



Pharr

Border Business Initiative

International Bridge +
Economic Development Corporation

INDUSTRIAL WAREHOUSE SUMMIT

Thursday, May 9, 2024



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WELCOME



To Watch Video, click here: <https://youtu.be/PcdM7iTvsaA>

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NEARSHORING TRENDS



Pharr International Bridge Industrial Warehouse Summit III: Nearshoring Trends

Presented by:
Jorge A. Torres
President/U.S. Licensed Customs
Broker
Interlink Trade Services

May 9th, 2024



Agenda

- Nearshoring
- Supplier Base Development
- Mexico's Advantages and Challenges
- Summary and Conclusions

Nearshoring

- * Nearshoring means relocating supply chains to diminish the risks from disruptions that are currently impacting the world
- * Nearshoring makes sense as the pandemic highlighted the weaknesses from the interconnection and dependence on a fully globalized supply chain
- * Regionalization is the answer, and we are seeing the positive impact of that in the North American Region
- * While many companies are taking the steps or relocating their assembly/production facilities, they are also resourcing their parts or components with suppliers in the region
- * Some suppliers are going even further and relocating their operations to be closer to their customers
- * At this point, the relocation of the raw material supply chain is fundamental as risks are involved in not doing so

Nearshoring

- * Chinese manufacturers are increasingly setting their sights on Mexico for bringing production closer to the American Market, reflecting the higher costs of Chinese exports under U.S. tariffs and disruptions to global supply chains due to the pandemic and other factors
- * Apart from traditional destinations in Southeast Asia targeted by Chinese producers, Mexico is becoming a new alternative, offering proximity to the U.S., lower labor costs and access to preferential tariff treatment under the U.S.-Mexico-Canada Agreement (USMCA)
- * Although U.S. companies are relying on low-cost countries in Asia, there is strong evidence that American manufacturers are looking to relocate closer to home, according to a recent report by consulting company A.T. Kearney

Nearshoring

- * A Kearney Survey in March 2022 found that 92% of American manufacturing executives were positive about bringing factories home, compared with 78% the previous year
- * Among CEOs, 70% said they were assessing, planning or completing the relocation of operations to regions near the U.S., such as Mexico, Canada or Central America (17% said they had already moved operations to Mexico)
- * “Mexico’s biggest advantage is its proximity to the U.S., enabling controllable logistics costs and much lower risk of supply chain disruptions due to events like the pandemic and U.S.-China frictions”, said He Xiaoqing, president of Kearney Greater China
 - * Source: “In Depth: How Chinese factories are finding their way to Mexico, Yang Jinxi, Qu Yunxu and Du Zhihang, Caixin, July 2, 2022

Supplier Base Development

- * The manufacturing industry, has relied on the Just-In-Time (JIT) method of production for many years
- * Companies are now implementing the Just-In-Case (JIC) method of production, which basically means to increase material inventory levels to have available in case there is a major supply chain disruption
- * Having a Just-In-Case method of production might also continue to put pressure on supply chain disruptions as an increase in raw material inventories might translate to additional transportation and logistics requirements (freight, warehouse space, labor)
- * We will continue to see nearshoring of companies and regionalization of the supplier base, in order to minimize the strain that supply chain disruptions create
- * Mexico will be key for nearshoring and the regionalization of the supplier base

Mexico's Advantages and Challenges

- * Foreign Direct Investment (FDI) in Mexico hit \$36.1B in 2023:
 - * Top 5 FDI Countries:
 - * U.S. - \$13.64B (38%)
 - * Spain – \$3.77B (10.4%)
 - * Canada - \$3.47B (9.6%)
 - * Japan - \$2.9B (8%)
 - * Germany - \$2.4B (7%)
- * 2023 FDI in Mexico was not as strong as previously expected
- * Where is China??

Mexico's Advantages and Challenges

- * Just over 50% of all investments corresponded to the country's manufacturing sector. When broken into subsectors, FDI in transportation equipment, the chemicals industry, computer equipment, electric power generation equipment, metals, and the beverage and tobacco industries saw the highest levels
- * The other 50% was related to financial services and mining, among others

Mexico's Advantages and Challenges

- * In the period January to December 2023, the Foreign Direct Investment (FDI) from China to Mexico is US\$151M
- * In the same period, the states that received the highest FDI from China were:
 - * Nuevo León
 - * Coahuila
 - * Guanajuato

Mexico's Advantages and Challenges

Inversión Extranjera Directa en México Comportamiento por Entidad Federativa 2023 millones de dólares



- ▶ En 2023, se observa una **reconfiguración de la ubicación** de las inversiones a lo largo de **todo el país**.

IED 2023
36,058 mdd

De la IED registrada para 2023, el 76 % se concentra en 10 estados del país.

| Entidad Federativa | IED | % |
|--------------------|---------------|------------|
| Top 10 | 27,450 | 76% |
| Ciudad de México | 11,197 | 31% |
| Sonora | 2,706 | 8% |
| Nuevo León | 2,537 | 7% |
| Jalisco | 2,028 | 6% |
| Chihuahua | 1,980 | 5% |
| Estado de México | 1,927 | 5% |
| Baja California | 1,473 | 4% |
| Aguascalientes | 1,379 | 4% |
| San Luis Potosí | 1,116 | 3% |
| Querétaro | 1,107 | 3% |



Mexico's Advantages and Challenges

- * The Mexican government recorded 378 Foreign Direct Investment (FDI) announcements in 2023, totaling \$110.7B
- * These investments could be made in the next two to three years, according to the Ministry of Economy
- * The largest investors are expected to be:
 - * U.S. - \$42.3B (38.1%)
 - * China – 11.2B (11.9%)
 - * Denmark – 10.2B (9.2%)
- * Almost 50% of these investments would be in the manufacturing industry
- * FDI announcements in Mexico are expected to increase in 2024 and 2025, particularly from Chinese companies
- * It is expected that Mexico will receive approximately over \$40B in 2024 alone

Mexico's Advantages and Challenges

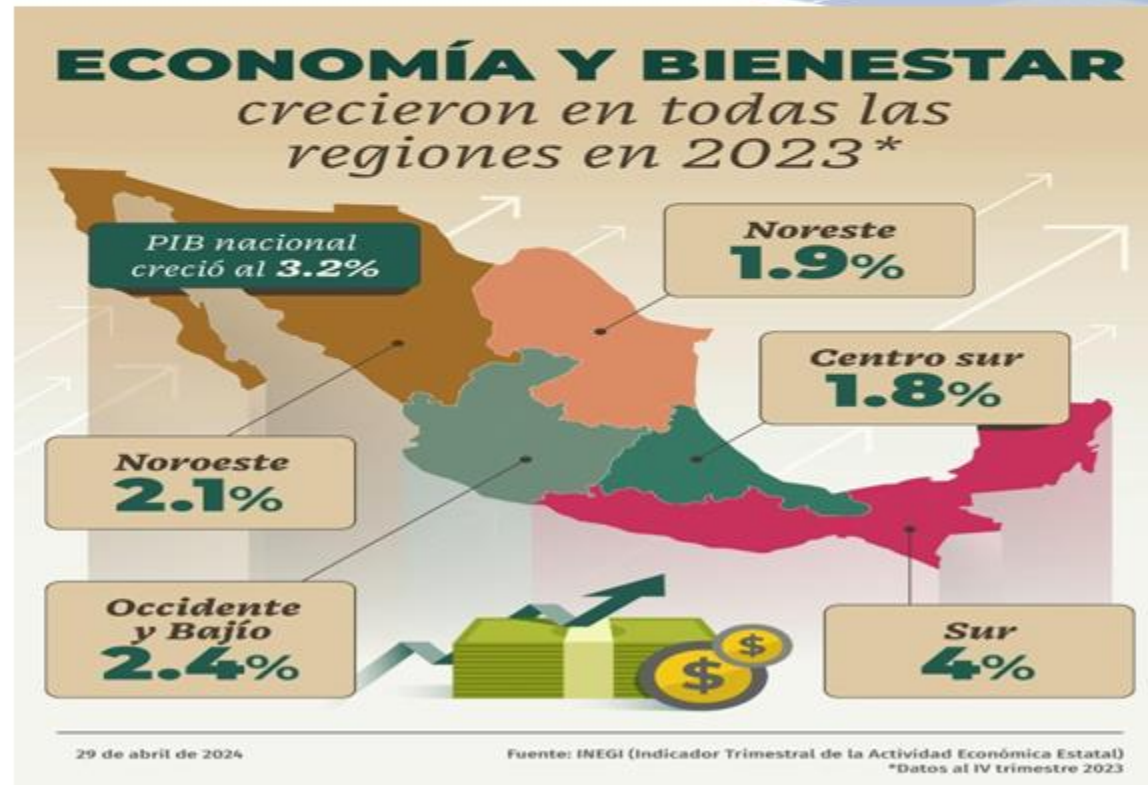
- * Mexico's Advantages:
 - * Proximity to the US and Canada
 - * USMCA and other FTAs
 - * Section 301 China Tariffs and Section 232 Tariffs on Steel and Aluminum Avoidance
 - * Young Population
 - * Competitive Salaries
 - * Special Programs (IMMEX, PROSEC)
 - * Geographical Diversity

