towards other countries well integrated into global value chains, particularly in Southeast Asia and Mexico.*
- *Canada, Chile, Costa Rica, the Dominican Republic and Panama have also seen gains in trade shares with the United States, but Brazil, Colombia and Peru have seen a fall in US import shares.*
- *In Mexico, earnings calls and surveys show strong interest in nearshoring, and manufacturing has been booming. Yet other indicators, such as foreign direct investment (FDI) and job growth in manufacturing, give mixed signals about the economy-wide impact of nearshoring.*

After decades of deepening economic integration, trade conflicts and geopolitical tensions have recently disrupted global trade patterns (IMF (2023a, 2023b), Qiu et al (2024)). Tariffs and non-tariff measures on goods and investment, and threats of further measures, have increased economic and trade policy uncertainty (Graph 1.A). While the focus is on tensions between the United States and China, restrictions on imports and investment have risen globally, particularly after the Covid-19 pandemic (Graph 1.B).

Widespread adoption of restrictions could lead to a reshaping of economic activity and trade flows, with production shifting to countries closer to or more geopolitically aligned with destination markets. These shifts have the potential to reshape global value chains (GVCs) and result in the reshoring, nearshoring or friendshoring of trade.[1] This Bulletin takes a closer look at evidence of shifting trade patterns in the Americas, with an emphasis on the realignment of import sources in the United States and its largest trading partner – Mexico.

Which countries have benefited from shifting US import sources and why?

The United States' import sources have changed notably since the introduction of tariffs in 2018.[2] Imports from China fell (see eg Alfaro and Chor (2023) and Fajgelbaum et al (2023)), with China's share of annual US imports decreasing by 8 percentage points between end-2017 and June 2024 (Graph 1.C). The disruption in the supply of Chinese products to the US market created an opportunity for other countries to fulfil the resulting unmet demand. Indeed, as tariffs increase the price of Chinese imports, alternatives from other countries (and domestic firms) become relatively cheaper, thus shifting demand.

[1] Reshoring can be defined as a reconfiguration of GVCs that moves back to domestic production. Nearshoring and friendshoring can be understood as a reconfiguration of GVCs in favour of jurisdictions that are geographically near or geopolitically aligned (including those with outstanding free trade agreements with destination markets, eg with the United States).

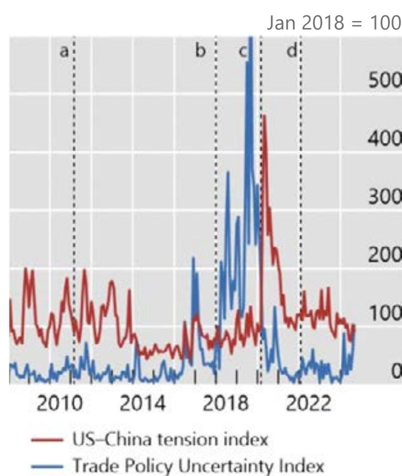
[2] The US first imposed tariffs on solar panels and washing machines in January 2018. While the tariffs were not country specific, most US imports of such goods came from China at the time and hence the measure was widely seen as targeting China.

Firms in Southeast Asia have been the main beneficiaries of trade realignment. Vietnam's import share rose the most relative to its pre-tariffs share, from 2.0% of annual US imports to 3.9% by mid-2024 (Graph A1 in the annex). Mexico and Canada have benefited modestly, gaining 2.2 and 0.5 percentage points, respectively, yet enough for Mexico to become the largest US import partner (Graph 1.C).

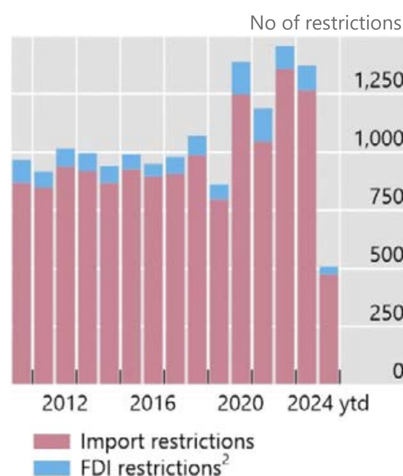
Global trends and shocks are affecting trade

