Atlantic Council

ADRIENNE ARSHT LATIN AMERICA CENTER

FROM RHETORIC TO REALITY: NEARSHORING IN THE AMERICAS

A subregional call for action

A report of the Adrienne Arsht Latin America Center's Nearshoring Working Group

Foreword by Rep. Adriano Espaillat and Rep. Maria Elvira Salazar
Rapporteurs: Luz María de la Mora and Martin Cassinelli

ADRIENNE ARSHT
LATIN AMERICA CENTER

The Atlantic Council's nonpartisan Adrienne Arsht Latin America Center (AALAC) broadens understanding of regional transformations while demonstrating why Latin America and the Caribbean matter for the world. The center focuses on pressing political, economic, and social issues that will define the region's trajectory, proposing constructive, results-oriented solutions to inform public sector, business, and multilateral action based on a shared vision for a more prosperous, inclusive, and sustainable future.

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> "Nearshoring will allow the United States to produce shared prosperity and reinvigorate partnerships across the Americas. Failing to seize today's opportunities means ceding ground to China in our own hemisphere. Our success requires a new set of tools to better leverage investment opportunities."
>
> **Senator Michael Bennet (D-CO)**

> "Nearshoring and reshoring is about increasing opportunity for the American worker; the relative growth of our economy and our ability to fund and support our world vision compared to the Chinese Communist Party (CCP). The economic and cultural hegemony that the CCP wishes to have would set the whole world back. This is the opportunity for US leadership."
>
> **Senator Bill Cassidy (R-LA)**

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Foreword

by Rep. Maria Elvira Salazar (R-FL) and Rep. Adriano Espaillat (D-NY)

Nearshoring is fundamental to US economic interests. By securing and further diversifying supply chains, it's a win for the American people and for growing our economy. Importantly, it will also help our allies in the Americas and renew critical US partnerships while also diminishing the economic influence of China. That is why we are focused on moving nearshoring from rhetoric to reality.

Largely composed of democracies, benefitting from close geographic proximity and rich reserves of critical minerals, our hemisphere is ideally situated to support US efforts to strengthen supply chains so that our economy is not left vulnerable. But the window to accelerate nearshoring will not forever remain open. Global competitors will try to seize it. The urgency of this moment and the opportunity it presents mean that we must avoid complacency and put forward real, practical proposals to bring investment to longtime partners across the Americas including those countries close to the United States—the many friendly nations of Central America, as well as the Dominican Republic and Mexico.

Like the many ideas outlined in this report, the Americas Act, a bipartisan bill of which we are co-sponsors, seeks to jumpstart nearshoring and to bring transformative change to the Western Hemisphere. Our bill would expand US concessional lending and offer tens of billions of dollars to promote the nearshoring of production from China. With its reshoring and nearshoring loans, tax benefits, and other targeted grant assistance for workers at home and in partner countries, the Americas Act will bring jobs and investment to our hemisphere. We need transformative actions like these to secure our future.

This report, developed by the Atlantic Council's Nearshoring Working Group following an extensive consultation process, presents a useful and necessary policy toolbox for regional governments, the US government, and businesses across the hemisphere. Like the Americas Act, the report helps to move beyond the potential of nearshoring and to start making good on this opportunity. We commend the Atlantic Council for this ambitious and important endeavor.

Rep. Maria Elvira Salazar
Member, US House of Representatives
(R-FL-27)

Rep. Adriano Espaillat
Member, US House of Representatives
(D-NY-13)

Executive summary

Over the past five years, global shifts have reshaped the world. China's rise, US-China tensions, COVID-19, and Russia's 2022 invasion of Ukraine exposed supply chain vulnerabilities, pushing resilience to the top of the agenda. Latin America and the Caribbean (LAC) can seize the opportunity to provide solutions for US companies through nearshoring. With the most US bilateral free trade agreements, geographic proximity, and abundant critical minerals and forms of renewable energy, LAC is perfectly positioned to support the "China+1" strategy while also meeting environmental, social, and governance (ESG) standards. Estimates suggest nearshoring could add an annual US$78 billion in additional exports of goods and services in Latin America and the Caribbean in the near and medium term.[1] Similarly, nearshoring could allow the US government and US companies to diversify supply sources and build resilient supply chains, while boosting inclusive economic growth in the region.