Mexico's Advantages and Challenges

- * Isthmus of Tehuantepec



Mexico's Advantages and Challenges



Mexico's Advantages and Challenges

- * Mexico's Challenges:
 - * Lack of Infrastructure (roads, airports, rail, housing, etc.)
 - * Energy Availability (CFE)
 - * Water Availability
 - * Industrial Land Deficit
 - * Political, Legal and Fiscal Certainty
 - * Security Issues
 - * Efficient Customs Clearance Processes

Mexico's Advantages and Challenges

- * Future Trade and Political Dynamics:
 - * USMCA Re-Negotiation in 2026 (Sunset Clause)
 - * Mexico Presidential Elections
 - * U.S. Presidential Elections
 - * U.S. – China Trade War
 - * E-Commerce (De Minimis Shipments)
 - * Globalization 2.0 (Regionalization)
 - * Artificial Intelligence and Technological Advancements
 - * Geopolitical Pressures (Ukraine-Russia War, Middle East Conflict, China, Taiwan)

Summary and Conclusions

Muchas Gracias

The information provided in this presentation is solely the opinion of the presenter and is for informational purposes only; it is not to be considered legally binding or to be used as legal advice



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ECONOMIC STUDIES



Macro headwinds: implications for the RGV

Salvador Contreras, PhD

Today's presentation



A quick look at trade



Macro headwinds

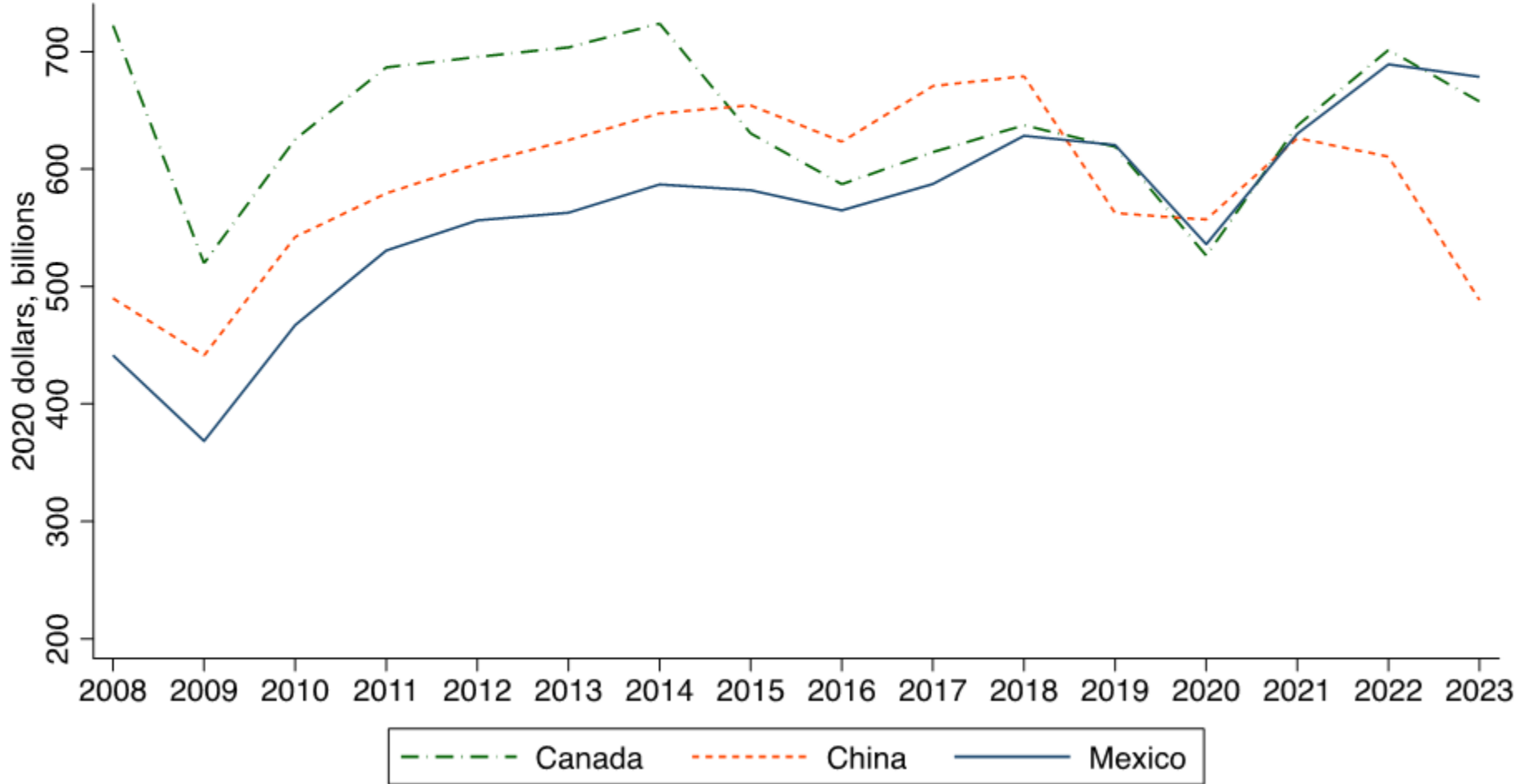


Elections



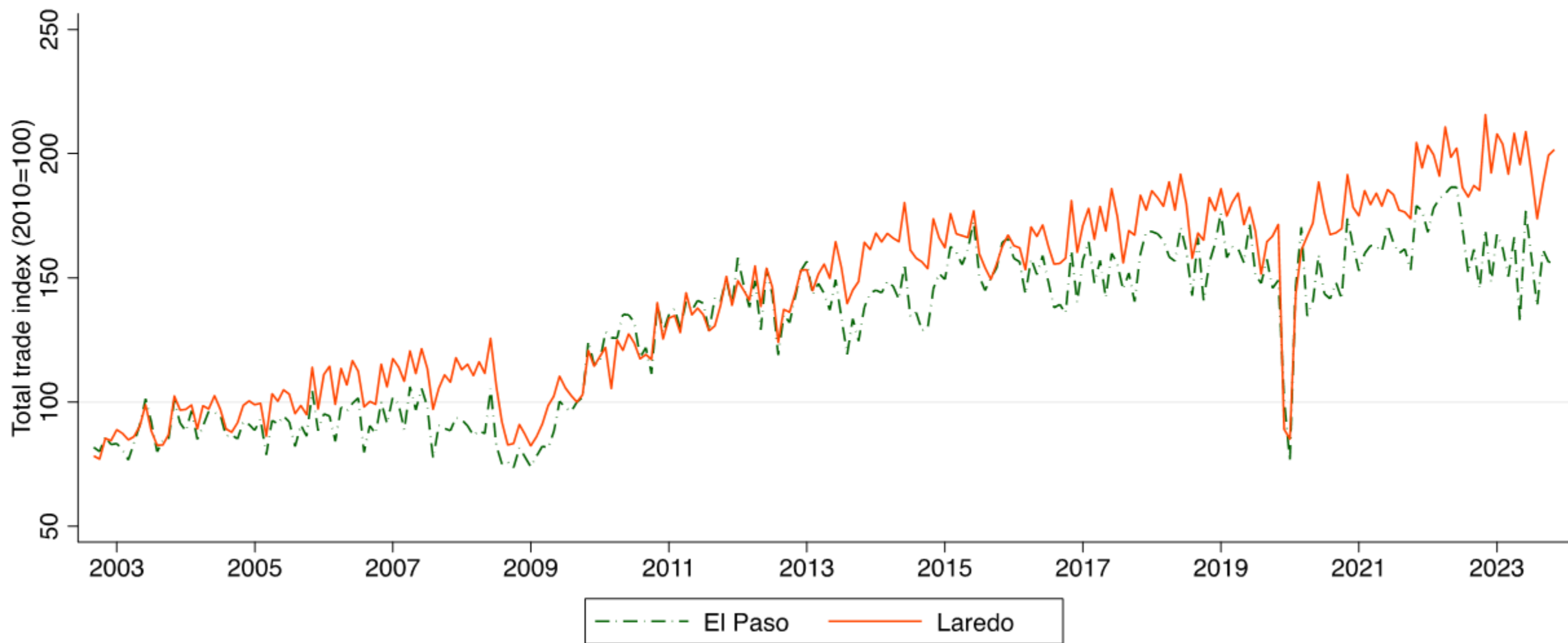
Protectionism

Total Trade

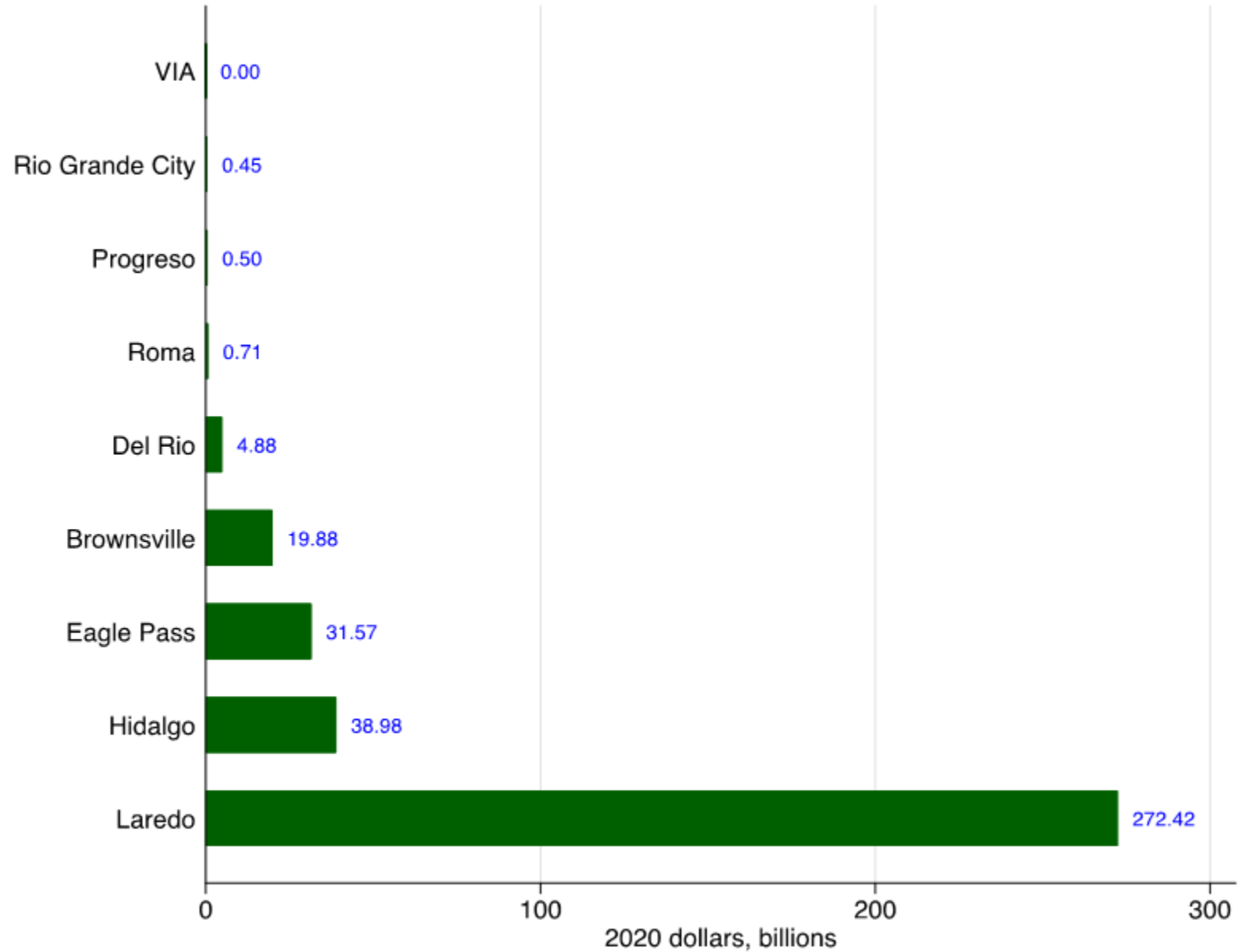


U.S. Import and Export Merchandise trade statistics.

