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## News Clip Special: Nearshoring

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**Introduction:** At the end of last year, we had our first encounter with the term "Nearshoring," which had previously only received a few mentions in news and publications. However, within six months, it has transformed into a buzzword within the Mexican press, TV, radio, and even in US media. Currently, there is a significant hype surrounding "nearshoring" in Mexico, prompting RISC to conduct a more detailed analysis. It is important to note that this article will specifically focus on "Nearshoring in Mexico" and its implications for the local economic landscape, including the insurance sector.

### Definition

Based on our intuition, unlike the term "offshore" that is often associated with the oil industry, "nearshore" implies a process that is located near the coastline. Rather than conducting operations out at sea, nearshoring involves carrying out activities in proximity to the coast.

If we look to more qualified sources, we find the following definition:

*Wikipedia: Nearshoring is the outsourcing of business processes to companies in a nearby country.*

*Forbes: Nearshoring is a tactic that allows companies to move their operations to the closest country with a qualified workforce and reduced cost of living without the time difference..*

*ChatGPT: Nearshoring is a business strategy where a company outsources certain business functions or processes to a nearby country, typically within the same region or a neighboring country. It is a form of offshoring, which refers to the relocation of business processes to a foreign country, but in nearshoring, the destination country is geographically closer to the company's home country.*

We can conclude that the term "nearshoring" involves the relocation of manufacturing facilities or service providers closer to the consumer country, capitalizing on benefits such as lower production costs, reduced shipping expenses, working in the same time zone, similar regulatory and legal frameworks, and even cultural affinity.

Considering the aforementioned factors, and specifically focusing on Mexico, it becomes evident that the country is well-suited to be an ideal nearshore partner for the USA and Canada. Mexico shares a border of over 3,100 kilometers with the US and has railway connections reaching up to



Canada. These geographic advantages make Mexico a prime location for nearshoring activities with its North American neighbors.

### **Why nearshoring right now?**

As we write this paper, there is a noticeable excitement surrounding nearshoring in Mexico. It has become a topic frequently discussed in newspapers, highlighting the benefits it brings to the country. However, amidst the enthusiasm, critical voices can also be heard. This raises the question: Why has nearshoring in Mexico gained such popularity among companies, despite the industrial establishment's critical stance towards the local government? Could it be that production facilities in Asia, which has been the traditional outsourcing region for the past two decades, are no longer suitable?

From our perspective, a possible explanation is as follows:

In recent years we experienced one “black swan” event, the COVID pandemic, and an event that we would like to define as “grey swan”, namely the Ukraine conflict. Both events caused major disruptions in the world economy with unforeseen repercussion also in commerce and trade.

*Black Swan Event:* The 2020 pandemic had a profound impact on global supply chains, leading to several disruptions and challenges. One notable effect was the closure of ports, resulting in port congestion and a surge in shipping costs. This, in turn, led to problems with the availability of essential supplies and created a ripple effect of negative consequences throughout the globally interconnected network of suppliers and clients. Western manufacturers, particularly those relying on “just-in-time” strategies, faced significant inventory challenges. As a result, there arose a need for a new contingency approach and a reassessment of trade sourcing and logistics, especially concerning outsourced productions in Asia.

*Grey Swan Event:* The conflict in Ukraine, which began in March 2022 during the ongoing pandemic, has had far-reaching implications on geopolitics and geo-economics. Its consequences are still not fully understood, but it has prompted discussions about new trade and transportation routes. New trade and transportation routes are being discussed at present (ex. Northern Sea Route, INSTC) and new trade agreements are being created or enforced with new vigor, like BRICS, RCEP, IPEF, all with their own dynamics.



This changing landscape has given rise to unexpected trade relationships and agreements. For instance, Saudi Arabia conducting business in yuan with China, Russia exporting its oil and gas to India in exchange for rupees, and Germany sourcing its LNG requirements from the United States are all examples of the shifting dynamics. Such developments highlight the need for diversified supply chains and reduced dependence on a single supply chain.

