RICE UNIVERSITY'S Baker Institute for Public Policy

Working Paper

A New Taxonomy of Nearshoring: Strategic Trends in Global Value Chain Reconfiguration

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This publication was produced in collaboration with Rice University's Baker Institute for Public Policy. It has not been through editorial review. Wherever feasible, this material was reviewed by outside experts before it was released. Any errors are the authors' alone.

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Abstract

This article explores the evolving phenomenon of nearshoring within the context of global value chain (GVC) reconfiguration, driven by geopolitical shifts, economic disruptions, and sustainability goals. It introduces a new taxonomy to classify nearshoring activities based on capital origin and project type, distinguishing between foreign and domestic investments and categorizing projects as either new developments or expansions of existing infrastructure. Using Mexico as a case study, the article examines the interplay of trends such as rising labor costs in Asia, protectionist policies, and the pursuit of supply chain resilience. By highlighting strategic investment patterns and policy implications, the study provides insights into the opportunities and challenges nearshoring presents for Latin America and its integration into the global economy.

1. Nearshoring: from a "just-in-time" to a "just-in-case"

Nearshoring, defined as the relocation of production to regions closer to end markets, has emerged as a trend in the reconfiguration of Global Value Chains (GVC). This shift has been driven by a series of disruptive events, including rising trade tensions between the U.S. and China, the COVID-19 pandemic, and the resurgence of industrial policies in developed countries. As companies and governments seek to strengthen the resilience of their supply chains to better cope with potential disruptions, Latin America—especially Mexico—is positioned as a strategic destination to attract new investments and establish itself as a key player in this new environment. This article explores the trends, opportunities, and challenges that nearshoring presents for the region, with a particular focus on Mexico, where much of the expectations and realities associated with this process are concentrated.

Supply chain disruptions that emerged or became apparent during the pandemic, trade and geopolitical conflicts between the U.S. and China, the resurgence of industrial policy in developed countries—particularly in the U.S.—and the drive for greater sustainability have led countries and companies to reorganize their supply chains, particularly in strategic sectors. The primary objective of cost-efficiency, typically achieved through sourcing from low-cost suppliers in Asia, has been partly replaced by goals of agility, resilience, and supply security. Some have described this as a shift from a "*just-in-time*" to a "*just-in-case*" approach. This shift favors locating supply chains in nearby countries ("*nearshoring*") or in allied nations ("*allyshoring*").

Few countries have been as proactive as the U.S. in restructuring value chains in strategic sectors. Very early in his administration, President Biden set the goal of reorganizing supply chains in key sectors, including semiconductors, electric vehicle

batteries, and critical minerals, among others. A key component of this initiative includes two important industrial policy measures: the Chips and Science Act and the Inflation Reduction Act, both in 2022. While the specifics of these policies may change as a result of the change in administration, it seems likely that industrial policy (perhaps with a heavier dose of protectionism) will continue or deepen even further. [1]

These trends create significant opportunities for Latin America to integrate into GVCs. However, Mexico stands out as the country with the greatest potential. In a 2022 publication by the Inter-American Development Bank, it was estimated that nearshoring could generate increases in exports from Latin America and the Caribbean by approximately $79 billion, attributed to the replacement of Chinese suppliers with suppliers from the region. Mexico would be, by far, the largest beneficiary, with the potential to capture almost half of these benefits (IDB, 2022).

Mexico has the potential to position itself as the primary beneficiary of nearshoring due to its unique geographical location, with an extensive border with the U.S., and its membership in the USMCA, granting it privileged access to the North American market. Second, Mexico possesses unparalleled productive capacity in Latin America, with Brazil being the only potential exception. Mexico's economic complexity index, which measures the sophistication and diversification of its productive capabilities, is, by a wide margin, the highest in the region (Gómez-Zaldívar & Gómez-Zaldívar, 2023; Hausmann, Cheston & Santos, 2015).

Third, and related to the previous point, Mexico is already integrated into GVCs in several important industries, such as automotive, aerospace, medical devices, electronics, and others. Expanding capacity within an existing sector or transitioning to products that require similar capabilities as goods already produced is much easier than starting from scratch in a region with no established capabilities.

