

Mexico Nearshoring Yet to Yield Big Investment Despite Global Trade Tensions

Joint Conference PIIE and Federal Reserve Bank of Dallas



Federal Reserve
Bank of Dallas

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April 10, 2025 (Updated May 27, 2025)

DALLAS EL PASO HOUSTON SAN ANTONIO

The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.

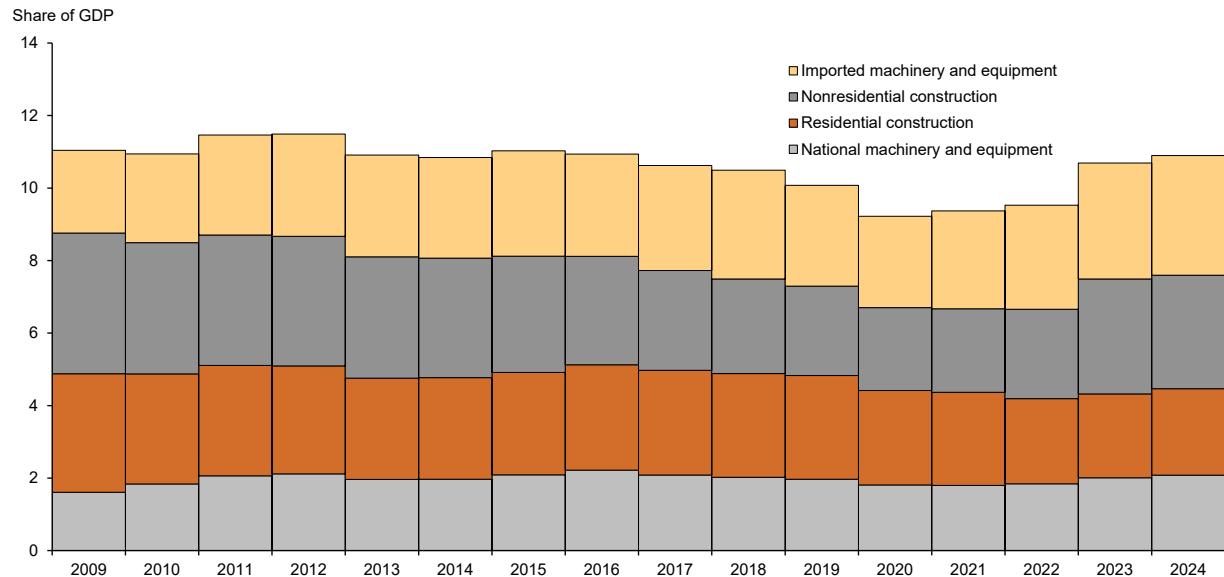
Motivation and Overview

1. **U.S.–China trade tensions, pandemic disruptions added momentum to ongoing supply chain realignments**
 - a. Mexico positioned itself as a nearshoring destination
 - b. Nearshoring \approx relocating business operations to a nearby country, shorten supply lines
 - c. Key question: Has nearshoring spurred new foreign investment or mainly resulted in trade diversion?

2. **What data suggests:**
 - a. 2018-19 Trade War: FDI vs. Trade
 - b. Part of a broader pattern of trade realignment

Post-pandemic investment rebound led by imported capital goods and non-residential construction

Mexico's nonresidential construction, imported machinery and equipment rebound in postpandemic period