The close timing of the aforementioned events — the global pandemic and the conflict in Ukraine — along with their significant impact on global trade, triggered an immediate response from global players and entrepreneurs. They recognized the disruptions in transportation and the reduction or uncertainty in the supply of essential goods, such as electronics (semiconductors), medical supplies, and automotive parts, among others. This realization prompted a need to address these challenges promptly.

Under this new constellation, it is evident that Mexico's trade partners, the USA and Canada, are shifting away from an Asia-based outsourcing strategy and embracing the concept of nearshoring. This shift can be attributed to additional factors. There is growing suspicion towards China due to concerns about unforeseen governmental decisions, discussions about protection of intellectual property, China's stance on the Taiwan relationship and its political proximity to Russia. These factors have prompted companies and governments to reassess their dependence on China as a primary outsourcing destination.

In this context, Mexico emerges as a potential solution in the nearshoring strategy. The country offers geographic proximity to the North American market, which allows for shorter and more efficient supply chains. Additionally, Mexico's participation in the NAFTA (North American Free Trade Agreement) and its successor, the USMCA (United States-Mexico-Canada Agreement), provides a favorable trade framework and promotes the integration and optimization of supply chains within the region. Both, the US and Mexican governments, have demonstrated a willingness to support and enhance the nearshoring concept.

Overall, a fertile terrain and favorable conditions make Mexico an attractive nearshoring destination. The shifting dynamics and geopolitical considerations have contributed to the growing interest in nearshoring within the NAFTA/USMCA framework, positioning Mexico as a potential beneficiary of this strategy.

Anyhow, at RISC, we sense currently a certain amount of euphoria surrounding nearshoring in mainstream media. The benefits of nearshoring in various industrial sectors, including electronics (semiconductors, chips), automotive, aerospace/aviation, pharmaceutical, medical equipment, and contract manufacturing, are being highlighted with great insistence. However, from our perspective, it is important to conduct a detailed analysis to fully understand the potential advantages and challenges associated with nearshoring in each of these sectors.

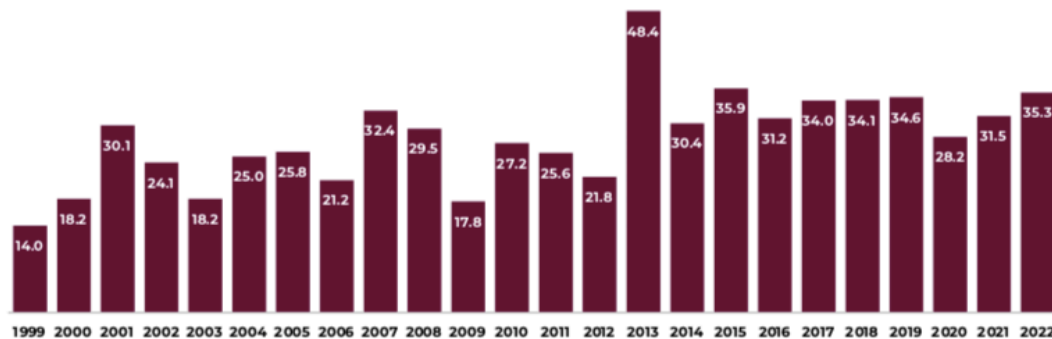
While the current nearshoring hype highlights the potential benefits, a detailed analysis will provide a more nuanced perspective and enable a well-informed evaluation of nearshoring opportunities in different industries.

### International Trade Statistics

In order to get a feeling of the repercussions of the nearshoring vision, and compare it with hard data, we reviewed some official statistics of foreign investment in Mexico as well as trade figures between Mexico and the USA. By examining these numbers, we can gain insights into the trends and patterns of economic activity between the two countries.

From the Secretaría de Economía, the Mexican Department of Economy, we could obtain a series of graphs that shows where Mexico stands currently with respect to the foreign investments:

**Inversión Extranjera Directa en México 1999-200**  
(millones de dólares)



Fuente: Registro Nacional de Inversiones Extranjeras de la Secretaría de Economía.