Graph 1

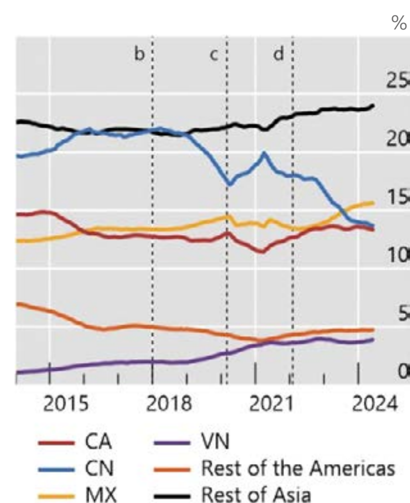
A. Trade and economic policy uncertainty have risen



B. Restrictions on trade have greatly increased in recent years[1]



C. US imports have shifted away from China[3]



[a] Great East Japan Earthquake, March 2011. [b] United States begins imposing tariffs on selected goods, January 2018. [c] Outbreak of Covid-19 pandemic, March 2020. [d] Russian invasion of Ukraine, February 2022.

[1] Number of restrictions to imports and foreign direct investment (FDI) imposed annually worldwide. [2] For 2024, data are reported up to July 2024. [3] Shares of individual countries or country groups in total US imports. Data are reported up to May 2024.

Sources: Caldara et al (2020); Rogers et al (2024); IMF; national data; BIS.

Using the share of annual imports in December 2017 as a benchmark, US imports from China in the period from end-2017 to mid-2024 were 21% lower than what they would have been had China kept its share of US imports constant (Graph 2.A). Based on this counterfactual, the countries that increased their market share the most are in Asia, including Vietnam (66%) and Singapore (38%). In the Americas, Costa Rica (31%), the Dominican Republic (9%) and Panama (6%) saw the largest increases.

The differences in gains in US import share are in part explained by integration into GVCs. Countries that were highly integrated into GVCs benefited more from the shift in US imports away from China (Graph 2.B).[3] Most countries in Latin America and the Caribbean (LAC) – except Mexico and some smaller countries – have historically exhibited low integration into global and regional value chains. Many concentrate on upstream export products, like fuels, metals and food, and saw little gains in US imports recently.

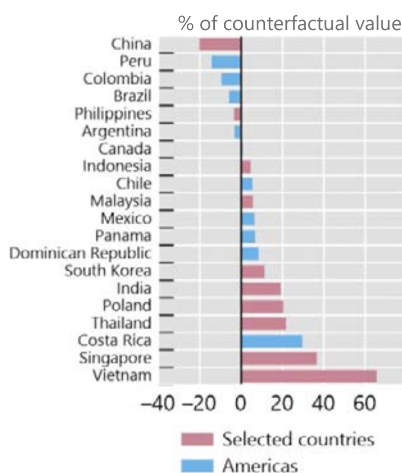
Evidence of friendshoring is mixed. Some countries with existing free trade agreements with the United States benefited from the realignment of US import sources. Costa Rica in the Americas and Australia, South Korea and Singapore in the Asia-Pacific region saw gains (Graph 2.C). That said, other countries with free trade agreements with the United States, including Colombia, Israel and Peru, saw market shares fall. Indeed, countries with no free trade agreement with the United States (notably Vietnam) saw significant gains (from a low base). Similarly, geopolitical alignment with the United States, as

[3] The shifts are consistent with evidence of a lengthening of global supply chains, particularly the decrease in direct linkages from China to the United States, as documented by Qiu et al (2023). See also IMF (2023b) and Mesquita Moreira et al (2022).

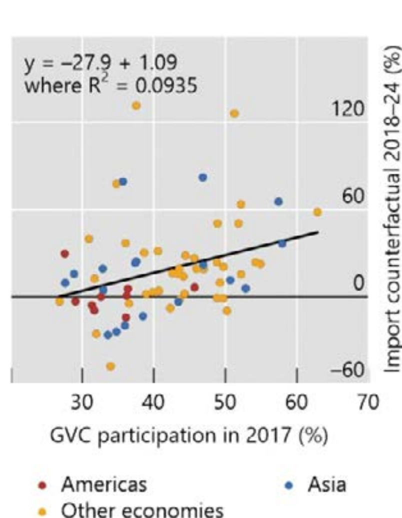
measured by voting patterns in the United Nations, is not correlated with recent gains in US import share (Aguilar et al (2024)).[4]