Total Trade, District Port

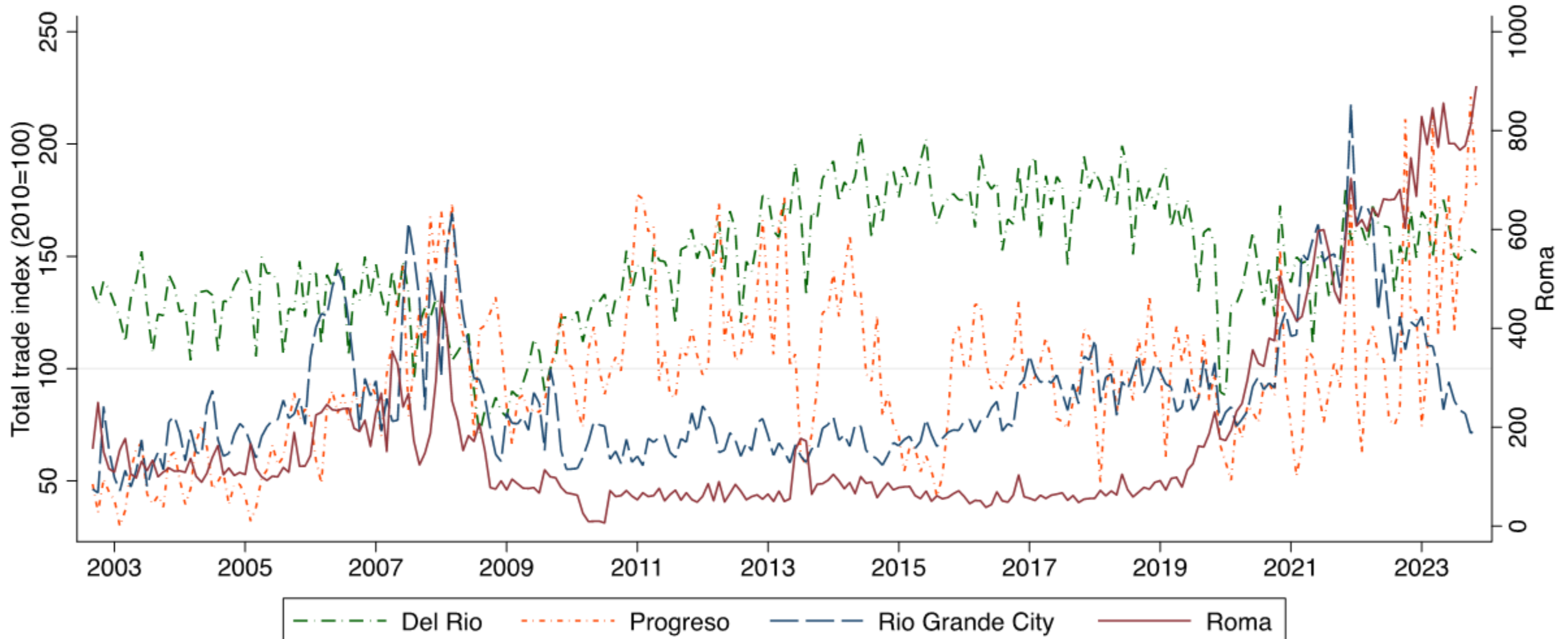


2023 Total Trade

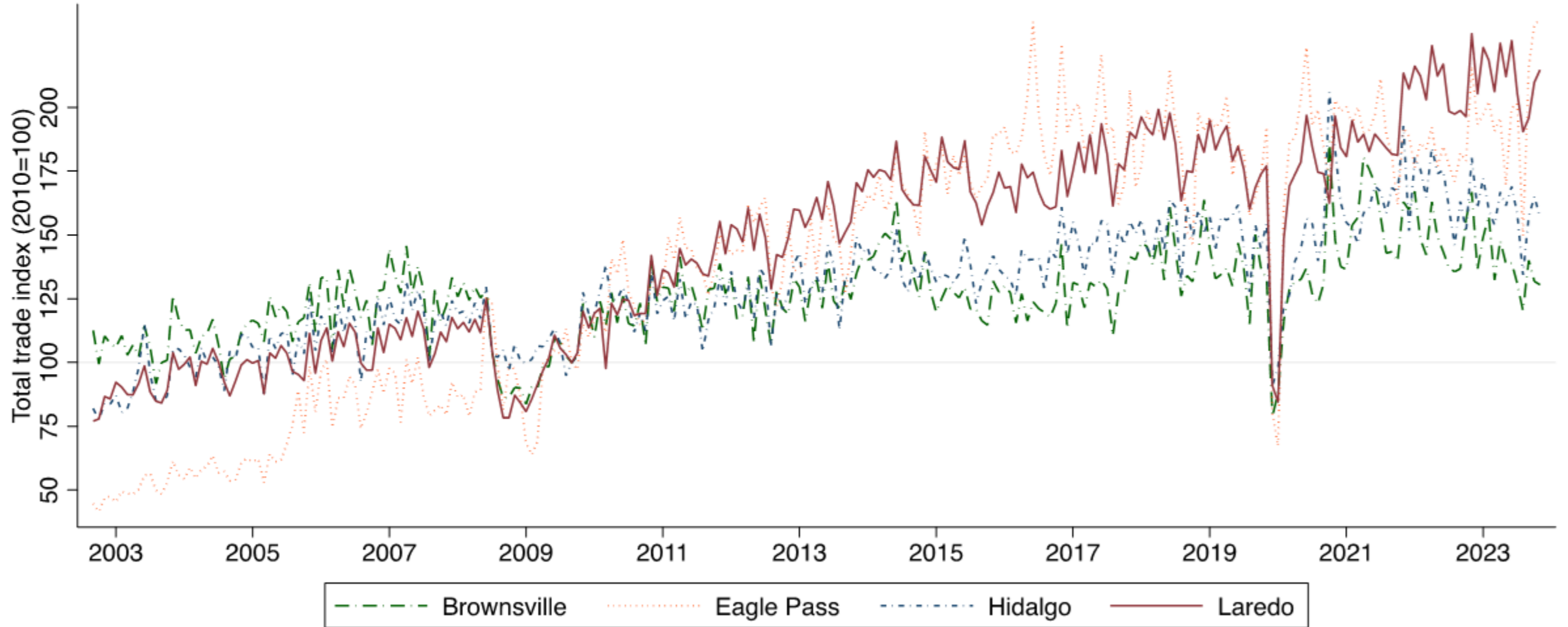


U.S. Import and Export Merchandise trade statistics.