We can observe that in 2022 the total amount of IED (the Mexican acronym for Foreign Direct Investment) achieved a level that surpassed the one before the COVID year 2020, what caused a ditch in the figures. Anyhow we can note that the numbers of 2022 do not show yet a real boom in IED, but an upward trend is visible.

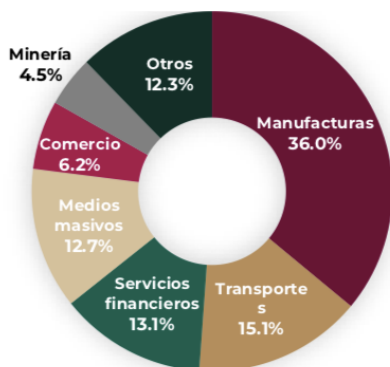
It is also interesting to see the position that Mexico takes in the reception of foreign investments compared to other countries of the world. Here we can observe a slight improvement compared to years preceding COVID. With US\$ 35 billion, Mexico ranked in the 10<sup>th</sup> place of IED - receiving countries worldwide.



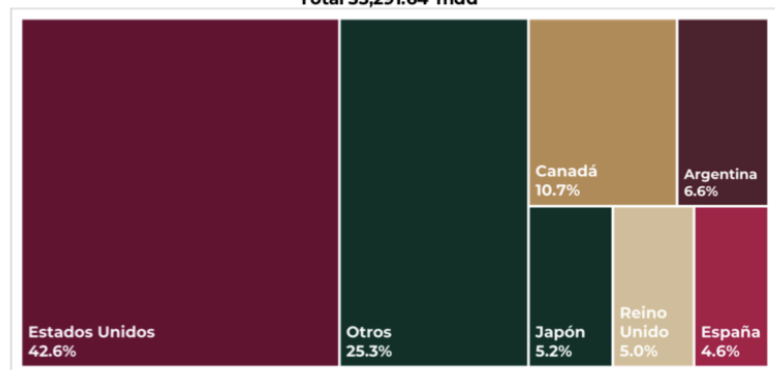
Secretaría de Economía / UNCTAD

Below graphs show that the relevance of the manufacturing and transportation sector, as well as the significance of USA and Canada in the foreign investment for Mexico. The NAFTA / USMCA free trade agreement (T-MEC is the acronym in Spanish) among the countries is for sure the driver for such an environment.

**Distribución sectorial de la IED en 2022**  
(Total 35,291.6 mdd)



**Origen de la IED en 2022**  
(porcentajes)  
Total 35,291.64 mdd



In the following graph we can observe the sectorial distribution of the FDI or IED. It also offers a comparison between 2021 and 2022 of each sector's participation in the investment received.

**Comparativo de la distribución sectorial de la IED en 2022**  
(millones de dólares)

Sector/Subsector	2021-4T	Participación	2022-4T	Participación
<b>Total</b>	<b>31,543.5</b>	<b>100.0%</b>	<b>35,291.6</b>	<b>100.0%</b>
<b>Agropecuario</b>	<b>208.3</b>	<b>0.7%</b>	<b>242.4</b>	<b>0.7%</b>
<b>Industrial</b>	<b>17,300.1</b>	<b>54.8%</b>	<b>16,475.6</b>	<b>46.7%</b>
Minería	4,833.1	15.3%	1,603.4	4.5%
Electricidad y agua	612.0	1.9%	865.9	2.5%
Construcción	222.5	0.7%	1,295.2	3.7%
Manufacturas	11,632.5	36.9%	12,711.1	36.0%
<b>Servicios</b>	<b>14,035.1</b>	<b>44.5%</b>	<b>18,573.6</b>	<b>52.6%</b>
Comercio	2,914.1	9.2%	2,182.2	6.2%
Transportes	3,133.9	9.9%	5,339.1	15.1%
Inform. en medios masivos	607.9	1.9%	4,485.4	12.7%
Servicios financieros	4,887.1	15.5%	4,640.0	13.1%
Servicios inmobiliarios y de alquiler	328.3	1.0%	458.3	1.3%
Servicios profesionales	241.6	0.8%	72.7	0.2%
Servicios de apoyo a los negocios	196.8	0.6%	156.3	0.4%
Servicios educativos	24.1	0.1%	24.4	0.1%
Servicios de salud	12.1	0.0%	-7.4	0.0%
Servicios de esparcimiento	95.9	0.3%	45.2	0.1%
Servicios de alojamiento temporal	1,465.9	4.6%	1,278.7	3.6%
Otros servicios	127.3	0.4%	-101.4	-0.3%