How can nearshoring be transformed from rhetoric to action? How can the United States and regional governments work together to materialize nearshoring opportunities? How can the private sector be included in this endeavor? To answer these questions, the Atlantic Council created the Nearshoring Working Group, a multisectoral group of practitioners and experts from the United States and the region to help advance actionable policies to accelerate economic engagement across the hemisphere.[2] Through numerous consultations with Nearshoring Working Group members and conversations with officials in the United States and across the region, this report identifies three overarching conditions that need to be met to materialize nearshoring, and suggests ten opportunities to achieve the three conditions.

I. IMPROVING DOMESTIC "PULL" FACTORS	
1	*Modernizing port and telecommunications infrastructure*: Pursue modernization of port infrastructure to reduce transportation costs associated with nearshoring, and expand internet access
2	*Improving "soft" infrastructure at border crossings*: Leverage regulatory modernization and harmonization of customs processes to improve intraregional trade and coproduction.
3	*Offering reliable, clean energy sources*: Create regulatory frameworks for renewable energies to reduce share of fossil fuel dependency, and update transmission lines to achieve reliable electricity.
4	*Providing legal certainty and fostering strong institutions*: Offer predictable "rules of the game" for investors by strengthening independent regulatory agencies and pursuing digitalization of public services.

II. UNLOCKING US “PUSH” FACTORS	
5	*Leveraging existing US trade policy toward the region*: Work with partner countries to ensure provisions of current free trade agreements (FTAs) are best utilized in promoting nearshoring and supply chain resilience and sustainability.
6	*Tailoring development and investment policies to US strategic goals*: Investment development policy must be tailored to US strategic goals, by lifting institutional constraints to International Development Finance Corporation (DFC) lending to LAC.
7	*Leveraging the existing toolbox across the US government*: Include the breadth of US government programs and agencies as a tool of intragovernmental, bilateral engagements to catalyze nearshoring.

III. ENHANCING PUBLIC-PRIVATE SECTOR COLLABORATION	
8	*Strengthening workforce development*: Closer collaboration between the public and private sectors is essential to close the skills gap between jobseekers and employers and improve the region’s human capital.
9	*Enhancing trade and investment promotion through multisectoral collaboration*: Incorporate private-sector input in the decision-making process of investment promotion schemes such as investment promotion agencies (IPAs) and free trade zones (FTZs) to render both tools more effective.
10	*Supporting industries by following winners*: Governments should provide well-targeted incentives for winning industries to further grow, avoiding the unnecessary draining of fiscal resources for industries that have yet to prove their yield.

Introduction

Global geopolitical and geoeconomic shifts marked the last decade—from heightened US-China tensions to the COVID-19 pandemic and the Russian invasion of Ukraine. These and other dynamics have increasingly exposed global supply chain vulnerabilities, but also presented new opportunities for countries to better tap into global export markets. Additionally, the global drive to meet the 1.5°C climate goal made environmental, social, and governance (ESG) credentials a priority for business leaders.

These shifts can alter economic dynamics between regions, creating unique opportunities for those that adapt. Latin America and the Caribbean (LAC) face such an opportunity through US companies interested in nearshoring operations. The region, largely composed of US partner democracies, has more bilateral free trade agreements (FTAs) with the United States than any other region. Its geographic proximity and abundance of critical minerals and renewable energies make it well-positioned to support the "China+1" diversification strategy of US companies to avoid reliance on China and meet ESG standards. Legislation including the 2022 CHIPS and Science Act and the 2022 Inflation Reduction Act (IRA), which focus on semiconductor manufacturing and renewable energy (among other things), can further benefit LAC FTA partners.