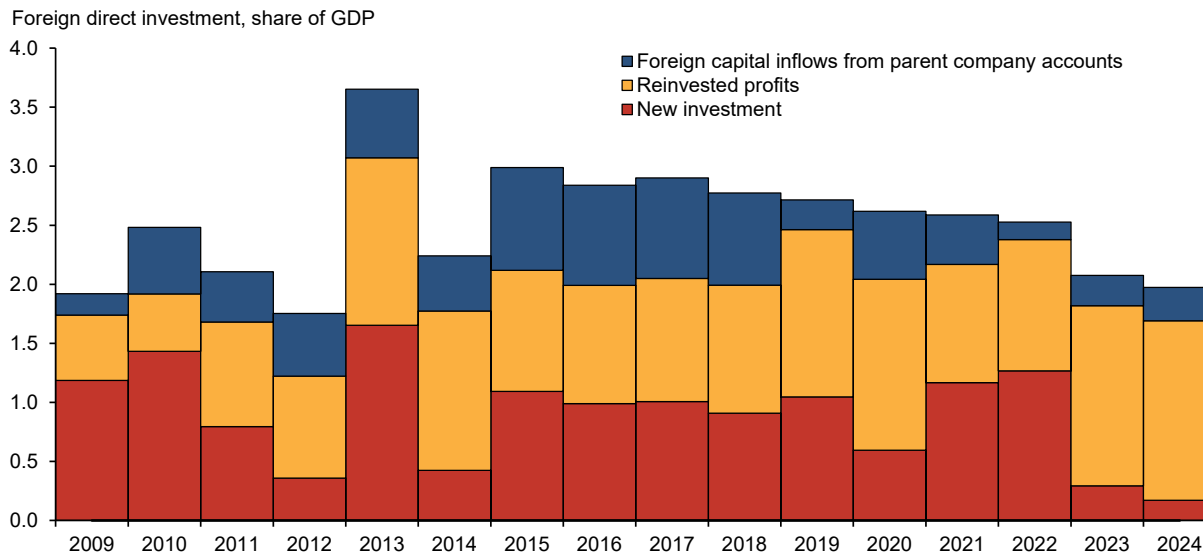
NOTES: Data are reported quarterly, seasonally adjusted, quoted in chained 2018 Pesos, and averaged at annual frequency. Each category represents investment as part of gross fixed capital formation. Last data point is fourth quarter 2024.

SOURCES: Instituto Mexicano de Ejecutivos de Finanzas (Mexican Institute of Finance Executives); Instituto Nacional de Estadística Geografía e Informática (National Institute of Statistics, Geography and Informatics); Haver Analytics; authors' calculations.

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Reinvested profits largely drive foreign direct investment (FDI) in Mexico since 2022

Reinvested profits largely drive foreign direct investment in Mexico since 2022



NOTES: Data are reported quarterly, quoted in U.S. dollars, seasonally adjusted, and averaged annually. Last data point is 2024Q4.

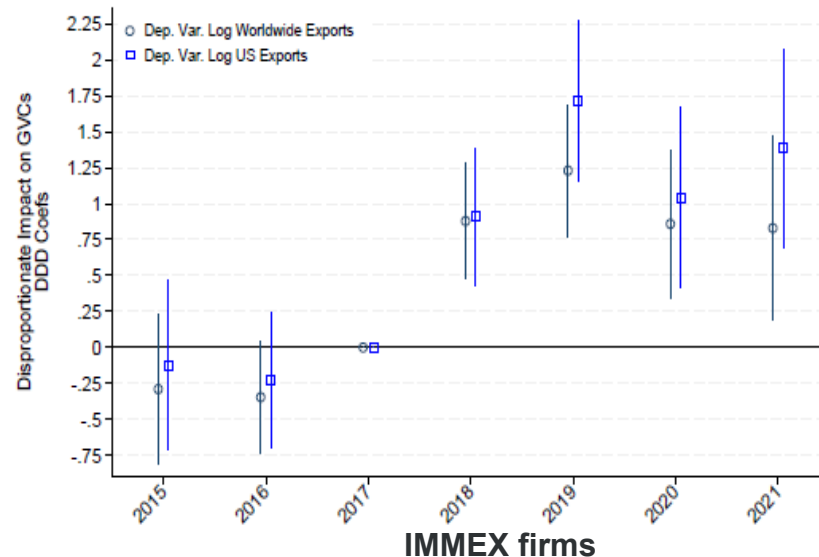
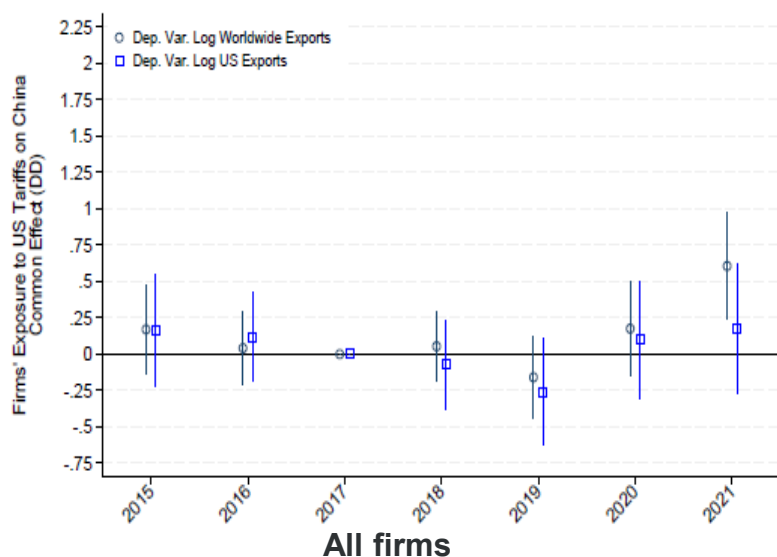
SOURCES: Instituto Mexicano de Ejecutivos de Finanzas (Mexican Institute of Finance Executives); Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Banco de México; Haver Analytics; authors' calculations.

