

Economic Analysis

What about Public Policies that Foster Nearshoring?

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Nearshoring has become one of the central topics in economic analysis in Mexico. The redefinition of production networks worldwide, whether due to cost reduction, proximity to the final market of products, or optimization of logistics chains in the face of possible global logistics disruptions, has meant a historic opportunity for the country in terms of investment and economic growth.

Likewise, this opportunity has been positioned as a potential generator of an expansion in credit demand by companies linked to the sectors and regions receiving investment flows due to this global economic phenomenon.

However, there is still no clear indication that such opportunities have translated into an economic boost in terms of investment and business financing.

According to preliminary figures from the Ministry of Economy, the dynamism of Foreign Direct Investment (FDI) in 2023 (2.2% growth in flows in USD), although encouraging as a whole, was largely explained by the reinvestment of company profits (74%) that are already operating in Mexico and, to a lesser extent, by accounts between companies (13%), which implies only 13% of said flows attributable to new investments.

Regarding the implications of these investments on economic benefits and, particularly, on credit demand, a significant boost has not yet been observed in the commercial banking portfolio. In particular, total balances to the manufacturing sector registered real YoY growth of 0.0% in December 2023 (filtering inflationary and exchange rate effects), with current credit balances to the sector still below its pre-pandemic level in real terms.

Though nearshoring represents a great opportunity, it requires an environment that guarantees the reduction of logistic and production costs characterized by legal certainty, financial facilities and economic policies that align the incentives of investors and national actors; in other words, that they allow the consolidation of a productive network that generates efficiency and profits for both parties involved.

Currently, the transportation of goods through an efficient and safe Logistics network (roads and means of transport) is still far from being a reality. Likewise, the requirements for access to energy at competitive prices, cleaner and more reliable (more efficient electrical and natural gas transmission and distribution networks, etc.) are also not satisfied by the energy and hydraulic infrastructure, which works against relocation of companies to Mexico.

The coordination of public and private institutions to guarantee investment would contribute to positioning Mexico as an ideal recipient of investment in the form of transnational production plants. Perhaps the private sector and, particularly, commercial banks, have already reoptimized and grant financing not only to the nodes of said productive network, but to the sectors that make up the links within it and to those that support their activity, such as transportation, industrial infrastructure, and renewable energies.

Channeling financing flows towards these activities is a necessary, but not sufficient, condition for the arrival of new production nodes that imply growth in investment along with regional and sectoral economic development. There are complementary and indispensable areas in which it is not up to private actors to guarantee the ideal environment for investment and the materialization of a scenario where nearshoring strengthens the national productive network, such as the implementation of public policies that reduce insecurity, guarantee access to hydraulic and energy resources and ensure respect for the rules of the game for foreign investors.

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