Few LAC countries have benefited from shifts in US import sources — Graph 2

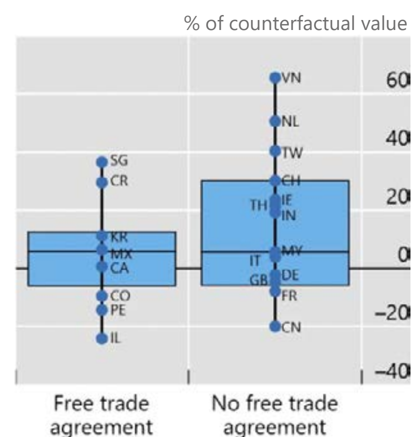
A. Asia-Pacific countries in particular gained US import share[1]



B. Countries more integrated into GVCs gained more US import share[2]



C. A few, but not all, countries with trade agreements benefited [1]



[1] Cumulative difference in the period January 2018–March 2024 between observed imports to the United States and a counterfactual assuming a constant import share as of December 2017. China refers to the aggregate of mainland China, Hong Kong SAR and Macao SAR. [2] GVC participation in 2017 is based on the metric of Borin et al (2021) computed with the OECD's Inter-Country Input-Output tables. GVC participation encompasses forward GVC participation, backward participation and two-sided GVC participation.

Sources: IMF; Borin et al (2021); OECD; BIS.

Looking at the changes in US import shares at the product level sheds further light on the shifts. For example, Alfaro and Chor (2023) document that the factors influencing the gain in market share differ across products and countries. Vietnam's US import share of manufacturing products rose more for products that are further upstream and that have a lower labour share (such as electrical and electronic parts and components). Mexico's US import share rose more for products that are less upstream and feature a higher labour share (such as final assembly in the auto parts–cars value chain). Costa Rica's gains were concentrated in medical equipment and supplies (Alfaro (2024)).

Private sector sentiment about nearshoring and investment in Mexico

The opportunities from nearshoring have sparked much interest in the region, particularly in Mexico. For example, the Inter-American Development Bank (2022) estimated a potential increase of $78 billion in exports of goods and services from LAC, with $35 billion in goods exports coming from Mexico (along with $8 billion from Brazil and $4 billion from Argentina). Nearshoring is top of mind among listed Mexican firms, with a rising share of firms mentioning the topic in their calls with analysts in recent years. In 2022, about 40% of firms mentioned the topic. Sentiment around nearshoring is even more positive than overall sentiment among Mexican firms (Graph 3.A). A private financial group recently launched a "Nearshoring Barometer" and reports investment announcements of US$123 billion in the country as of August 2024 (GBM (2024)). One academic study estimates that by end-2024, Mexico's GDP could be 2 percentage points higher than in a counterfactual with no US–China trade tensions (Chiquiar and Tobal (2024)).

[4] Conversely, for a global sample over 2017–23, geopolitical alignment *is* associated with greater contemporaneous quarterly bilateral trade volumes (Qiu et al (2024)).

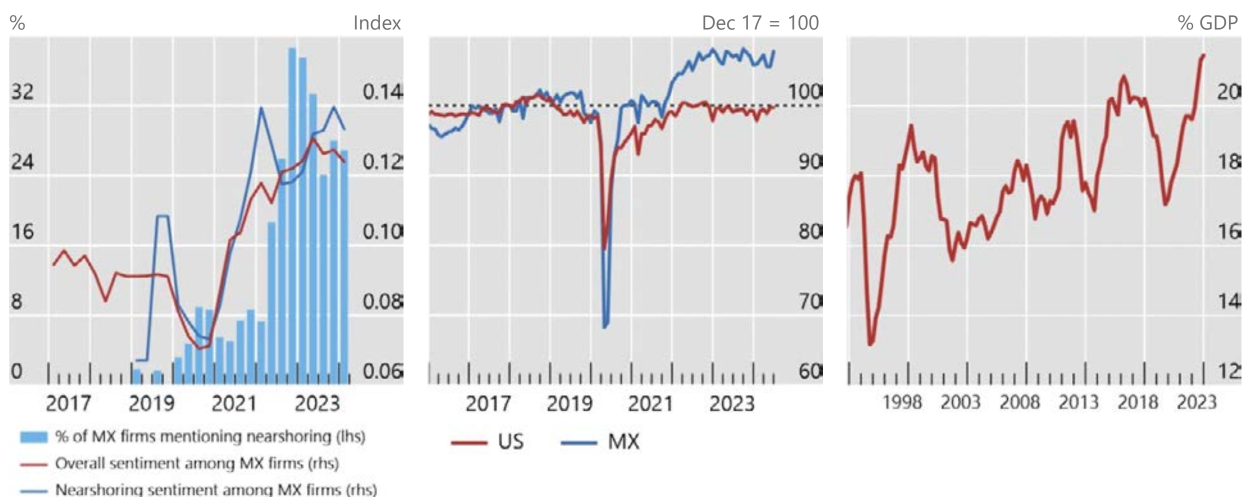
Private sector sentiment, manufacturing output and investment show indications of nearshoring in Mexico