Fourth, due to its USMCA membership, U.S. industrial policy initiatives, such as the Chips and Science Act or the Inflation Reduction Act, currently present opportunities for Mexico that are unavailable to other countries. [2] For instance, currently electric vehicles produced in Mexico are eligible for subsidies outlined in the Inflation Reduction Act, while electric vehicles manufactured in other countries do not receive the same benefits.

Fifth, through the High-Level Economic Dialogue, the governments of the U.S. and Mexico are working together to identify opportunities for Mexico within the supply chain of strategic sectors (i.e. semiconductors, medical supplies, critical minerals, etc.). Again, some of these opportunities may change as a result of the change in the US administration.[3]

This document aims to contribute to the ongoing debate by delving into the nearshoring phenomenon and, more broadly, the reconfiguration of GVCs, and proposes a taxonomy that may aid in analyzing this process.

2. Drivers of global value chain reconfiguration

Since the mid-2010s, changes in GVCs indicate a reconfiguration in the functioning of global trade networks. It is important to recall that with China's entry into the World Trade Organization at the beginning of the century, the Asian country rose as the new manufacturing hub of the world. Thanks to its low labor costs and vast installed capacity, China successfully attracted Western manufacturing within its borders (Durán-Fernández, 2024a, 2024b).

At the core of this phenomenon was a strategy primarily among Western companies to move production from factories in Europe and the U.S. to Asia in a process known as "offshoring." Offshoring has been one of the cornerstones of modern globalization, though not without controversy. For example, some argue that this model has led to the net loss of nearly two million jobs in the U.S. since 2011 (Autor, Dorn & Hanson, 2016). Other researchers contend that it has reduced labor force participation, especially among people with lower educational attainment, or argue that rather than a total loss of jobs, it represents a shift from industrial to service sector jobs (Belsie, 2011). The impact of China's trade integration on the U.S. economy remains a subject of academic debate. Nevertheless, in the public arena, this argument is often used to criticize globalization as a cause of severe inequality and exclusion issues in the U.S. (Kennedy & Mazzoco, 2022; Durán-Fernández, 2024b).

Another issue associated with the offshoring model to China, beyond its effects on labor markets, involves intellectual property rights. Offshoring to China has typically required Western companies to enter into mandatory technology transfer agreements with Chinese counterparts in exchange for access to China's massive domestic market. This model has resulted in significant issues concerning technological property rights. The U.S. Congress estimates that China appropriates American intellectual property valued between $225 billion and $600 billion annually (Durán-Fernández, 2024b).

Braun, García, and Molero (2023) identify four major trends influencing the restructuring of GVCs over the past decade.

1. The first trend relates to labor costs in China. Initially, the economic logic of shifting production from the West to China was based on substantial wage differentials between Europe and China. However, since the mid-2010s, wages in China have risen, primarily due to productivity increases, narrowing the gap with the countries of origin of these investments. Additionally, technological advancements such as robotics, automation, and additive manufacturing have contributed to further reduce these labor cost differentials (Braun, García, and Molero 2023; Durán-Fernández, 2024b).