\*/ IED realizada y notificada entre el primero de enero y el 31 de diciembre de cada año.  
Nota: La suma de los parciales puede diferir del total debido al redondeo de las cifras.

We can see that compared to 2021, during 2022 Mexico had a reduction in foreign investment in the industrial sector – with manufacturing the main driver – while the service sector increased its participation in the IED. In latter case Transportation, Information in Massive Media and Financial Services were the driver.

In order to put in perspective the importance of Mexico as a trading partner for the USA we present following graphs:

Principales socios comerciales de EE.UU., 2021						
Socio	Exportaciones de EE.UU.		Importaciones de EE.UU.		Comercio total con EE.UU.	
	Valor	Part.	Valor	Part.	Valor	Part.
Millones de dólares						
Canadá	307,001	17.5%	357,160	12.6%	664,161	14.5%
México	276,459	15.8%	384,705	13.6%	661,164	14.4%
China	151,065	8.6%	506,367	17.9%	657,432	14.3%
Japón	74,970	4.3%	135,133	4.8%	210,103	4.6%
Alemania	65,174	3.7%	135,224	4.8%	200,398	4.4%
Otros	879,272	50.1%	1,314,284	46.4%	2,193,557	47.8%
<b>Total EE.UU.</b>	<b>1,753,941</b>	<b>100%</b>	<b>2,832,874</b>	<b>100%</b>	<b>4,586,815</b>	<b>100%</b>

Source US Census Bureau

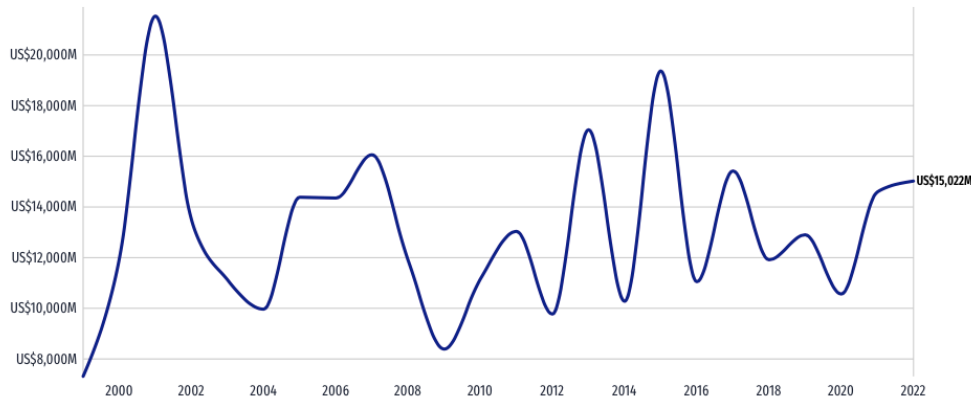
Principales socios comerciales de EE.UU., acumulado ene - ago 2022						
Socio	Exportaciones de EE.UU.		Importaciones de EE.UU.		Comercio total con EE.UU.	
	Valor	Part.	Valor	Part.	Valor	Part.
Millones de dólares						
Canadá	237,230	17.4%	299,494	13.7%	536,723	15.1%
México	217,938	15.9%	302,185	13.9%	520,122	14.7%
China	96,820	7.1%	368,755	16.9%	465,575	13.1%
Japón	54,172	4.0%	98,114	4.5%	152,286	4.3%
Alemania	48,180	3.5%	91,684	4.2%	139,864	3.9%
Otros	712,649	52.1%	1,018,763	46.8%	1,731,412	48.8%
<b>Total</b>	<b>1,366,988</b>	<b>100%</b>	<b>2,178,994</b>	<b>100%</b>	<b>3,545,983</b>	<b>100%</b>