Graph 3

A. Private sector is quite upbeat about nearshoring in Mexico[1]

B. Manufacturing activity in Mexico experienced a stronger recovery compared with the US

C. Private investment as percentage of GDP has risen[2]



[1] Sentiment analysis is based on the Huang et al (2023) FinBERT model. A higher value means a more positive perception of nearshoring. Data are extracted from earnings calls of listed Mexican firms during the Q1 2017–Q1 2024 period. [2] Three-month moving average.

Sources: Huang et al (2023); S&P Capital; Bank of Mexico (2023); national data; BIS.

Coinciding with the nearshoring buzz, manufacturing production in Mexico is booming (Graph 3.B). We focus on the manufacturing sector because 80% of Mexico's exports go to the United States and 90% of those exports are manufactured products. After recovering strongly following the Covid-19 pandemic, manufacturing output is now 10% higher than at end-2019, while US manufacturing has been stagnant, growing by only 1%. Furthermore, the share of the variance of monthly changes in manufacturing output in Mexico explained by monthly changes in US manufacturing dropped from close to 80% before the pandemic to just 25% since. Because this has occurred while the country increased its share of US imports, this could indicate that nearshoring is driving manufacturing activity in Mexico.[5]

Domestic investment in Mexico has also risen. At 21.5% of GDP, private investment reached its highest value in the last four decades in 2023 (Graph 3.C). This has been associated with greater non-residential construction, such as in industrial parks in Northern Mexico, and greater imports of machinery and equipment (Graph A2 in the annex). One could argue that investment has been driven by the one-time investments in transport infrastructure prioritised by the current administration. However, while public investment is concentrated in the southeast of the country (Graph A3.A), private investment is stronger in the north (Graph A3.B) and more likely relates to nearshoring. Puzzlingly, overall job growth in manufacturing has slowed recently despite the strong manufacturing output and investment (Graph A4).

Adding to the puzzle, overall FDI to Mexico has underperformed peers in Asia and the Americas and has even dropped off in recent months (Graph 4.A).[6] While FDI has not increased, its composition has changed: in 2023 reinvestment of profits was significantly larger than new investment (Graph 4.B). This could imply that firms already established in Mexico increased their production, but not many new firms

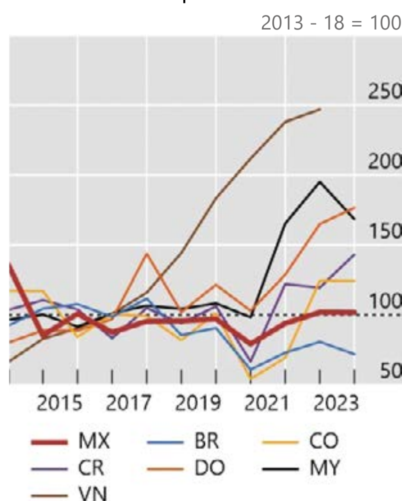
[5] The Bank of Mexico estimates that output and employment among firms in manufacturing sectors most likely to benefit from nearshoring grew 11% and 4% faster in 2020–23 than what would be expected in a counterfactual based on sectors not likely to benefit (Bank of Mexico (2023)).

[6] FDI in Mexico may be underestimated, as firms record the customs value of imported capital goods as FDI in new investments and reinvestment of profit components. Yet this significantly understates the value of assembled, operational and producing assets. Generally, these assets are under a lease regime in cost-based operations, resulting in lower reported values.

set up operations. Given the deep integration of Mexico into US value chains, the reinvestment of profits could also relate to spillovers of reshoring of US firms (ie relocation of production to the United States).