Total trade, small ports



Total trade, large ports



Macro - DATA

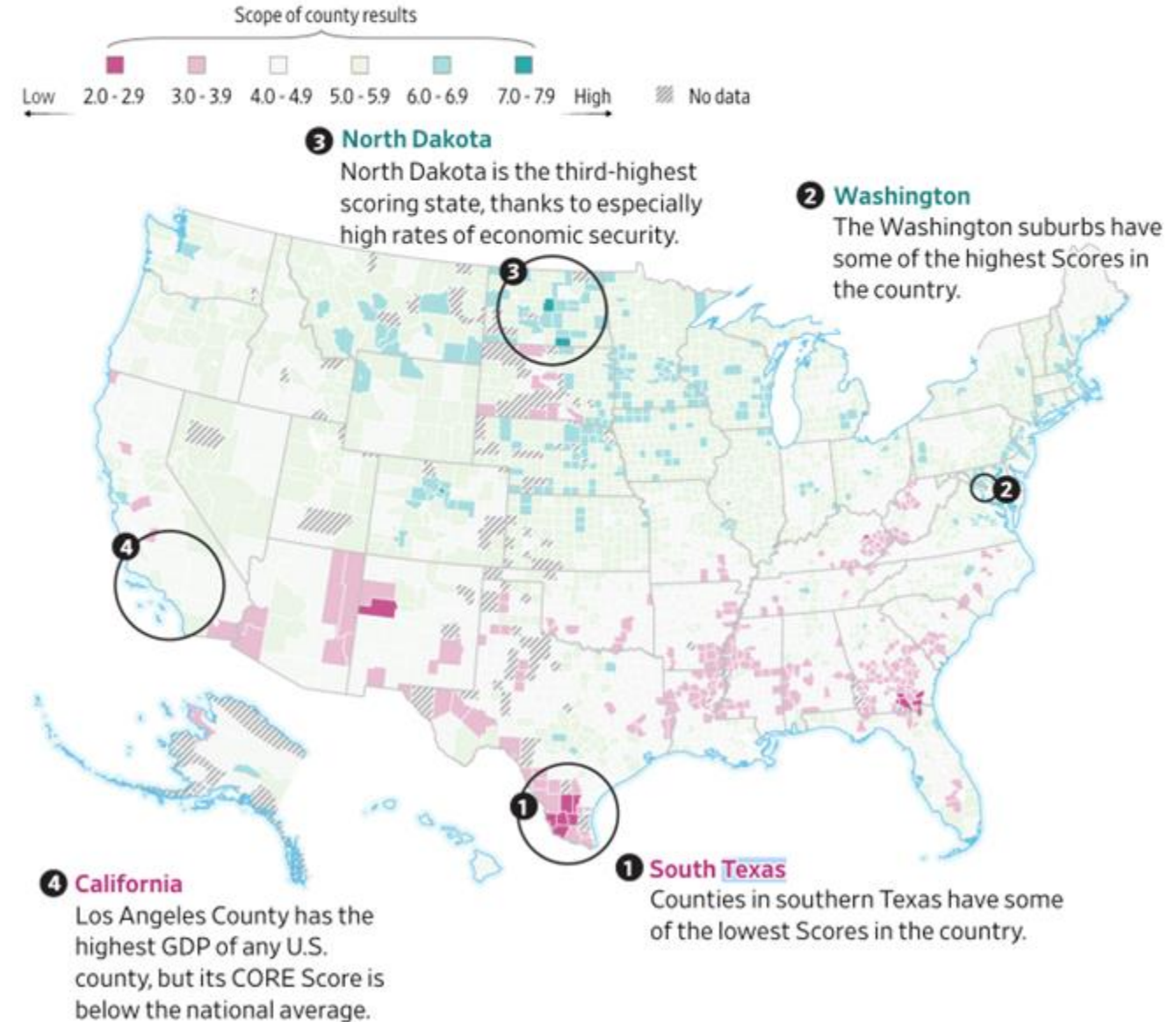
American well-being

- CORE is a county-level index of well-being using measures of economic security, economic opportunity, health, and political voice. The lowest possible Score is 0 (very low well-being) and the highest is 10 (very high well-being).

How are Americans Doing?

The CORE Score is a new measurement of American well-being and an alternative to traditional economic indicators such as GDP.