780,183 annualized

Source US Census Bureau

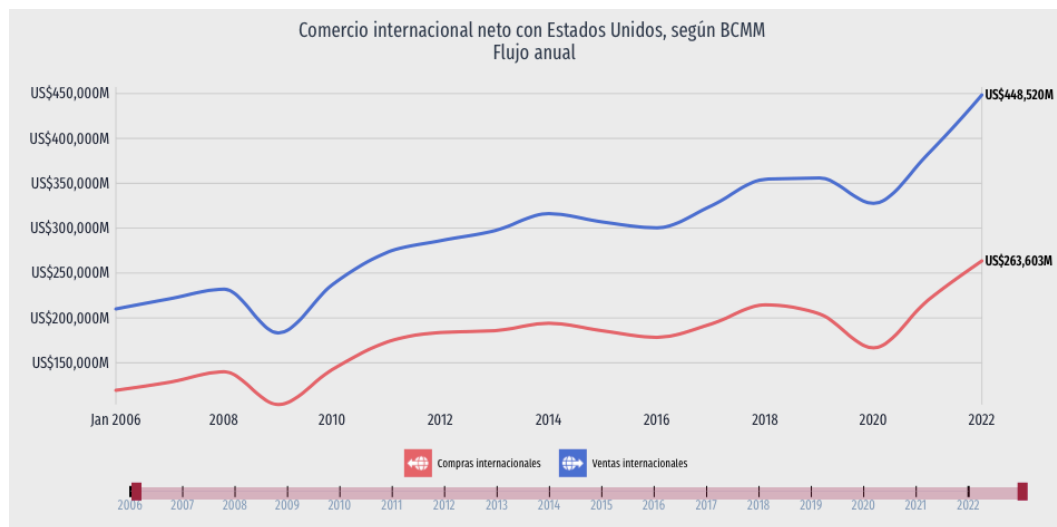
The graphs show that Mexico is improving its trade with the US, and according to latest reports in 2022 the country was the second most important trading partner for the US after Canada. To confirm the aforementioned trend, the following graph shows the historical foreign direct investment of the US in Mexico with an upside trend after 2020:

Flujo anual de IED de Estados Unidos a México



Source: Secretaría de Economía (State Department of Economy)

And, last not least, the following statistic shows the latest net trade figures of purchases and sales with the United States:



Source: Secretaría de Economía (State Department of Economy)

It is noteworthy that significant investments have been announced or already been executed in recent times, further emphasizing the growing interest in investing in Mexico. Some notable examples include:

- Tesla's investment of US\$5 billion in Santa Catarina, which garnered significant attention and publicity. This investment showcases the potential for Mexico to attract major players in the automotive and electric vehicle industry.
- BMW's investment of US\$860 million in San Luis Potosí indicates continued confidence in Mexico as a manufacturing and assembly hub for the automotive sector.
- Nestle's investment of US\$340 million in Santa Rita, Veracruz, demonstrates the interest of multinational companies in expanding their operations in Mexico, particularly in the food and beverage sector.
- Constellation Brands' investment of US\$1.2 billion in Veracruz highlights the attractiveness of Mexico for the beverage industry, leveraging its strategic location and favorable business environment.
- Diageo's investment of US\$550 million in Jalisco further strengthens Mexico's position as a key player in the alcoholic beverage industry, attracting global brands to establish or expand their presence.
- Mattel's investment of US\$50 million in Nuevo Leon signifies the interest in Mexico's manufacturing capabilities, specifically in the toy industry.