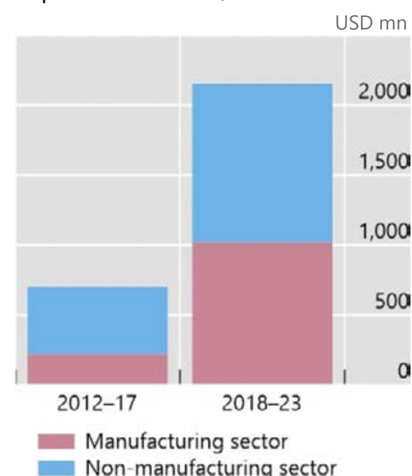
FDI inflows into Mexico have not been large, and much reflects reinvestment — Graph 4

A. FDI inflows into Mexico have been weaker than for peers[1]



B. Composition of FDI in Mexico by type of investment

C. Chinese FDI into MX soared since imposition of tariffs, from a low base[3]



[1] New equity direct investment by non-residents (inward FDI). Annualised values. [2] Transactions originated by debts between companies established in Mexico and other linked companies based abroad belonging to a same corporate group. [3] Cumulative values of net FDI inflows.

Sources: IMF; national data; BIS.

Meanwhile, there are debates on whether Mexico has become a launch pad for Chinese firms to access the US market. Indeed, Chinese FDI into Mexico has increased threefold since the introduction of tariffs in 2018 and has become more concentrated in manufacturing. Yet even with this increase, Chinese FDI represented just 1.2% of the total FDI in the country in 2023.[7] Thus, Chinese investment is still very small and is unlikely to be a key driver of recent Mexican export performance.

Policies to benefit from nearshoring in the Americas

Economies in the Americas stand to reap the benefits of trade reallocation, but only a few have done so to date. US import shares have increased modestly for Mexico, Canada, Costa Rica, Panama and the Dominican Republic. With the exception of specific sectors – such as medical instruments – the boost from the shifting US import sources has not yet spilled over to newer or more complex products and sectors. The lack of clear evidence is particularly puzzling when considering Mexico. While economy-wide effects of nearshoring could take time to materialise, alternative explanations of why the impact of nearshoring has not been larger could be the inadequate development of infrastructure in Mexico and challenges related to the rule of law and the investment environment (IMF (2023c)).

In aiming to take advantage of trade realignment, countries in the Americas remain constrained by low productivity, insufficient capital investment, a low-skilled workforce, high crime rates and corruption (Aguilar et al (2024)). Despite these challenges, the region can capitalise on opportunities from shifting trade and investment patterns. This will require significant public and private investment, eg in physical infrastructure, and more efficient public spending. Countries well integrated into GVCs may benefit more in the short term. Countries in a similar time zone as the United States could also benefit from increased

[7] From a political perspective, Mexico's growing bilateral trade surplus with the United States could come under scrutiny. This surplus is now larger than when Donald Trump was president (Graph A5 in the annex). In 2026 the United States–Mexico–Canada Agreement (USMCA) is slated to be reviewed, and this could be an issue.

exports of business services (Baldwin (2022)). Together with improvements to the business climate and rule of law, initiatives in these areas could help countries in the Americas turn a global risk into a regional opportunity and a potential catalyst for more sustained growth in the future.

References

Aguilar A, J Caballero, J Frost and C Upper (2024): "Growth and productivity in the Americas", *AEI Economic Perspectives*, September.

Alfaro, L (2024): "Biomedical exports and Costa Rica, the great reallocation of global supply chains", *ReVista: Harvard Review of Latin America*, April.

Alfaro, L and D Chor (2023): "Global supply chains: the looming 'great reallocation'", *NBER Working Papers,* no 31661, September.

Baldwin, R (2022): "Globotics and macroeconomics: globalisation and automation of the service sector", *NBER working papers*, no 30317, August.

Bank of Mexico (2023): "Opinion empresarial sobre el impacto de la relocalización de junio 2022 a junio de 2023", *Regional Economic Report*, September, pp 9–11.

Borin, A, M Mancini and D Taglioni (2021): "Economic consequences of trade and global value chain integration: a measurement perspective", *World Bank Policy Research Working Papers*, no 9785, September.

Caldara, D, M Iacoviello, P Molligo, A Prestipino and A Raffo (2020): "The economic effects of trade policy uncertainty", *Journal of Monetary Economics*, vol 109, January, pp 38–59.