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Nearshoring to Mexico: Alternative models

- Most investment is **domestically financed** or reinvested earnings in foreign-owned companies.
- **Traditional metrics understate nearshoring's impact**—activity is shifting to **asset-light models**:
 - **Shelter companies (mostly operating under IMMEX):**
Allow foreign firms to operate without direct ownership or legal presence; show up as service exports, not FDI.
 - **Contract manufacturing & third-party logistics:**
U.S. firms shorten supply chains by outsourcing, avoiding large capital commitments; show up as higher exports, not FDI.
- **Implication:** Production has expanded, but increasingly via flexible structures that **minimize ownership risk and capital outlay**.

Trade shifts disproportionately impact Mexico's Maquiladora sector (IMMEX)



The effect of U.S. tariffs targeting China (2018-19) on Mexican exports

Note: By streamlining logistics and compliance, IMMEX plays a key role in integrating Mexico into global value chains, particularly with the U.S.

Source: Utar, Hâle, Alfonso Cebreros Zurita and Luis Bernardo Torres Ruiz. 2023. [The US-China Trade War and the Relocation of Global Value Chains to Mexico](#). CESifo Working Paper No. 10638. Munich: CESifo.

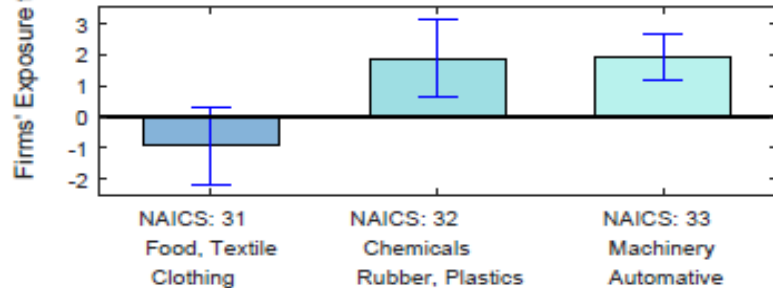
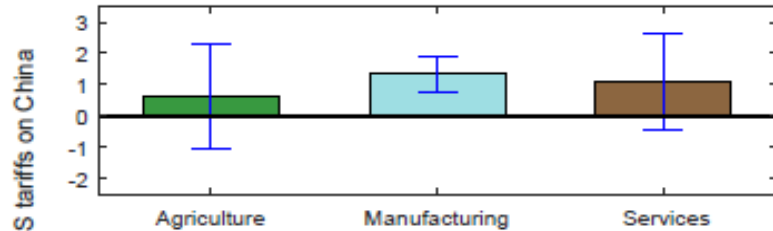
Mexican export surge in capital and intermediate goods follows U.S.–China trade dispute



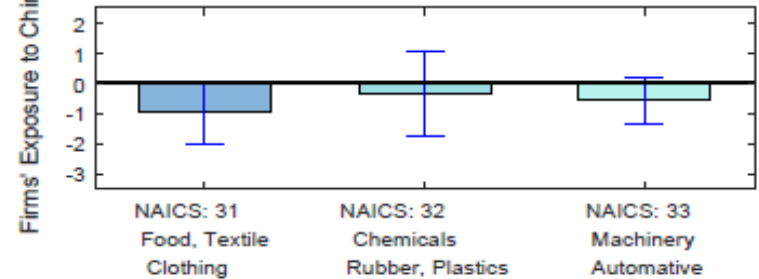
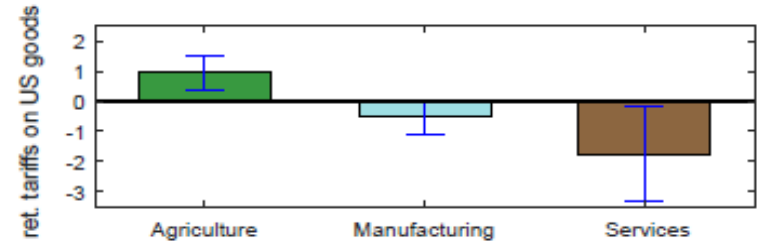
The impact of U.S. tariffs targeting China (2018-19) by product type