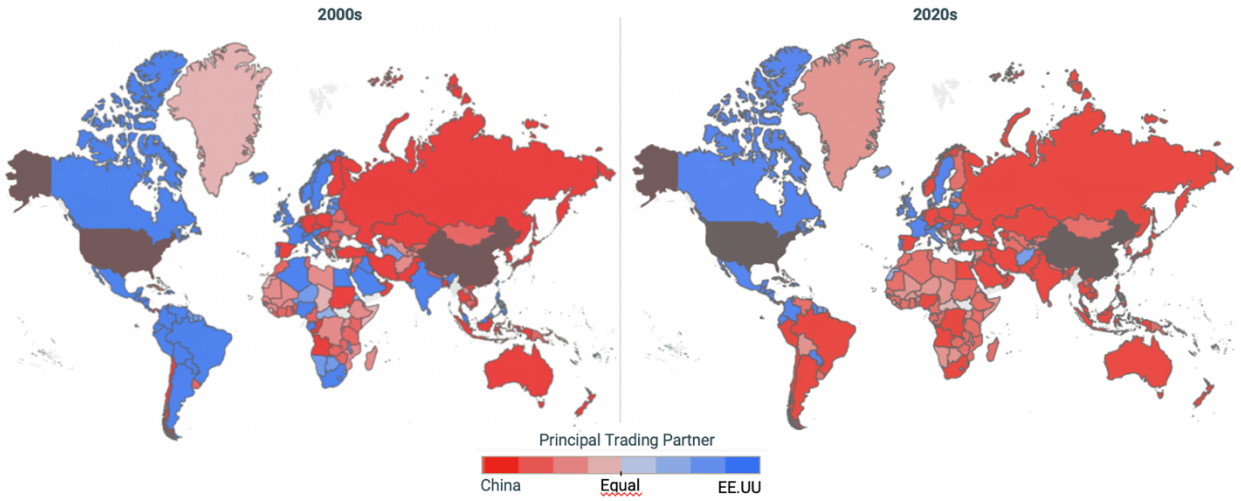
2. The second trend is sustainability. The offshore production model relies heavily on long-distance transoceanic supply chains, which have a high carbon footprint. These value chains may become unsustainable from an environmental perspective, especially for countries aiming to meet ambitious sustainability

targets and reduce the carbon footprint of their products. There is growing pressure to shorten these value chains. Furthermore, the climate crisis is impacting supply chains and logistics corridors, as exemplified by the drought affecting transit through the Panama Canal since 2023 (Gantz, 2023; IDB, 2020; Maloney, et al., 2023).

3. The third trend concerns geopolitical risks that have become more pronounced in recent years. While the benefits of globalization have been widely discussed, the inherent risks of an interconnected world have also become evident. These risks include global health crises like the COVID-19 pandemic, geopolitical conflicts, and rivalries between nations, such as the wars in Eastern Europe or tensions in the Middle East (Chan, 2013; Braun, García, and Molero 2023).[4]

4. The fourth trend, increasingly visible, relates to the resurgence of protectionism, especially in developed countries. These policies aim, under a national security rationale, to safeguard strategic sectors against potential conflicts or future threats. They also reflect a revival of protectionist practices rooted in economic nationalism, with the objective of preventing job losses due to external competition. This rise in protectionism is evident in the trade and industrial policies pursued by several nations, primarily in the West (Puślecki, 2023; Braun, García, and Molero 2023).

Figure 1 — Change in Global Trade Relations



Source: Trademap.

3. Recent trends in the reconfiguration of Global Value Chain

In 2020, the United Nations Conference on Trade and Development (UNCTAD) published a highly relevant report that discussed the emerging trends in the configuration of global supply chains (UNCTAD, 2020). In a world marked by global risks and supply chain disruptions, such as those brought about by the COVID-19 pandemic, the report indicated a foreseeable shift towards regional supply models rather than the traditional offshore globalization model.

At the time, four potential models for the relocation of value chains were discussed (Durán-Fernández, 2023a; 2023b):

1. *Nearshoring* involves relocating value chains from distant locations to economies closer to end markets, where cost advantages can still be leveraged. For example, closing a factory in China and relocating it to Latin America could lower logistic costs. This model also enhances resilience by reducing the vulnerability of value chains to global crises and takes advantage of the lower labor costs offered by Latin American countries. This model prioritizes resilience and international trade security over immediate production costs, implicitly assuming that the risk of long supply chains is too high in the face of potential disruptions.

2. *Reshoring* is an alternative to nearshoring. Instead of outsourcing production to nearby countries, reshoring brings production back to industrialized nations. This option can become economically viable with capital-intensive technologies that lower labor costs. The result would be a less globalized world with reduced trade

integration.

3. Global Diversification offers another strategy for managing risks in GVCs by diversifying production facilities globally rather than relocating them to the Americas. This strategy, known as friendshoring or *allyshoring* involves producing in allied countries that do not present the same geopolitical risks. Allyshoring allows for a reconfiguration of GVCs without fragmenting international trade into regional blocs.