Chiquiar, D and M Tobal (2024): *Nearshoring: possible scenarios of its size and impact on Mexico's economy*, Georgetown Americas Institute, April.

Fajgelbaum, P, P Goldberg, P Kennedy, A Khandelwal and D Taglioni (2023): "The US-China trade war and global reallocations", *NBER Working Papers*, no 29562, December.

GBM (2024): "Nearshoring barometer: potential risks ahead", August, https://gbmenlinea.gbm.com.mx/Documentosanalisis/NearshoringBarometer_August24.pdf.

Huang, A H, H Wang and Y Yang (2023): "FinBERT: a large language model for extracting information from financial text", *Contemporary Accounting Research*, vol 40, no 2, pp 806–41.

Inter-American Development Bank (IDB) (2022): "Nearshoring can add annual $78 bln in exports from Latin America and Caribbean", press release, 7 June.

International Monetary Fund (IMF) (2023a): "Geoeconomic fragmentation and foreign direct investment", *IMF World Economic Report*, chapter 4, April.

——— (2023b): "Trade integration and implications of global fragmentation for Latin America and the Caribbean", *Regional Economic Outlook – Western Hemisphere*, background paper 2, October.

——— (2023c): "Mexico: staff concluding statement of the 2023 Article IV mission", October.

Mesquita Moreira, M, J Blyde, C Volpe, M Dolabella and I Marra de Artiñano (2022): "The reorganization of global value chains: what's in it for Latin America and the Caribbean?", *IDB Working Papers*, no 1414, December.

Qiu, H, H S Shin and L Zhang (2023): "Mapping the realignment of global value chains", *BIS Bulletin,* no 78, October.

Qiu, H, D Xia and J Yetman (2024): "Deconstructing global trade: the role of geopolitical alignment", *BIS Quarterly Review*, September, pp 35–50.

Rogers, J, B Sun and T Sun (2024): "US-China Tension", working paper, May.

Previous issues in this series

No 93 10 October 2024	Productivity in the post-pandemic world: old trend or new path?	Deniz Igan, Tom Rosewall and Phurichai Rungcharoenkitkul
No 92 19 September 2024	Central clearing in government bond markets: keeping the "safe asset" safe?	Matteo Aquilina, Martin Scheicher and Andreas Schrimpf
No 91 05 September 2024	Credit and resource allocation in EMEs: taking stock of two decades of falling interest rates	Ryan Niladri Banerjee, Aaron Mehrotra and Fabrizio Zampolli
No 90 27 August 2024	The market turbulence and carry trade unwind of August 2024	Matteo Aquilina, Marco Jacopo Lombardi, Andreas Schrimpf and Vladyslav Sushko
No 89 15 July 2024	Housing costs: A final hurdle in the last mile of disinflation?	Ryan Banerjee, Denis Gorea, Deniz Igan and Gabor Pinter
No 88 06 June 2024	Resilience in emerging markets: what makes it, what could shake it?	Bryan Hardy, Deniz Igan and Enisse Kharroubi
No 87 30 May 2024	Next generation correspondent banking	Rodney Garratt, Priscilla Koo Wilkens and Hyun Song Shin
No 86 23 April 2024	Survey evidence on gen AI and households: job prospects amid trust concerns	Iñaki Aldasoro, Olivier Armantier, Sebastian Doerr, Leonardo Gambacorta and Tommaso Oliviero
No 85 28 March 2024	From financial inclusion to financial health	Carlos Cantú, Jon Frost, Tirupam Goel and Jermy Prenio
No 84 23 January 2024	Artificial intelligence in central banking	Douglas Araujo, Sebastian Doerr, Leonardo Gambacorta and Bruno Tissot
No 83 04 January 2024	Testing the cognitive limits of large language models	Fernando Perez-Cruz and Hyun Song Shin
No 82 20 December 2023	The contribution of monetary policy to disinflation	Pongpitch Amatyakul, Fiorella De Fiore, Marco Lombardi, Benoit Mojon and Daniel Rees
No 81 13 December 2023	Interest rate risk of non-financial firms: who hedges and does it help?	Ryan Banerjee, Julián Caballero, Enisse Kharroubi, Renée Spigt and Egon Zakrajšek
No 80 23 November 2023	Monetary policy, financial conditions and real activity: is this time different?	Fernando Avalos, Deniz Igan, Cristina Manea and Richhild Moessner

All issues are available on our website www.bis.org.