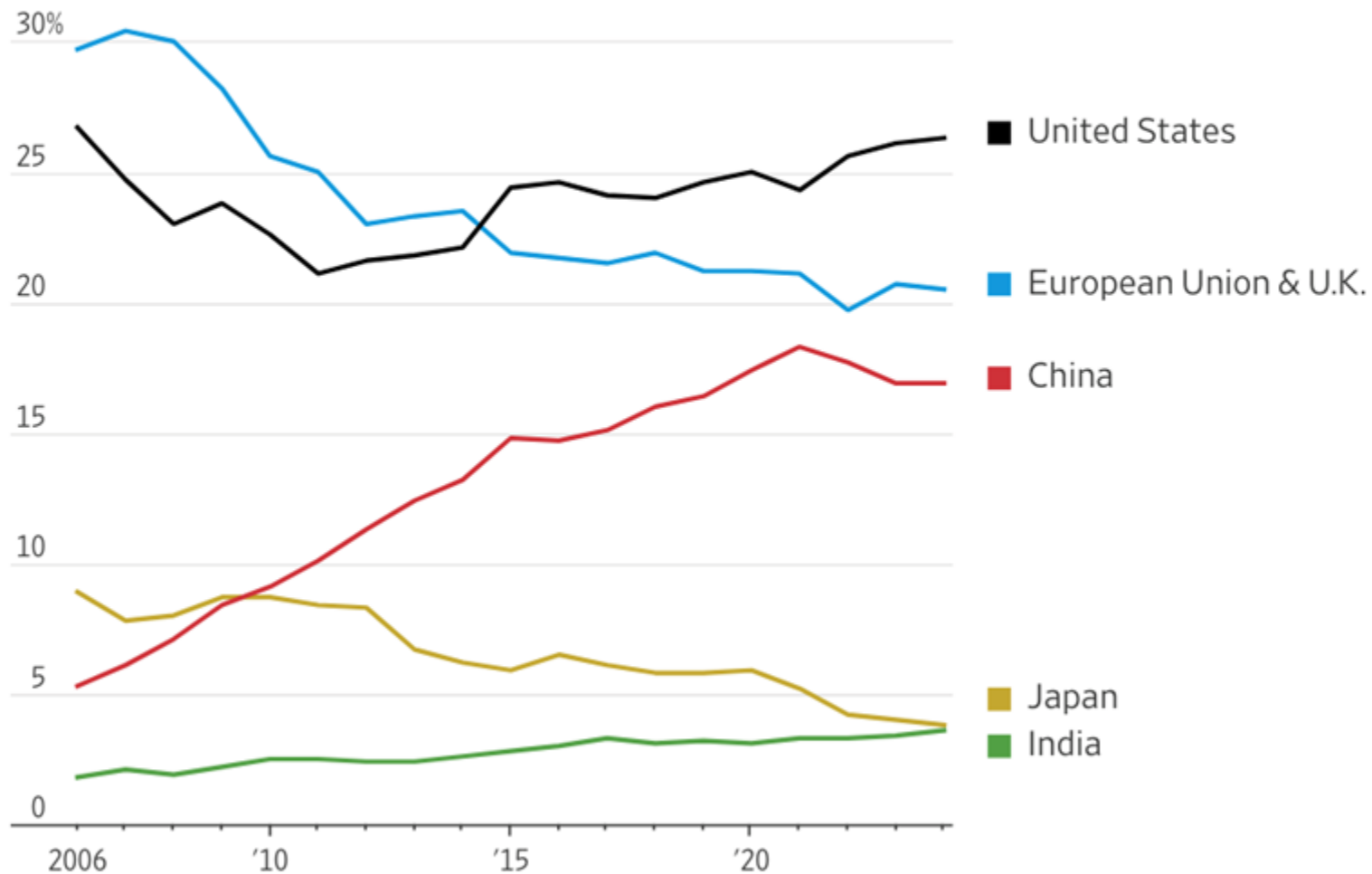
County-level CORE Score® in 2021



America's Economy Is No. 1.

- America's share of world GDP is estimated to be 26% in 2024 (increasing)
- EU+UK, 21% (declining)
- China, 17% (declining)

On Top of the World
Share of world gross domestic product



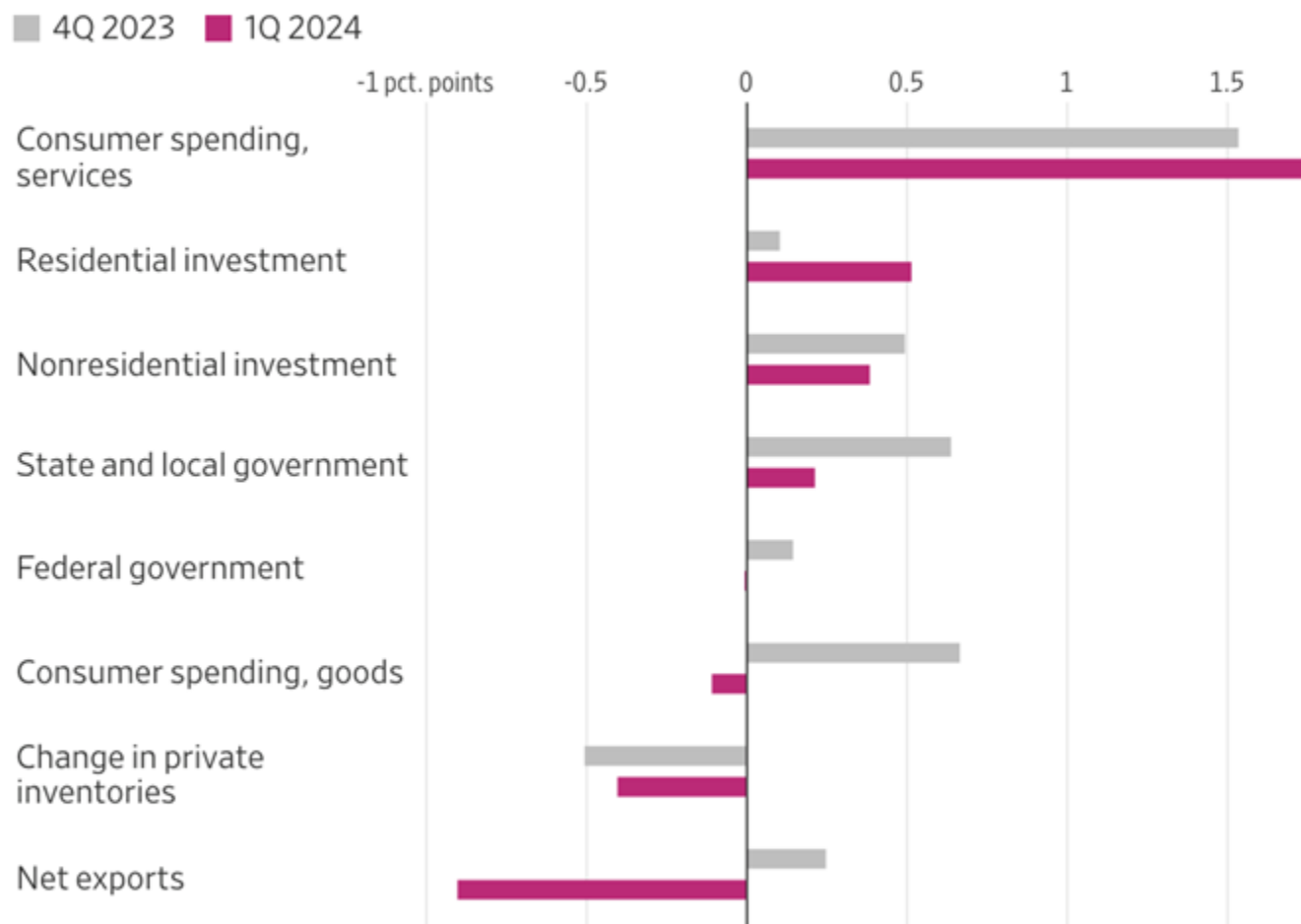
Note: At current prices and exchange rates. Figures for 2024 are projections.