4. Finally, there is an intermediate scenario, where intercontinental GVCs are replaced by *regional supply networks*. Under this model, the world fragments into regional trade blocs that strategically pursue a degree of self-sufficiency to mitigate global risks. For example, the initiative for regional vaccine hubs launched after the COVID-19 pandemic aims to establish vaccine production centers in Africa, ensuring that, in the event of a new health emergency, the region would be self-sufficient if vaccine-exporting countries were to close their markets. This model underpins other initiatives, such as food security efforts by certain Caribbean countries (Durán-Fernández, 2023a, 2023b).

Each of these models reflects different approaches to navigating the balance between resilience, security, and cost efficiency in global trade, illustrating the diverse strategic pathways that nations and companies may pursue in response to current global challenges.

The relocation models for production proposed by UNCTAD in 2020 represented a theoretical view of the possible directions new globalization could take in response to emerging challenges in global trade and economics. Reality has proven to be far more complex than these initial models suggested. Instead of a single relocation model, we are witnessing a profound reconfiguration of GVCs that combine aspects of different models, aimed at creating greater resilience in supply networks amid global risks, while maintaining reasonable costs and adapting to the new industrial and trade policies of developed countries.

Durán-Fernández (2024b) identifies six trends observed in the nearshoring phenomenon, focusing specifically on Mexico:

1. **Shifts in Expectations**. The first significant change is in the expectations of governments and companies, especially in some Latin American regions. Nearshoring has generated remarkable interest in countries like Mexico, where, in certain circles, it is viewed almost as a panacea for the country's major development challenges—though possibly with exaggerated expectations relative to its true potential. This heightened expectation has also led to critical and skeptical stances, with some even dismissing the phenomenon. Despite these contrasting views between expectations and reality, nearshoring has considerably influenced the outlook of various stakeholders in Latin America,

particularly in Mexico and parts of Central America.

2. **China's Decline in the North American Market.** Recent trade data shows a decline in China's market share in the U.S., especially in products subject to trade sanctions. However, a complete decoupling of North American and Chinese economies is not anticipated (Figure 2).

3. **Economic Impact of U.S. Trade Preferences.** A third trend is that Southeast Asia, particularly the ASEAN bloc countries, has benefited the most from China's loss of market share. Within this region, Vietnam stands out as the primary beneficiary. Latin America, by comparison, has seen relatively modest gains, with Mexico being the notable exception due to its proximity and the strength of its trade relations with the U.S.

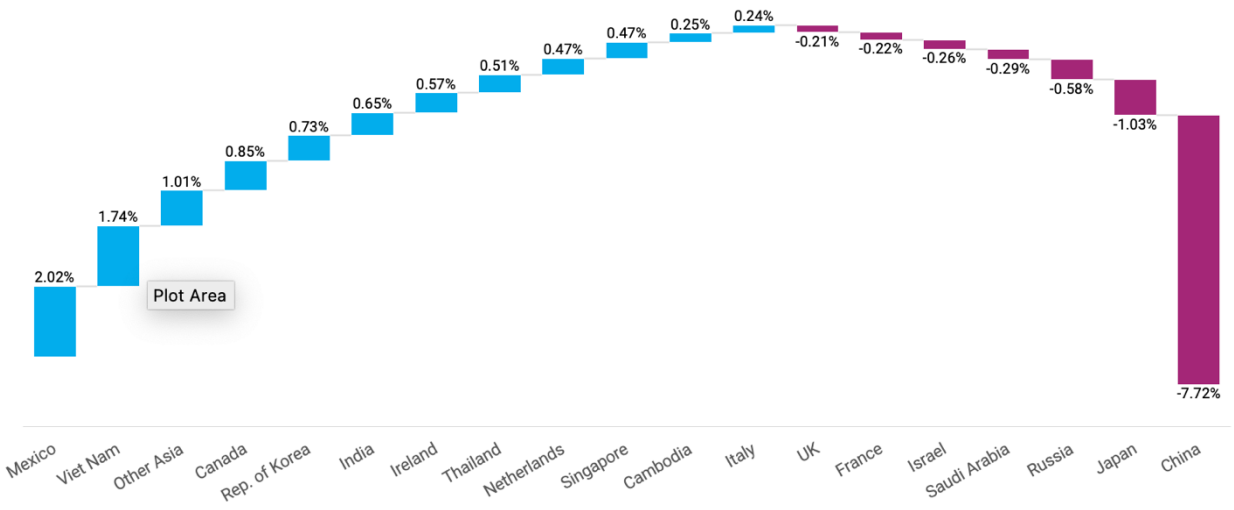
4. **Reconfiguration of Production Chains.** Rather than the prevailing concept of nearshoring held in 2020, with factories closing down in China and relocating to Latin America, we are observing a more nuanced reconfiguration of production chains with multinational and domestic companies responding to the current environment through diverse investment strategies, such as factory expansions, relocating production lines, or initiating new greenfield investments. Together, these diverse investment strategies are having a significant impact on the structure of supply chains.