Greater investment and expanded trade relations with the region could allow the US government and US companies to diversify supply sources and build resilient supply chains, while boosting inclusive economic growth in the region. Since 2020, US companies have shown increased interest in nearshoring, with more companies taking action in 2023 to bring production closer to US shores.[3] However, aside from Mexico, nearshoring has yet to significantly impact the region's growth. Despite existing incentives, the challenge remains: How can nearshoring be transformed from rhetoric to action? Three mutually reinforcing conditions need to be in place:

- First, policies in recipient countries need to be designed in such a way that they address existing barriers to investment. Put differently, domestic "pull" factors need to exist.
- Second, US policies need to be designed in such a way that they incentivize the effective decision of companies to relocate their supply chains in the region. Put differently, US "push" factors need to exist.
- Finally, the public and private sectors in the United States and the region need to collaborate around policies, recognizing that it is the private sector that ultimately decides to relocate. Put differently, private-public collaboration needs to happen.

Despite recognizing the nearshoring opportunity for Latin America and the Caribbean, there is no consensus on the best policies for the hemisphere, including the United States. Existing literature identifies concerns expressed by companies when deciding to nearshore to LAC, but does not present a roadmap for how actors across governments and private sectors should overcome these challenges.[4] This report thus offers a policy toolbox to move nearshoring from rhetoric to reality. To provide tailored recommendations, it focuses on countries closest to the United States: Mexico, northern Central America (Guatemala, El Salvador, and Honduras), and the original Alliance for Development in Democracy (ADD) countries (Dominican Republic, Costa Rica, and Panama). The report will refer to these countries as the subregion or analyzed region. Future editions will include South American and other nations.

The challenges and recommendations are based on more than fifty qualitative expert consultations by the Atlantic Council over the course of a year as part of a process with its Nearshoring Working Group which includes former senior government officials, private-sector leaders, multilateral representatives, and other regional experts. Senior current government officials from the United States and the analyzed region were also consulted.

Improving domestic "pull" factors

While the current geopolitical context provides a window of opportunity for LAC, regional policymakers must identify and overcome existing challenges in attracting foreign direct investment (FDI) and increasing exports. The following pages outline four main opportunities shared by the analyzed region to improve domestic pull factors for nearshoring, followed by respective policy recommendations. To account for the heterogeneity of countries in the region, marked by different industry maturity levels and existing commercial relationships with the United States, the report will present challenges and opportunities in nearshoring for three representative countries with the United States—Guatemala, the Dominican Republic, and Mexico—showcasing how the opportunities presented apply to each country.

Opportunity #1: Modernizing port and telecommunications infrastructure

A key factor in a company's decision to relocate its supply chains is the presence of modern transportation, logistics, and telecommunications infrastructure. The region faces an immediate challenge with outdated logistics systems. Compared globally, all countries in the analyzed region lag Asian competitors (see figure 1) in the World Bank's 2023 Logistics Performance Index, which ranks infrastructure competitiveness and efficiency. None of the analyzed countries are in the upper quarter of the ranking, starkly contrasting with the United States, ranked seventeenth out of 138.

To maximize the benefits of nearshoring, high-performing transport infrastructure is of the essence to reduce export costs and time to the US market. Among transport infrastructure, maritime ports are crucial, as over 80 percent of global trade is carried by sea. While the Panama Canal and adjacent ports handle the largest container volume in the LAC region, no other port in the analyzed region ranks among LAC's ten largest.[5] According to the World Bank's 2022 Container Port Performance Index, the subregion's ports perform poorly: Guatemala's largest port, Quetzal, ranks 129 out of 348 globally, Mexico's Manzanillo port ranks 282, and El Salvador's Acajutla ranks 288. Bottlenecks at Quetzal and Manzanillo, due to underinvestment, have caused delays of up to three months.[6] The Honduran Port of Cortes serves as a regional model. Upgraded in 2018 through a public-private partnership by Operadora Portuaria Centroamericana (OPC) in 2018, it is the only Central American port able to receive the largest box ships