Source: Utar, Hâle, Alfonso Cebreros Zurita and Luis Bernardo Torres Ruiz. 2023. [The US-China Trade War and the Relocation of Global Value Chains to Mexico](#). CESifo Working Paper No. 10638. Munich: CESifo.

U.S. tariff impact on IMMEX concentrated in technology-intensive industries



Average effects of U.S. tariff

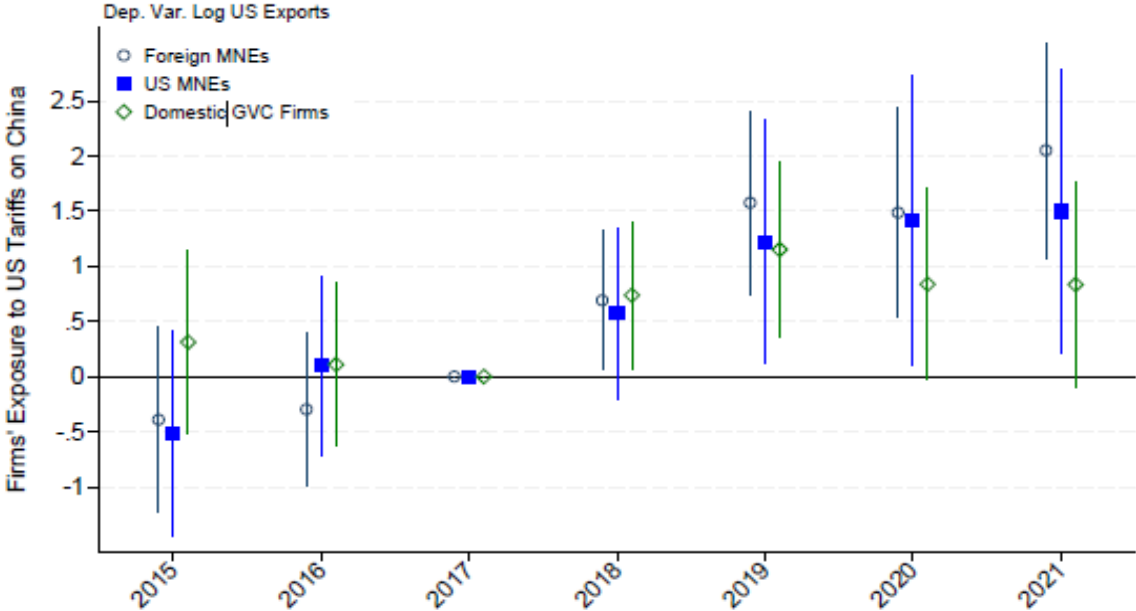


Average effect of China's retaliation

U.S.-China trade war (2018-19) effects on IMMEX, across industries

Source: Utar, Hâle, Alfonso Cebreros Zurita and Luis Bernardo Torres Ruiz. 2023. [The US-China Trade War and the Relocation of Global Value Chains to Mexico](#). CESifo Working Paper No. 10638. Munich: CESifo.