- Ternium steel plant investment in Pesquería, Nuevo Leon: US\$ 3.2 billion, the latest announcement (20.06.2023)

All these investments, whether in the form of expanding existing facilities or greenfield projects, demonstrate the tangible commitment of these companies towards Mexico. They contribute to the growth of the local economy, create job opportunities, and further solidify Mexico's position as an attractive destination for foreign investment.

Previous mentioned examples, combined with the official statistics and trade data, provide concrete evidence of the upward trend in US and international investments in Mexico. In fact from above examples we note that it is not only US based company doing investments; European multinationals are active too. Specially in the automotive sector there are parts manufacturers that are expanding their production facilities in Mexico, like Brembo Italy (US\$ 200 million, Nuevo Leon). The “rules of origin” of the USMCA trade agreement, that imposes a minimum percentage of the vehicle produced in one of countries of the agreement, incentives with no doubt a local location.

## **Pro & Contra**

So far we discussed the possible reasons for a change in the worldwide trade paradigm changing from outsourcing in Asia to nearshoring to Mexico and some recent official statistics around the trade between Mexico and the US. At this early stage, an exponential growth in demand for industrial halls and premises in the north of the country can be confirmed, what indicates that the process started.

This surge in demand reflects the increasing interest from companies in establishing or expanding their manufacturing and production facilities in Mexico.

The north of Mexico, in particular, has been a focal point for nearshoring due to its proximity to the United States, making it an attractive location for companies aiming to serve the North American market efficiently. The availability of skilled labor, well-developed infrastructure, and favorable business conditions in the region further contribute to its appeal as a nearshoring destination. Social problems appear to be overlooked.

From a perspective of Mexico, the current environment represents a grandiose opportunity, but critical challenges are ahead too. In the following diagram we resume, from RISC’s point of view,



the positive aspects and the challenges that should be solved in order to benefit most of the current strategic trend.

Pro	Critical
Geographic position of Mexico	Safety, social environment in some regions of the north
Globally active players are already established in Mexico	Energy infrastructure at its limit
Competitive labor costs	Lack of water in the north
Good connectivity in the north and center of the country	Legal uncertainty with long term agreements
Railway connection with the US and Canada	Industrial real estate at its limit in the north
Modern Airports in some areas	Cargo Theft / Robbery on highways
Fiscal stimuluses	Maritime ports outdated
Skilled workmen in the north and center of the country	English proficiency in the south
Similar time zone	Lack of infrastructure in the south
Similar business mentality	Bureaucratic hurdles
Financing secured by established entities (BID)	Connectivity in the south requires investments
Positive environment for expats	Much of the investment goes to established plants

So, looking at the nearshoring process in Mexico from a more realistic standpoint, it is evident that significant investments in infrastructure are necessary to create a conducive environment for investors. While the northern regions of Mexico have seen substantial development and connectivity to the US, attention needs to be directed towards enhancing infrastructure in the southern regions.

Infrastructure development in the southern parts of Mexico, including transportation networks, logistics capabilities, and connectivity to major economic hubs, is crucial to unlock the full potential of nearshoring in those regions. Improved infrastructure will facilitate efficient movement of goods, reduce transportation costs, and enhance overall connectivity with the US market.

It is important to note that the results of nearshoring efforts will not be immediate. Estimations suggest that investments in nearshoring could reach between \$35 billion and US\$ 50 billion in the



coming years, with a significant portion allocated to established plants. However, it will take time for these investments to translate into tangible economic outcomes and reflect in the country's GDP.

Furthermore, it is essential to recognize that many global companies will continue to operate in the Asian market, which is expected to remain a growing consumer market. Nearshoring in Mexico should be seen as a complementary strategy rather than a complete replacement for outsourcing to Asia. Different markets and regions offer unique advantages, and companies will continue to assess the most suitable options based on factors such as cost, proximity, market access, and supply chain resilience.

**The Insurance Sector:** There is no doubt that nearshoring will offer opportunities for the local insurance market. The sector can be considered “mature” with the presence of major reinsurers, insurance companies (local and globally acting), and professional reinsurance intermediaries.