5. **The Role of Industrial Policy.** A fifth notable trend is the implementation of the CHIPS Act and the Inflation Reduction Act in the U.S.—ambitious pieces of legislation aimed, among other goals, at repatriating investments (reshoring). It is important to note that the primary objective of these laws is not to stimulate investment and employment in other countries, including Mexico, but to enhance the resilience of the U.S.'s strategic supply chains and position the country as a leader in certain industries. Nevertheless, secondary effects may benefit other countries, such as Mexico, particularly in specific sectors like electromobility or microprocessor assembly, packaging and testing.

6. **China's New Investment Strategies.** Finally, a trend that was not clearly visible in 2020 is the emergence of new commercial and industrial strategies in China. Specifically, there is an effort to increase China's industrial presence in Mexico to use the country as a platform for circumventing U.S. trade sanctions and entering the North American market. Whether under the Trump administration the U.S. will restrict access to products made by Chinese owned companies in Mexico is still an unknown.

These trends highlight the nuanced reality of nearshoring, where expectations are being recalibrated, trade dynamics are shifting, and strategic reconfigurations in production and investment are reshaping GVCs, particularly in the context of Mexico's growing role in these transformations.

Figure 2 — Percentage Point Change in U.S. Import Share, 2017–2023



Source: U.S. Trade Department. Blue bars represent growth in market share, while red bars indicate reductions.
Note: This figure illustrates the shifts in the U.S. import market share between 2017 and 2023. The changes, segmented by country or region, highlight those economies that have increased their export share to the U.S. (blue) and those that have experienced a decline (red).

5. A New Taxonomy of Nearshoring: Classification and Examples

Initially, the debate surrounding nearshoring and its implications for Latin America considered this phenomenon as a one-way movement, with production shifting from China to other locations offering better conditions considering economic, geopolitical, and risk-related challenges. However, the reconfiguration of GVCs has proven to be far more complex (Jayashankar & Torres, 2023).

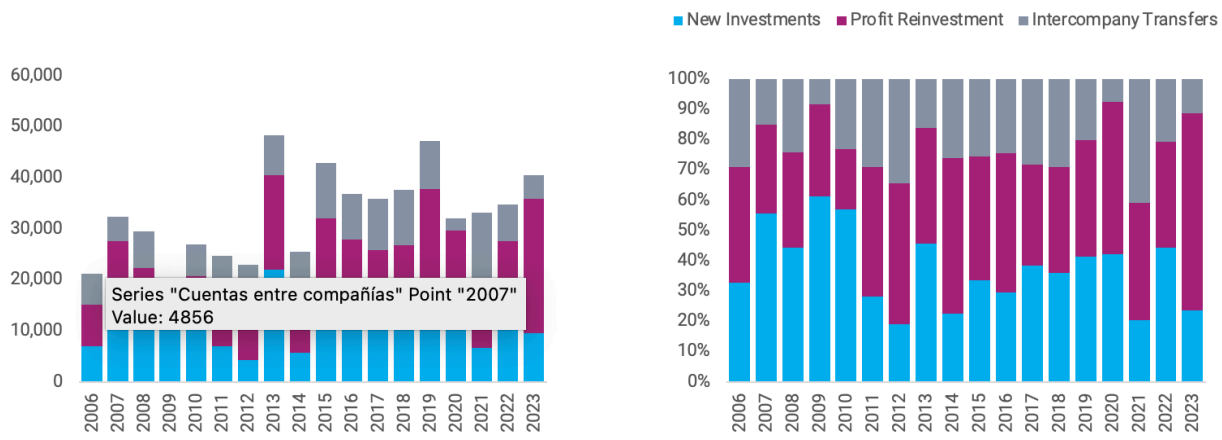
Theoretically, it would be expected that some companies would close or downsize their operations in China and relocate to Mexico or other geographically favorable countries with the capacity to benefit from this shift. This should, in part, be reflected in increases in Foreign Direct Investment (FDI), as at least some new companies enter the market (Durán-Fernández, 2024b).