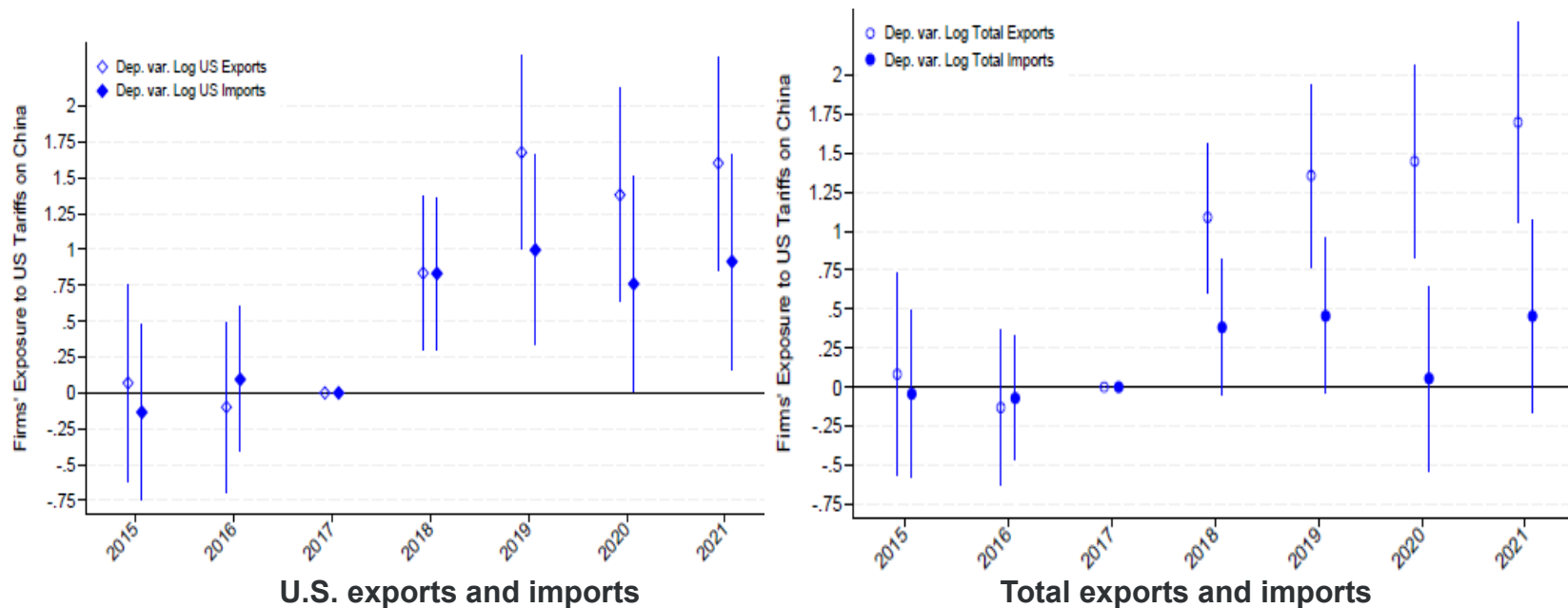
Mexico's U.S. export growth fueled by foreign-owned maquilas



The U.S. tariffs targeting China (2018-19) impact on foreign vs. domestic maquilas

Source: Utar, Håle, Alfonso Cebreros Zurita and Luis Bernardo Torres Ruiz. 2023. [The US-China Trade War and the Relocation of Global Value Chains to Mexico](#). CESifo Working Paper No. 10638. Munich: CESifo.