Source: International Monetary Fund

Factors affecting GDP

- Insurance, health, services are leading the way.
- Appliances, cars, gasoline, goods are a problem
- Trade is a worrying sight

Contributions to quarterly change in real GDP for select categories



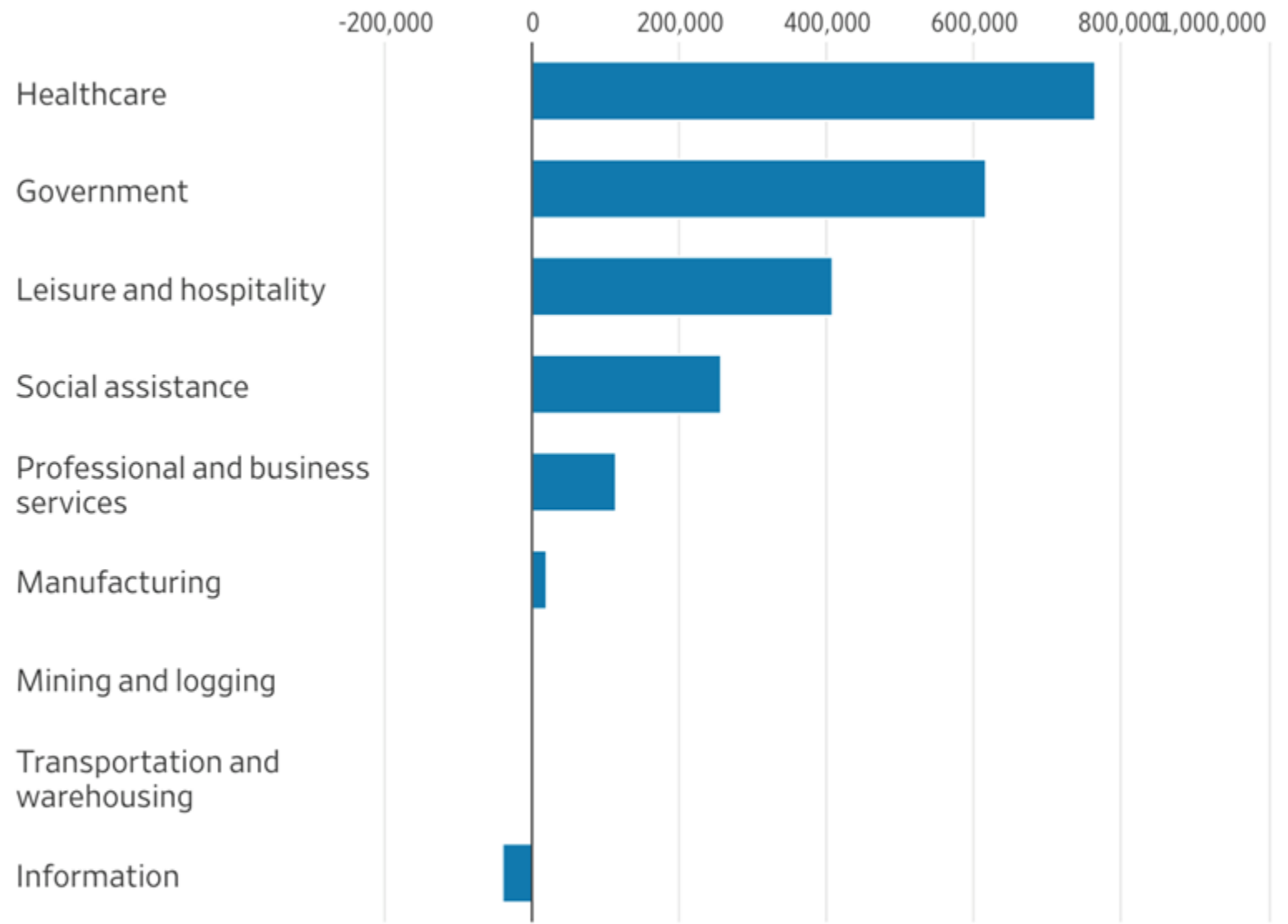
Note: Seasonally adjusted at annual rates