However, despite Mexico's increased export share in the U.S. market, this growth has not been accompanied by a proportional influx of new foreign companies. Since 2022, although FDI in Mexico has risen significantly, data from the Ministry of Economy indicates that this increase is largely due to reinvested earnings by already established companies rather than the entry of new players (Ministry of Economy, 2024a). Furthermore, most investment announcements in recent months have been linked to the expansion of production capacity within companies already operating in Mexico (Figure 3).

Some analysts have pointed to this pattern of limited new FDI as grounds to argue that the nearshoring phenomenon is merely an illusion. In our view, this argument is unconvincing. When characterizing nearshoring, the type of FDI—whether new investment or reinvested earnings—is of limited relevance. Consider a new plant established in Mexico to meet demand created by the U.S.-China trade conflict. This is clearly associated with nearshoring, regardless of whether the plant is funded through new investment or reinvested earnings by a firm already present in Mexico. [5]

In this context, it is important to remember that in Mexico, dividends are subject to a 10% withholding tax, so from a fiscal perspective, it may make more sense for an established company to reinvest profits rather than bringing in new funds from abroad. Given that many of the major companies likely to participate in the reconfiguration of value chains due to nearshoring already have a presence in Mexico, it is unsurprising that a significant portion of this phenomenon appears as increases in the reinvested earnings category rather than new investments.

Figure 3 — FDI in USD Millions (Left Graph) Percentage of Total (Right Graph)



Source: Ministry of Economy (2024a).
Note: In 2013, FDI in Mexico reached an extraordinary peak due to the acquisition of Grupo Modelo by Anheuser-Busch InBev. In 2019, one of the major mergers and acquisitions in Mexico was the purchase of Constellation Brands' beer business, marking a key event in the beverage sector. Significant transactions in infrastructure and energy also contributed substantially to the country's FDI.

Classifying FDI based on the type of project financed would in principle be more useful. Establishing a new plant (greenfield investment) is not the same as the acquisition of existing assets by a foreign firm (brownfield investment). Greenfield investments involve new productive capacity, while in the case of brownfield investment, this is not necessarily the case, although in some cases the purchase may boost productivity or lead to increased capacity utilization. However, there are "gray areas" within this classification. Beyond the clear-cut cases of new plants or asset purchases, FDI often funds plant expansions, which could reasonably be categorized as either greenfield or brownfield. While, despite these ambiguities, this distinction could still be valuable, official statistics do not provide data on project type (greenfield or brownfield); they distinguish only by capital source—new investment, reinvestment of earnings, or intercompany transfers.

Without official statistics on project types, it may be tempting to assume that new investments equate to greenfield projects and reinvestment of earnings to brownfield. But this is not the case. There is no strict correspondence between the capital source and project type. A company already operating in Mexico might build a new plant by reinvesting its earnings. Conversely, a firm—regardless of its operational presence in Mexico—might use new investment funds to acquire an existing plant. Anecdotal evidence from recent investment announcements suggests that Mexico's increased provision of inputs to the U.S. has been largely driven by capacity expansions within already established firms in the country.

Beyond the FDI and nearshoring discussion, why should we focus solely on investments by foreign firms? Mexican-owned companies can also increase their investments to meet the rising demand linked to this phenomenon. Like FDI, these products could be generated in new plants or through the expansion of existing facilities.

Given this context, what activities should qualify as nearshoring? As previously mentioned, we propose defining nearshoring activities as investments, whether domestic or foreign, that involve new plants or expansions of existing assets, provided that the investment is motivated by one of the trends driving the relocation of GVCs. Investments involving only the acquisition of existing assets (the purest form of brownfield investments) are excluded from our definition.