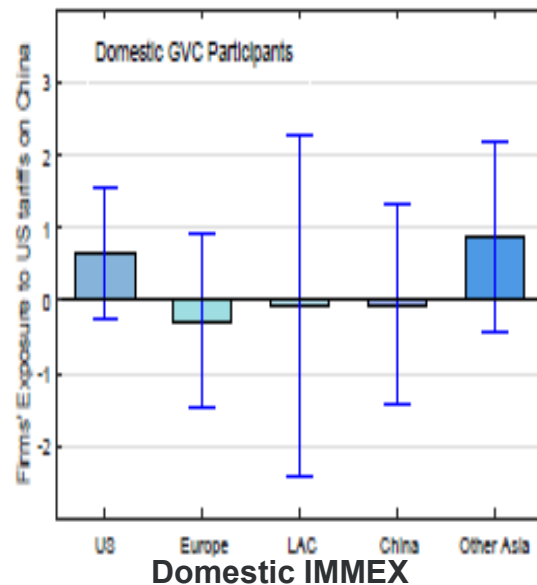
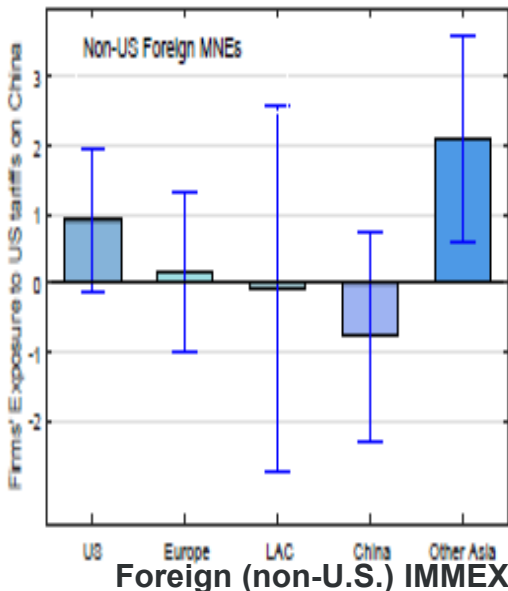
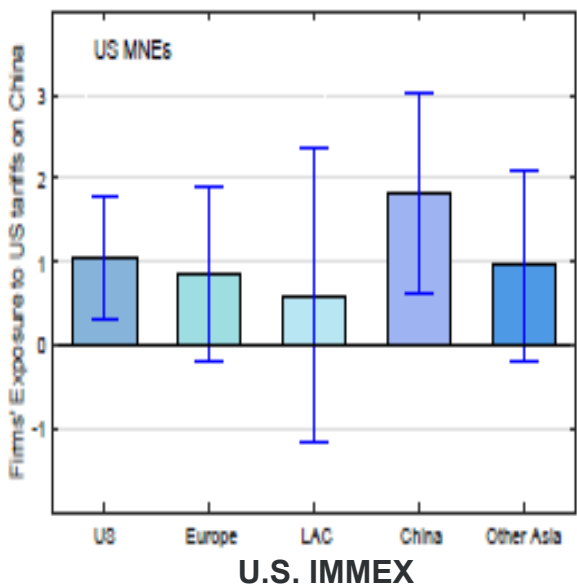
U.S. trade tensions with China reinforced cross-border manufacturing integration



U.S.-China trade war (2018-19) effects on IMMEX firms' trade

Source: Utar, Hâle, Alfonso Cebreros Zurita and Luis Bernardo Torres Ruiz. 2023. [The US-China Trade War and the Relocation of Global Value Chains to Mexico](#). CESifo Working Paper No. 10638. Munich: CESifo.

Foreign-owned maquilas shifted sourcing primarily to other Asian countries, China



U.S.-China trade war (2018-19) effects on IMMEX firms' imports across regions

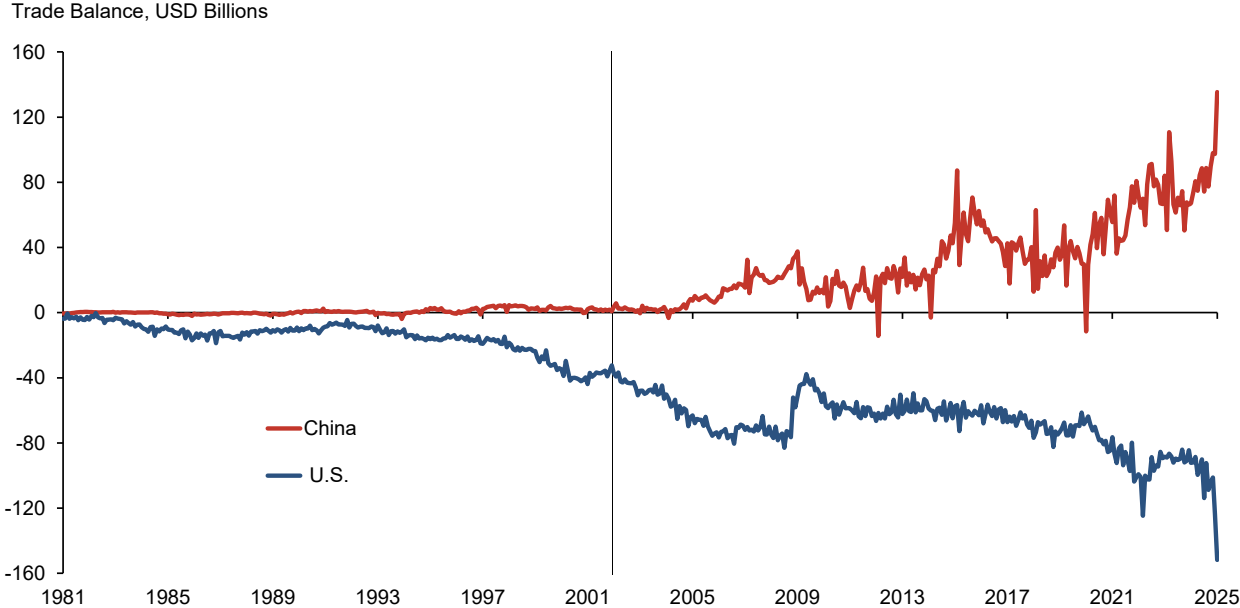
Source: Utar, Hâle, Alfonso Cebreros Zurita and Luis Bernardo Torres Ruiz. 2023. [The US-China Trade War and the Relocation of Global Value Chains to Mexico](#). CESifo Working Paper No. 10638. Munich: CESifo.