Source: Commerce Department

Job Boom

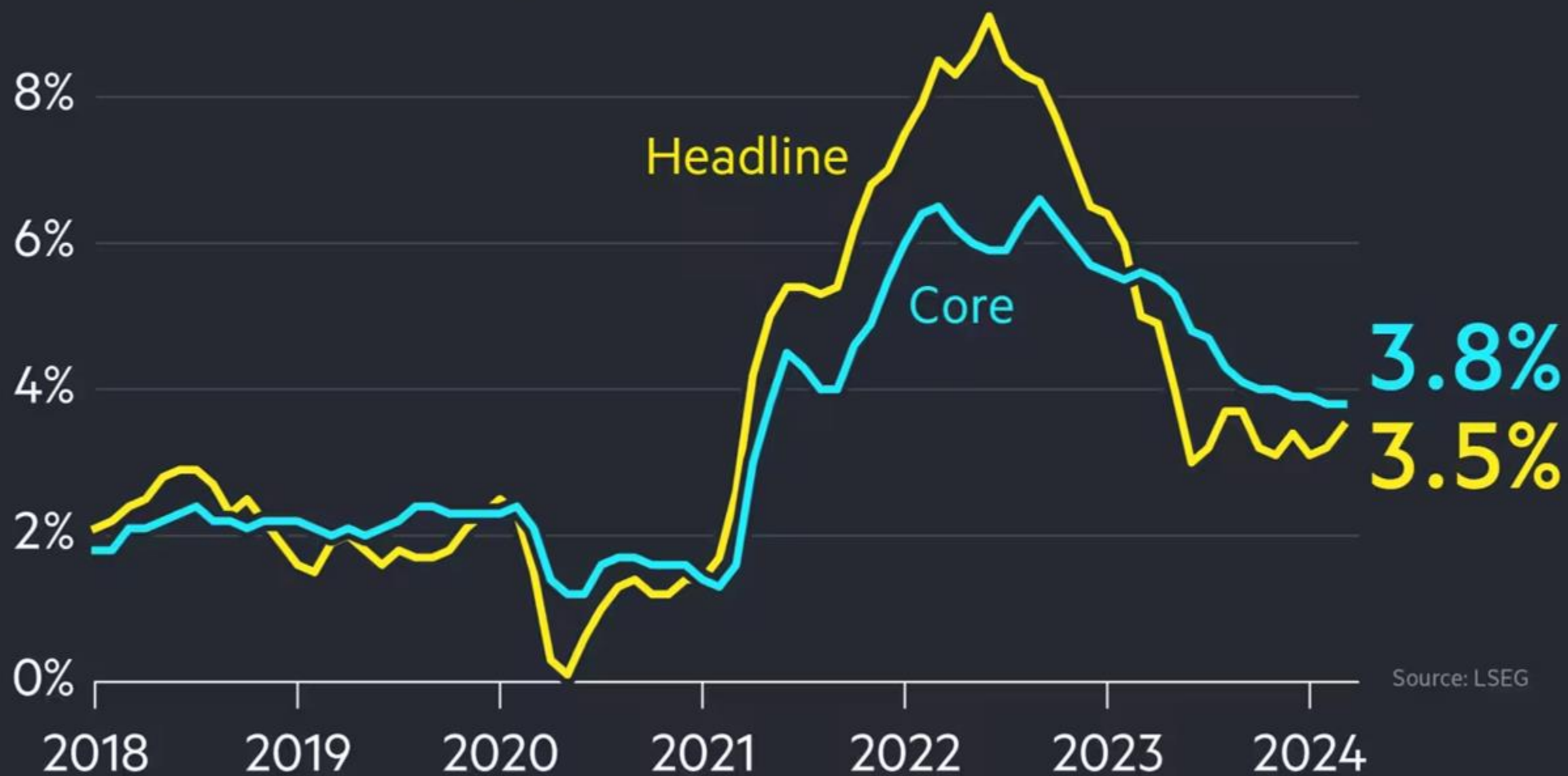
- April unemployment rate ticked up 0.1 percentage point to 3.9%
- payroll jobs increased 175,000
- Government, healthcare and social assistance accounted for about 95,000

Job Growth, April 2023-April 2024



Source: Bureau of Labor Statistics

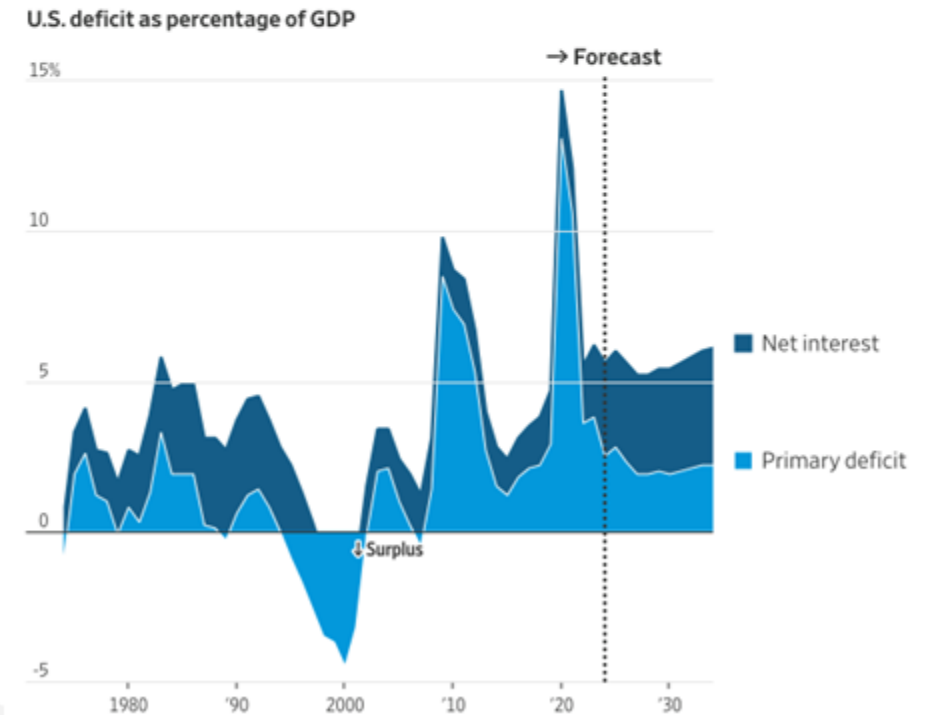
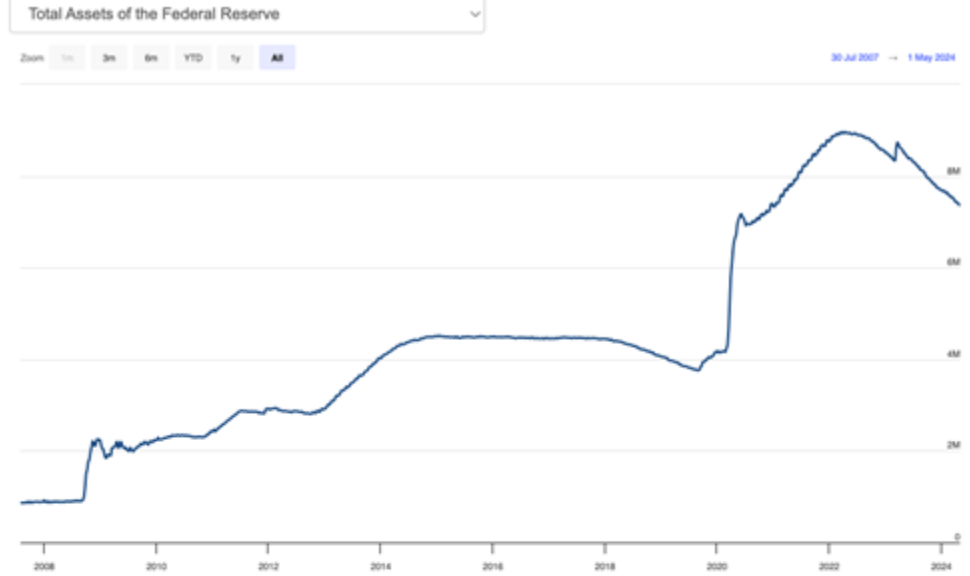
Annual % change in US CPI



Source: LSEG

The Fed

- The Fed accumulated large positions of debt securities.
 - \$4T to \$9T (4/22)
 - -\$1.5T today
- Fed recently announced a slowdown in BS runoff.
- Rates remain at 5.25-5.5%
- Areas of concern
 - Cost of capital
 - \$32T – Public debt (~123%)
 - \$870B (est. 2024) in interest payments or 3.1% of GDP.
 - Crowding out effects



Source: Congressional Budget Office

WORLD ECONOMY HEAVYWEIGHT CHAMPIONSHIP



**JOE
BIDEN**

PRESIDENT OF THE U.S.A.