We propose a two-dimensional taxonomy for nearshoring. The first dimension is the origin of capital, which may be foreign or Mexican. The second dimension is the type of project, specifically whether it involves investments in new production plants or expansions of existing infrastructure. To clarify these ideas, it is helpful to provide some examples.

The investment Volvo recently announced in Nuevo León serves as an example of FDI in a new plant, from a company with no prior operations of this type in Mexico. BMW's plan to expand its San Luis Potosí plant to produce electric vehicles and advanced batteries illustrates FDI from an established company already integrated into Mexico's export platform. Additionally, expansions by Mexican auto parts companies, such as Bocar Group or Nemak, exemplify investments by established firms with domestic ownership. (see Figure 4).

However, not every investment within each quadrant of the taxonomy strictly qualifies as nearshoring. For example, a new company establishing operations in Mexico might not be motivated by value chain reorganization associated with trends such as resilience-seeking or the U.S.-China trade war. Thus, it is essential to distinguish, at least conceptually, between nearshoring-related activities and other investments within each quadrant. For instance, foreign e-commerce companies investing in new distribution centers may be driven by the need to serve a growing domestic market rather than nearshoring. Similarly, a new foreign-owned supermarket or hotel chain would not align with nearshoring motivations.

Beyond capacity expansion aimed at the U.S. market, there is a range of initiatives by companies that may not directly participate in GVCs but provide services or investments to those that do. For instance:

- *Prima*, a Mexican startup, functions as a "virtual factory," identifying small and medium-sized enterprises (SMEs) that can provide specific products or processes but lack the readiness to independently participate in GVCs due to gaps in compliance with quality standards and delivery timelines. Prima secures contracts from foreign corporations and collaborates with SMEs to ensure they

meet the required standards.

- *The Nearshore Co.* offers shelter services to foreign firms aiming to establish operations in Mexico, addressing aspects such as physical space and participation in public programs like IMMEX.

- *Finsa*, a developer of industrial real estate which is one of the big players in the development of industrial parks, established a new fund that raised over $600 million dollars, mostly from AFORES (retirement funds), for investment in this sector to accommodate nearshoring-related demand.

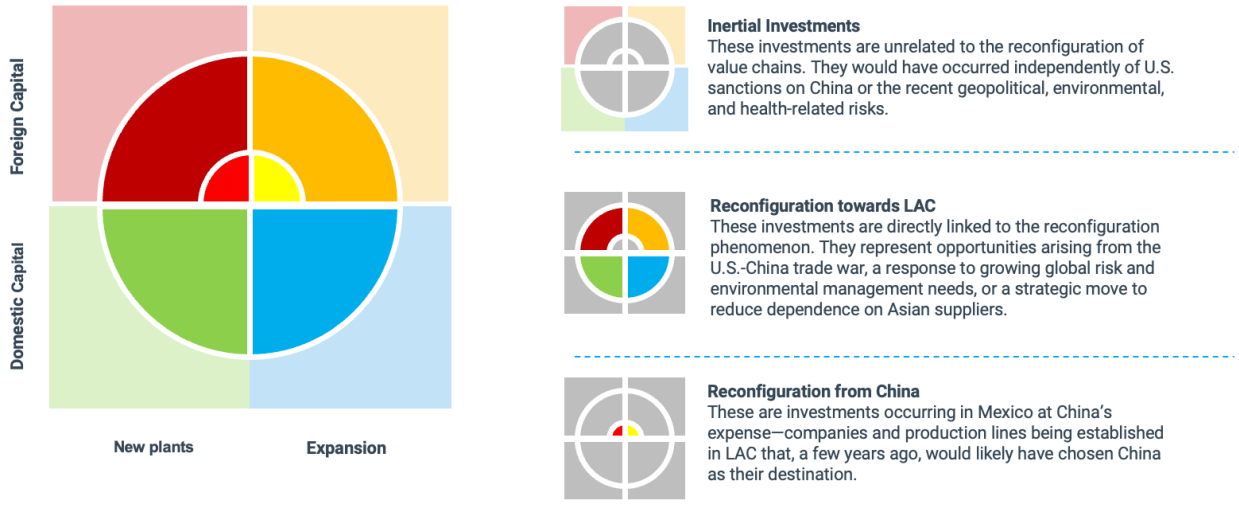
- *Auba*, another startup, provides services to companies with or seeking to develop supply chains in Mexico, using artificial intelligence to help clients identify risks and optimize logistics.

