

Mexico

The city where Mexico's nearshoring hype is becoming reality



Optimism infects business leaders in Monterrey as manufacturers shift operations close to the US

Christine Murray in Monterrey 9 HOURS AGO

Pesquería just outside Monterrey, Mexico, has been nicknamed “Pes-Korea” by locals as carmaker Kia increased production at its factory, which is soon to be expanded to produce electric cars.

Across town, warehouses are springing up along the road to a vast Chinese industrial park. Some property billboards are translated into English, Korean or Mandarin.

Industrial real estate is expanding, yet at the same time vacancy rates are below 2 per cent. Developers are even building a physical symbol of the hubris: a skyscraper taller than the Empire State Building.

“A week doesn’t go by for us without meeting Chinese, Korean, Japanese executives, looking to open offices or a plant,” said Lorenzo Barrera Segovia, chief executive of Banco Base, a bank based in the city.

[Monterrey](#), a business-friendly city a few hours’ drive from Texas, is a bellwether for Mexico’s ability to reap the rewards of nearshoring — a shift that is taking place thanks to the coronavirus pandemic, trade tariffs between the US and China, and geopolitical instability since Russia invaded Ukraine.

[Mexico](#) has been singled out by investors as one of the countries best placed to economically benefit from geopolitical changes. Already, the country’s northern cities churn out thousands of high-skilled graduates and send millions of tonnes of goods, from refrigerators to Lego, north to the US.





A worker assembles a vehicle at the Kia assembly plant in Pesqueria, Mexico. The town has been nicknamed 'Pes-Korea' as the carmaker has increased production at the factory © Susana Gonzalez/Bloomberg

Referring to Mexico, JPMorgan's chief executive Jamie Dimon told Bloomberg TV this month: "If you had to pick a country this might be the number one opportunity."

Thanks to becoming an emblem for manufacturing, Monterrey — which is located in a semi-arid valley enclosed by jagged mountains — is a magnet for Mexicans from elsewhere seeking work. Yet it also presents many of the bottlenecks that could hold the country back.

Long disparaged by residents of the capital as a provincial factory town, Monterrey has become more international as companies from the US, Europe and Asia announce investments.

"In my kids' school there are Koreans, Venezuelans, Argentines, people from everywhere, when I was young you didn't see that," said Iván Rivas, economy minister of Nuevo León, the state that includes Monterrey.

Business leaders have lamented that Latin America's second-largest economy is not taking full advantage of the nearshoring opportunity. Many [blame the government](#) of leftist President Andrés Manuel López Obrador. But though scepticism remains, industrial growth in the north has helped shift the mood, and more voices now say that nearshoring is showing in the data.

"I considered myself a cautious optimist on the nearshoring issue — I think now I'm more optimistic," said Miguel Ángel Alcaráz, a partner at McKinsey in Mexico City, who recently returned from talking to large Chinese corporates considering expanding in Latin America to serve US customers.

"We presented some numbers of investments being announced and [they] told us 10 times more was coming."

Analysts have sharply revised up their growth estimates for the country in 2023 to 3.3 per cent, from less than 1 per cent in January, central bank surveys show.

One measure of investment in assets that reflects public and private sectors has jumped to its highest ever level, according to statistics body INEGI. Meanwhile, Mexico's peso has strengthened 15 per cent against the US dollar this year, the second biggest gain of any emerging market's currency.

Mexico this year became the US's largest trading partner, ahead of Canada, as it began to win a bigger share of the ground lost by China.

Sceptics point out that foreign direct investment, which rose to a record \$32.9 billion in the first nine months of this year, mostly reflects reinvestment of profits rather than new projects.

But the Nuevo León state government in Monterrey says billions in investments that have been announced there are not yet reflected in FDI figures and exports.

These include a \$5 billion commitment from US electric-car maker Tesla to build a new factory — though its owner Elon Musk recently told investors he was delaying the

project because of concerns about the global economy.

“When all these are up and running, the number will explode,” Rivas said of exports.

But poor planning, ageing infrastructure and persistent insecurity could put a ceiling on Mexico's economic ambitions.

These issues are evident in Monterrey. Road traffic has doubled since 2019, making the city the most congested in the country and 11th in the world, according to [INRIX](#). Public transport, though expanding with new metro lines, is limited. A severe water crisis caused by drought meant that at one point last year the entire city was restricted to just six hours of water per day.

Companies also spend increasing amounts on electricity infrastructure to get projects connected to the grid, people said, as years of national under-investment begin to come to a head.

“Monterrey and the rest of the country has a deficit in terms of planning . . . in terms of giving a strategic direction to economic growth,” said Roberto Durán, professor at the Tecnológico de Monterrey university.

Unresolved national structural problems — such as corruption and the lack of competition in the economy — cause some observers, like Jason Tuvey, emerging markets economist at Capital Economics, to doubt that the external forces will be transformative for Mexico.

“We've had [trade agreements with the US and Canada] for 30 years nearly, and productivity and wider GDP growth in Mexico has been pretty weak,” he said.

Old-school leftist López Obrador's government has not formulated a comprehensive strategy to attract or direct investment. He abolished the state investment agency ProMexico, leaving the country's banks, consultants and state governments to promote Mexico as a destination instead.





President Andrés Manuel López Obrador, left, and Claudia Sheinbaum. López Obrador hopes Sheinbaum wins the election to replace him in June © Gerado Vieyra/NurPhoto/Getty Images

Despite his reputation for hostility to the private sector, the government recently surprised investors by announcing fiscal incentives for investments by export-focused companies in certain sectors. Some took it as a positive sign ahead of elections for a new president in June.

“The president and this government have been very open to foreign direct investment,” said deputy finance minister Gabriel Yorio. “The private sector is welcome. What the government has had is a very clear focus where there are issues of national security like energy.”

The economic pick-up is fortuitous timing for López Obrador, with less than a year until elections, when he hopes his protégée, former Mexico City mayor Claudia Sheinbaum, will win the presidency.

“The question is no longer ‘will investment go up?’ It will,” McKinsey’s Alcaráz said, referring to investment from abroad.

The question to solve, he said, was around longstanding issues such as infrastructure and insecurity: “Are we going to leave \$20 billion a year on the table because there are things we don’t do?”

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