Concentrated gains from U.S. tariff war (2018-19) underscore a deeper trade realignment

- Patterns of nearshoring in Mexico:
 - Trade war boosted **Mexico's exports to the U.S.**, especially via **foreign-owned firms in technology-intensive sectors.**
 - **Gains are concentrated** among existing IMMEX firms integrated in U.S. manufacturing chains; no broad-based expansion observed.
- **Chinese inputs are increasingly filling supply chain gaps in Mexico**, enabling Mexico's export growth and China's penetration.
- Reflects a broader shift:
 - **U.S.–Mexico integration deepening, “China+1” strategy,**
 - **China reorienting trade toward emerging markets.**
- These trends, sparked by the **2018–19 tariff war**, appear to be **entrenching a new global trade geography.**

Near mirror images: U.S. and China trade balances with the world

China and US trade balances with the world in US Dollars since 1981



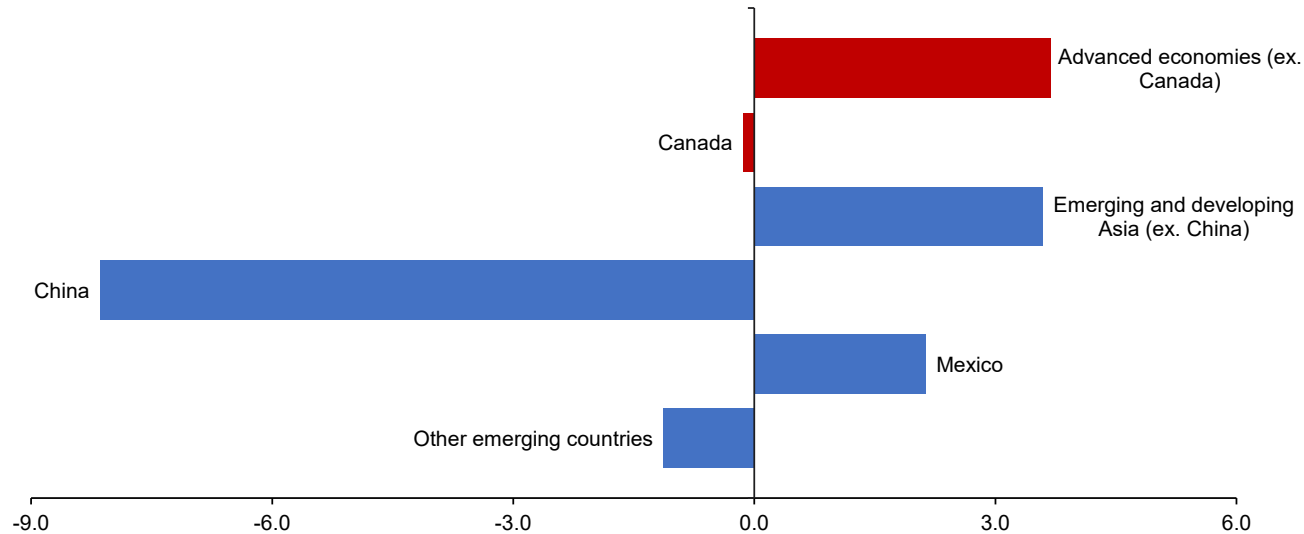
NOTES: Last data point is January 2025. Data are reported monthly in US dollars. Data are not seasonally adjusted.
SOURCES: International Monetary Fund; Haver Analytics