- *Nido Ventures*, a venture capital fund led by two Mexican women, centers its investment thesis on nearshoring and value chain opportunities.

All these initiatives are part of what we consider nearshoring-related activities.

This taxonomy reflects the complexity of a broad phenomenon that is reshaping GVCs, where nearshoring acts as a local manifestation. Measuring this phenomenon presents significant challenges in terms of data collection and methodological analysis. Notably, the information used to characterize this taxonomy is conceptual rather than derived from official statistics, as current data does not provide a detailed picture. These insights were gathered through in-depth interviews with key industrial stakeholders, offering qualitative evidence of the nearshoring trend, but a comprehensive analysis remains an ongoing task.

Figure 4 — Nearshoring Taxonomy



6. Final Considerations: Challenges and Opportunities of Nearshoring

Nearshoring has emerged as a key element in the reconfiguration of GVCs, driven by a blend of geopolitical, economic, and technological factors. Although initial theoretical models provided a useful framework, reality has proven far more complex, with a wide variety of investment and relocation strategies shaping the global landscape. Mexico, in particular, is uniquely positioned to capitalize on these trends, yet the scale and nature of the benefits depend on multiple variables, including the country's capacity to attract and retain investments and its ability to integrate into new value chains.

As we continue to observe and analyze these dynamics, it is essential to adopt public policies that reflect the evolving reality of global trade and supply chains. This requires a strategic approach that aligns with the shifting demands of international markets and enhances the resilience and competitiveness of the domestic economy.

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Acknowledgements

The authors express their gratitude to Johanna Ramos for her valuable feedback and comments. A preliminary version of this article was originally published in Spanish on the website of the Escuela de Gobierno y Transformación Pública in October 2024.

Notes

[1]The tools that could be used to deepen industrial policy might differ significantly. For example, deciding whether or not to maintain the CHIPs Act and IRA; making more or less extensive use of market interventions, implementing tariffs, and increasing protectionism, which would encourage relocation to the U.S. This, in turn, would impact Mexico's opportunities to leverage nearshoring.

[2] The 2024 U.S. election could lead to qualitative changes in industrial policy. Some analysts estimate that President Trump could modify or even canceled these initiatives (Holland & Knight, 2024).

[3] It is worth noting that the High-Level Economic Dialogue, which started in September 2013 under the presidencies of Obama and Peña Nieto, was effectively paused during the first Trump administration, only to be revived when President Biden came to office in 2020. A new interruption would not be surprising.

[4] Currently, the most significant geopolitical issue is likely the escalating rivalry between China and the U.S. Between 2000 and 2020, China rose from the eighth-largest economy in the world to the second, surpassed only by the U.S. Today, China is the leading trade partner for most Latin American, African, and Asian countries (Figure 1). Furthermore, China seeks global leadership by advancing strategic investment initiatives that reinforce its global dominance beyond the economic sphere, in areas such as semiconductors, electromobility, and artificial intelligence. Through investment initiatives like the Belt and Road Initiative, China has undertaken significant infrastructure investments across the Global South, thereby gaining greater economic and political influence. Against this backdrop, the U.S.-China Trade War, which began in 2018, extends beyond economic considerations, holding significant political undertones.

[5] The National Foreign Investment Commission defines new investments as FDI movements associated with the inflow of foreign capital into Mexico through various modalities. These include initial investments made by foreign individuals or legal entities establishing themselves in the country, encompassing investments in fixed assets and working capital necessary to conduct regular business activities in Mexico. Additionally, it includes capital contributions to the equity of Mexican companies, whether initial or increased, by foreign investors. It also covers the transfer of shares from Mexican investors to foreign investors, as well as the initial payments in trusts that confer rights related to FDI. On the other hand, profit reinvestment refers to the portion of profits not distributed as dividends, considered FDI because it represents an increase in capital resources owned by the foreign investor (Ministry of Economy, 2024b).