VS

**DONALD
TRUMP**

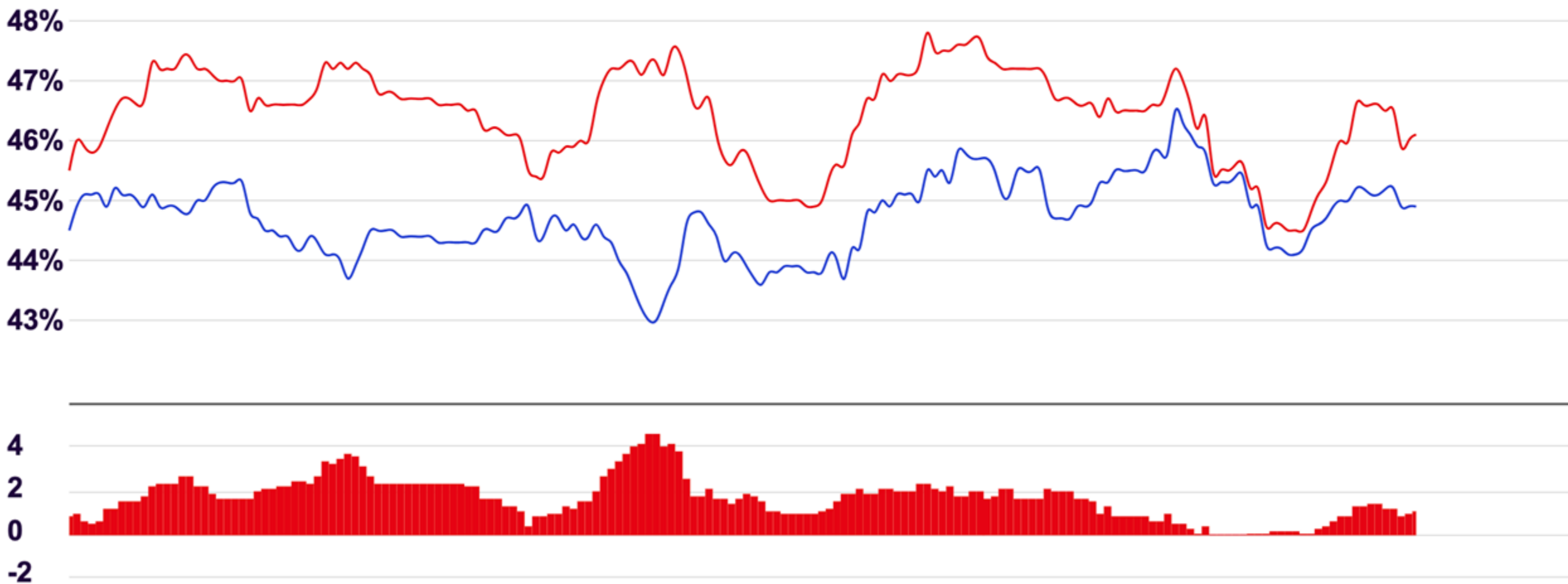
FORMER PRESIDENT OF THE U.S.A.



TUESDAY NOVEMBER 5TH

Artist's signature

General Election: Trump vs. Biden



Bloomberg Poll Tracker

Effective vote intention, as of March 31, 2024



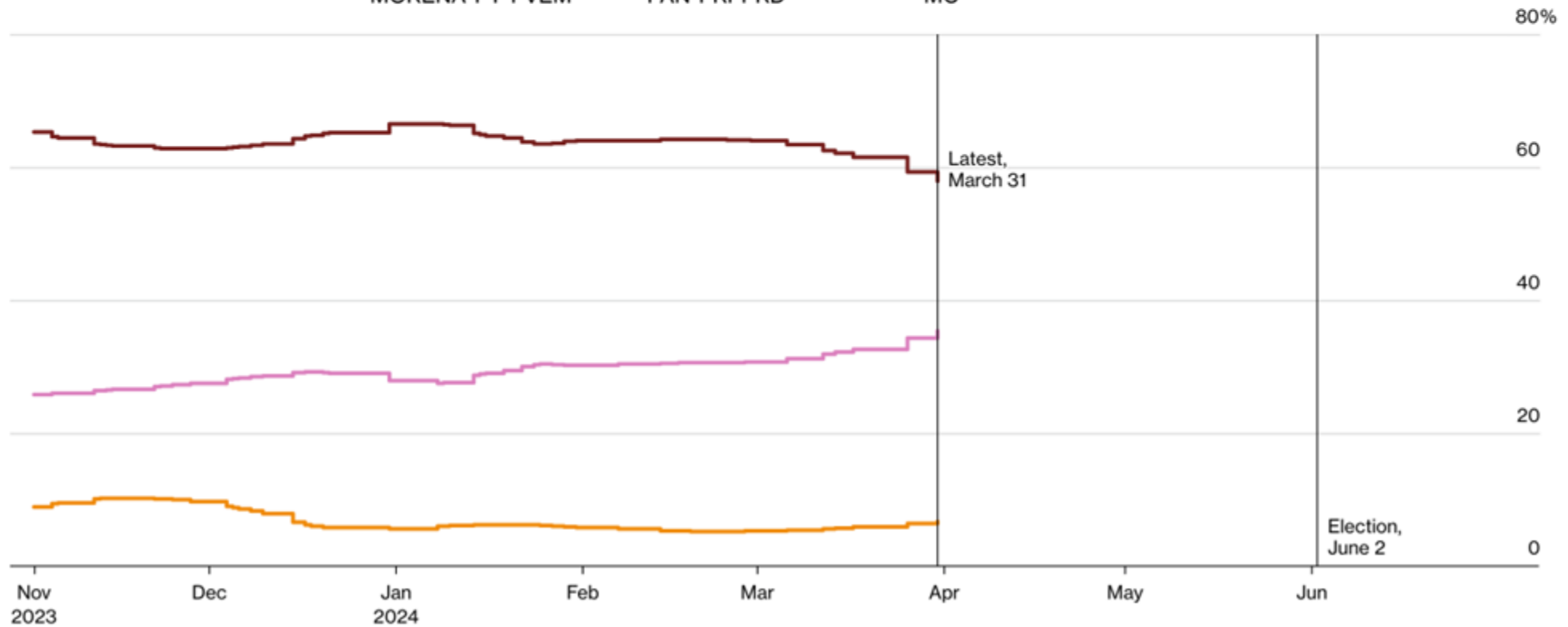
58%
Claudia Sheinbaum
MORENA-PT-PVEM



35%
Xóchitl Gálvez
PAN-PRI-PRD



7%
Jorge Álvarez Máynez
MC



What's at stake on trade

- Protectionist policies
 - Biden, is asking his officials triple tariff rate on Chinese steel and aluminum products to 25% from 7.5%.
 - That higher levy would be in addition to a separate 25% tariff on steel and a 10% duty on aluminum imposed under the Trump administration.
 - Under USMCA review clause, on July 1, 2026, the parties must confirm in writing whether or not to continue the agreement.
 - If one or more parties decide not to renew, it will kick off a process that will leave the future of the USMCA in a state of uncertainty for years to come.
 - Biden kept trade barriers in place, left European companies out of subsidies designed to bolster U.S. manufacturing and surprised allies with tighter restrictions on Chinese access to American technology.

Summary

- Total Trade appears to be tapering off
- Area district ports have continued to benefit
- Laredo district continues to grow dollar volume
- Hidalgo and Brownsville ports are seeing declines in dollar values.
- The US economy is strong:
 - However, Fiscal space for next crisis is likely limited
 - Economic indicators, while strong provide reason for caution.
- The next 5 years are likely to be a bit less globally dependent then previous 5.

Thank you!

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10 MINUTE COFFEE BREAK & NETWORKING





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EDUCATIONAL PANEL / Q&A



EDUCATIONAL PANEL / Q&A



Ron Garza
Senior Associate Vice President-
Workforce & Economic
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Rio Grande Valley



Dr. Ricardo J. Solis
President of South Texas
College



Manuel M. Vela
Vice President and Chief Operating
Officer
Texas A&M University Higher Education
Center at McAllen



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KEYNOTE SPEAKER
EDUARDO VAZQUEZ
CONSULTANT/FOUNDER
ASPE.AL