Figure 1: Logistics Performance Index: Region vs. Asian counterparts

Country	Ranking
United States	17
China	19
Vietnam	43
Panama	57
Costa Rica	66
Honduras	66
Mexico	66
El Salvador	79
Dominican Republic	88
Guatemala	88

Source: Own table based on World Bank Data, 2023a.

Improving the connectivity of the analyzed region through modern ports and modern telecommunications infrastructure will be crucial to attract investment. Unsplash/William William.

on major Atlantic trade routes, reducing shipping costs per container.[7] A US$280 million investment improved digital systems, reduced waiting times, and cut trade costs. As part of the US Container Security Initiative (CSI), containers destined for the United States are prechecked by US Customs and Border Protection in Honduras, speeding dispatch and reducing destination costs. CSI exemplifies how US and regional governments can collaborate to improve domestic pull factors.

Telecommunications infrastructure in the region also lags behind. Currently, a majority of the LAC population (65 percent), is connected to mobile internet. However, 45 million (7 percent) live in areas without coverage, and 181 million (28 percent) have coverage but do not access services, creating a significant usage gap. In countries of the analyzed region like Guatemala, this gap exceeds 40 percent. High internet price was the most-cited obstacle to internet access by respondents to a 2021 World Bank survey of the analyzed region.[8] The analyzed region's barriers to affordable internet have much to do with high spectrum prices that double the price of European counterparts, reducing capital investment in new networks.[9]

Recommendation: Pursue modernization of port infrastructure to reduce transportation costs associated with nearshoring and expand access to internet access.

To leverage the first opportunity, countries in the analyzed region must take advantage of their geographical proximity to the United States by reducing wait times and transportation costs associated with outdated port infrastructure. To do so, modeling on the success of the Port of Cortes and utilizing long-term concessions that offer legal certainty will allow the private sector to invest in updating the ports' physical and operational capacities. An improvement of underlying digital systems can further reduce wait times and, by upping port security standards, ports in the region can join the US Container Security Initiative to speed up customs clearance and reduce costs at destination. Similarly, to expand internet access through telecommunications infrastructure, it is imperative that governments reduce the cost associated with internet access, by, for example, lowering the value-added tax (VAT) for vulnerable users of mobile internet and reducing the cost of spectrum.