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U.S. import composition has tilted toward advanced economies, southeast Asia and Mexico

Percent change in share of U.S. imports by origin region

Percent change, 2017-2024



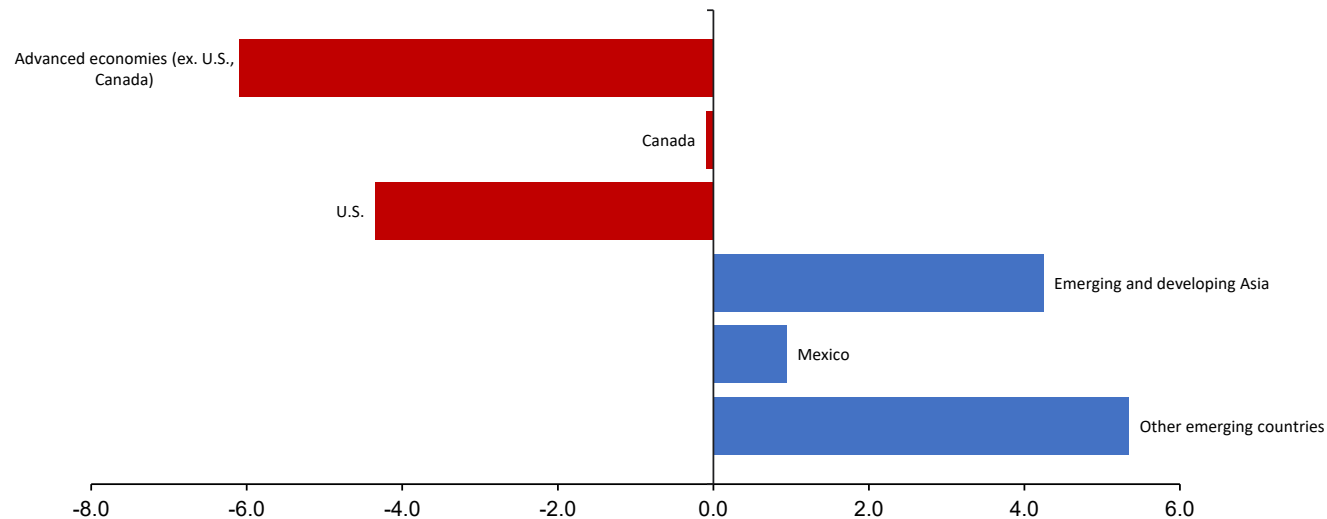
NOTE: Data are reported monthly, quoted in U.S. dollars, seasonally adjusted, averaged annually, and percent change is calculated from 2017. Last data point is December 2024.

SOURCES: Instituto Mexicano de Ejecutivos de Finanzas (Mexican Institute of Finance Executives); International Monetary Fund; authors' calculations.
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China's export composition has tilted toward emerging economies

Percent change in share of Chinese exports by origin region between 2017 and 2024

Percent change, 2017-2024*



NOTE: Data are reported monthly, quoted in U.S. dollars, seasonally adjusted, averaged annually, and percent change is calculated from 2017. Last data point is December 2024.

SOURCES: Instituto Mexicano de Ejecutivos de Finanzas (Mexican Institute of Finance Executives); International Monetary Fund; authors' calculations.
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Exploring U.S.–China trade dynamics and the role of USMCA

In-depth analyses on trade shifts and nearshoring trends

1. *Mexico Nearshoring Yet to Yield Big Investment Despite Global Trade Tensions*, Enrique Martínez García (Dallas Fed), Manuel Sánchez (former deputy Governor Banxico) and Luis Bernardo Torres Ruiz (Dallas Fed), 2024
2. *The U.S.–China Trade War and the Relocation of Global Value Chains to Mexico*, Hâle Utar (Grinnell College), Alfonso Cebreros Zurita (Banxico) and Luis Bernardo Torres Ruiz (Dallas Fed), 2023
3. *An Anatomy of U.S. Establishments' Trade Linkages in Global Value Chains*, Aaron Flaaen (Board), Fariha Kamal (U.S. Census), Eunhee Lee (Seoul National University) and Kei-Mu Yi (Dallas Fed), 2024

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(All comments welcome)