Economic analysis

Plan México: Better late than never

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The reconfiguration of global value chains, a.k.a. nearshoring began in January 2018 with the trade war between the United States and China. In the following years, COVID-19 and geopolitical conflicts drove this trend, in which companies seek to generate resilient supply chains closer to their final market. Nearshoring became the buzzword, claiming great potential for the country as a growth engine and investment attraction. Mexico is a natural candidate due to its geographical position, comparative advantage in manufacturing, and commercial integration in North America.

Nearly seven years after the onset of this phenomenon, in the last week of 2024, the National Strategy for Industrialization and Shared Prosperity was unveiled, summarized as "Plan México." The first comprehensive project from Mexico's federal government focused on strengthening the country's role in global value chains (GVC) through incentives for private investment, infrastructure development (energy, water, and transportation), and human capital training, all in coordination with government departments and agencies.

Previous efforts were made, but they were isolated and lacked the public-private synergies sought now. An example is the decree that, in October 2023, granted tax incentives to specific export sectors. Today, it is expanded and transformed into the "Nearshoring Decree," which will be complemented by the "Polos de Bienestar" decree, the renewed IMMEX 4.0 program, an additional boost from development banking (focusing on MSMEs), and public infrastructure development.

The initial document of the Mexico Plan presents eleven ambitious goals for 2030. One of the most ambitious goals is to increase the national content in the GVC of the automotive, space, and electronic industries by 15%. In the case of the automotive industry (leader in exports for Mexico and on average 5% of GDP in the last decade), this goal would imply reversing the fall in national added value in the Mexican automotive industry, which went from 56.4% in 2015 to 49.3% in 2020, according to the international input-output tables published by the Organization for Economic Cooperation and Development (OECD). Mexico's objective should be production efficiency by taking advantage of the comparative advantages of the Mexican industry and the 14 trade agreements with more than 50 countries that it currently has, not simply reaching a percentage of national content.

A second goal to highlight is the objective of US$100 billion per year in Foreign Direct Investment (FDI) by 2030. This purpose would imply a significant and sustained increase compared to the US$35.7 billion registered until September 2024, and it would be necessary to take into account that new investment (one of the three components of FDI) fell to historic lows of 5.8% of total FDI in the most recent data. According to the OECD's "Global FDI in Figures" report, published in October 2024, the proportion of new investments relative to total inflows averaged 23% in member countries in 2023. A balance of the components of FDI reflects the potential to attract new capital, while investments currently rely on the country to reinvest their profits.

The nitty-gritty of Plan México is about to be published in conjunction with the National Development Plan 2025-2030, which began discussion forums this week. The objectives are desirable and would boost the Mexican economy, but they require a budget-backed strategy with a clear roadmap. Meanwhile, the nearshoring train waits for no one, and 2025 presents a year of challenges for the Mexican economy with the latent threat of tariffs, fiscal pressures, and the complexities involved in the review of the T-MEC towards 2026.

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