After the pricing war during the years before the COVID event, the market is hardening and rates are starting to reach acceptable technical levels in Property and Engineering. In the wake of this current upward trend, we are noticing an increased interest of new players entering the country. We cannot tell if this related to the nearshoring strategy, but the interest of foreign insurers in Mexico is growing.

Marine: At this early stage, there is a consensus in the market that the marine insurance - cargo and stock throughput – should be the one benefitting most of this environment. Highway safety (cargo theft and assaults) and pressure on the pricing for the marine coverage due to competition will be the challenges. On the other hand, logistic operators will have to supervise closely the operation of their suppliers in order to grant a smooth operation, what requires an improved risk management on behalf of the insurers.

Property: The industrial real estate boom in the north is giving opportunities for the property insurance. According to public information, new space for manufacturing halls and storage areas, including distribution centers, is already limited in the northern part of the country. Opportunities will come up for property insurers. The sum insured of contract manufacturers, suppliers of hardware and small electronic consumables should mostly remain within the treaty capacities though; suppliers for the automotive industry might have bigger values on stake; in many cases their nearshoring strategies involve extensions of existing plants that might be insured in



worldwide programs. Policies covering leased or stored assets in industrial parks should also have an increased demand.

Where we see a substantial growth potential is in the Mexican fortune 500 companies that are already experienced in dealing with the US market. Expanding their production capacities in preparation for an increased demand coming from the northern neighbors represents a big opportunity for the local property market.

Engineering: In the last couple of years we have seen several interesting investments from foreign entities in new greenfield projects. The ventures involve different industrial occupancies. We are not sure whether they are related to the recent nearshoring boom, but they are definitely related to a US-related sales strategy. As mentioned, the challenges ahead for Mexico with respect to improvement of the infrastructure are considerable. Communication (roads and railways), power and related transmission lines, modernization of maritime ports, are examples of structures that need to keep pace with the advance of nearshoring strategies. The north of Mexico is well-positioned in this respect, but the south needs still substantial improvements.

**Conclusions:** After the review of publications, articles in main stream media, and official statistics, we are of the opinion that the expectations related to nearshoring in Mexico are on a rather high level and that at present we are experience a hype, not only fired by daily comments in main stream, but also by current geopolitical circumstances. We believe that the US\$ 35 billion – US\$ 50 billion FDI figure, that is being mentioned as business potential in the years to come, contains organic growth of companies that have already a presence in Mexico.

What should be followed closely though, is the trade relationship between Mexico and the US. Official statistics from the Mexican Department of Economy confirm a positive trend and we would cautiously foresee that the tendency will keep its upwards gradient due to the declared US's political interest in Mexico, also as commodity provider (ore mining, rare earths) and as off-taker of US gasoline and gas. It should also be taken into consideration that – from today's perspective - the US relationship with China is paved with uncertainty, what is venom for a smooth, integrated supply chain.

The insurance sector will benefit from the upward trend in trade between Mexico and the US. Particularly interesting will be new investments for the improvement of infrastructure, especially in the southern regions. The Corridor Transistmico Project (RISC published a special edition on this



subject) is just the beginning of a master project that will improve the connection between the Pacific and Gulf of Mexico. Investments in power generation, maritime ports, industrial parks, refineries, are collaterals that will allow Mexico improving its hub function for imports and exports to the USA.

Many of the new projects require substantial facultative capacities. That takes us to the risk exposure in certain regions of Mexico, that can be exposed to both, EQ and Hurricane. This might test the risk appetite of some reinsurance player. With the improved pricing that we observed recently, reinsurers might be willing to allocate the necessary capacities in the market.

Now, the intensification of meteorological events require a detailed analysis of each project's location. Mexico is one of the countries that is subject to the intensification of meteorological phenomena. Experience has shown that only a detailed on-site survey allows for an accurate risk assessment. We did see improvements on the risk prevention site in some parts of Mexico, especially if foreign investment is involved; nevertheless, there is still space for improvement in too many cases. As we always state: the cost of a risk inspection remains always below a medium-sized loss that could have been prevented.

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