Opportunity #2: Improving soft infrastructure in border crossings

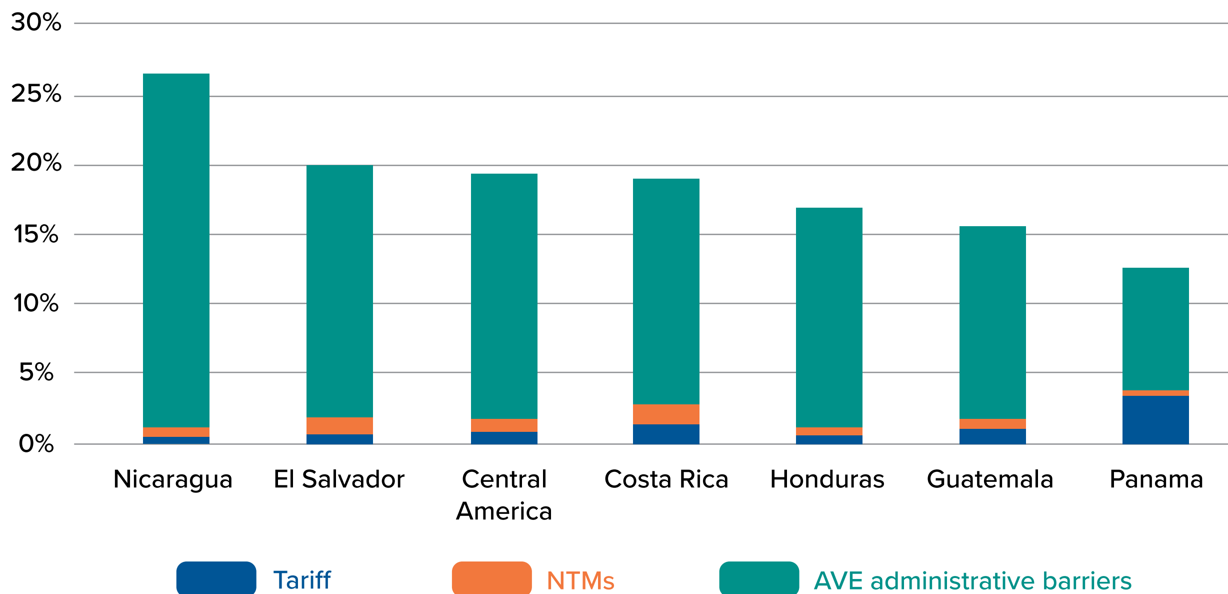
To fully leverage nearshoring trends, countries in the region must deepen their links with both global and regional supply chains. Enhancing intraregional trade allows for production sharing along the supply chain, boosting production scale to compete with Asia. While LAC's intraregional trade lags behind Europe and Asia, Central America is the most integrated subregion, with intraregional exports averaging 30 percent of total exports.[10] The Central American Common Market (CACM) facilitates high commercial integration, offering a major opportunity for coproduction along the value chain. However, high administrative barriers (measured in ad valorem equivalents or AVE), such as high transport costs, diverging customs procedures, and lack of services, pose the biggest challenges to intraregional trade, despite low tariff and nontariff measures (NTMs) (see figure 2).[11]

Important contributors to the administrative barriers are a lack of technology at border crossings, which makes customs processes slow, as well as a divergence in regulation of sanitary and phytosanitary measures in every country. Many of these barriers become visible at border crossings and make the transport of goods costly. A notable success in reducing these barriers is the innovative border crossing between Costa Rica and Panama, inaugurated in 2024 with Inter-American Development Bank (IDB) support. This digitized control center allows both countries to conduct joint and simultaneous clearance at a single point, reducing average cargo transit times from hours to minutes, cutting passenger transit times by 50 percent, and lowering transportation costs.[12] Another example is the joint customs union established in 2018 between Guatemala and Honduras (and later joined by El Salvador), which streamlined customs procedures and cut trade times between the countries from ten hours to fifteen minutes.[13]

Recommendation: Leverage regulatory modernization and harmonization of customs processes to improve intraregional trade and coproduction.

As part of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA), LAC countries are committed to "facilitating trade by simplifying, modernizing and harmonizing the movement, release and clearance of goods." TFA implementation in the region remains spotty, with some countries planning to implement their commitments as far out as 2038.[14] This process must be accelerated because reducing administrative barriers at border crossings is key for deeper trade integration in the analyzed region, as

Figure 2: Central America's high administrative barriers, around 2017 (in ad valorem percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), 2018.

The creation of regulatory frameworks for renewable energies such as wind and solar will affect a country's capacity to attract nearshoring investment. Shutterstock/Byron Ortiz.

well as trade with the United States. Under the TFA, members each committed to establishing a National Trade Facilitation Committee (NFTC) to facilitate both domestic coordination and implementation of the agreement. Including the private sector through review channels in the NFTC can further reduce custom delays. At the intragovernment level, ministries of trade should focus on modernizing and streamlining border-crossing processes, modeled after the Costa Rica and Panama program. Effectively implementing the signed but not fully enacted Guatemala-Mexico customs cooperation agreement would improve trade between Central America and Mexico, facilitating coproduction along the value chain and benefiting trade with the United States.

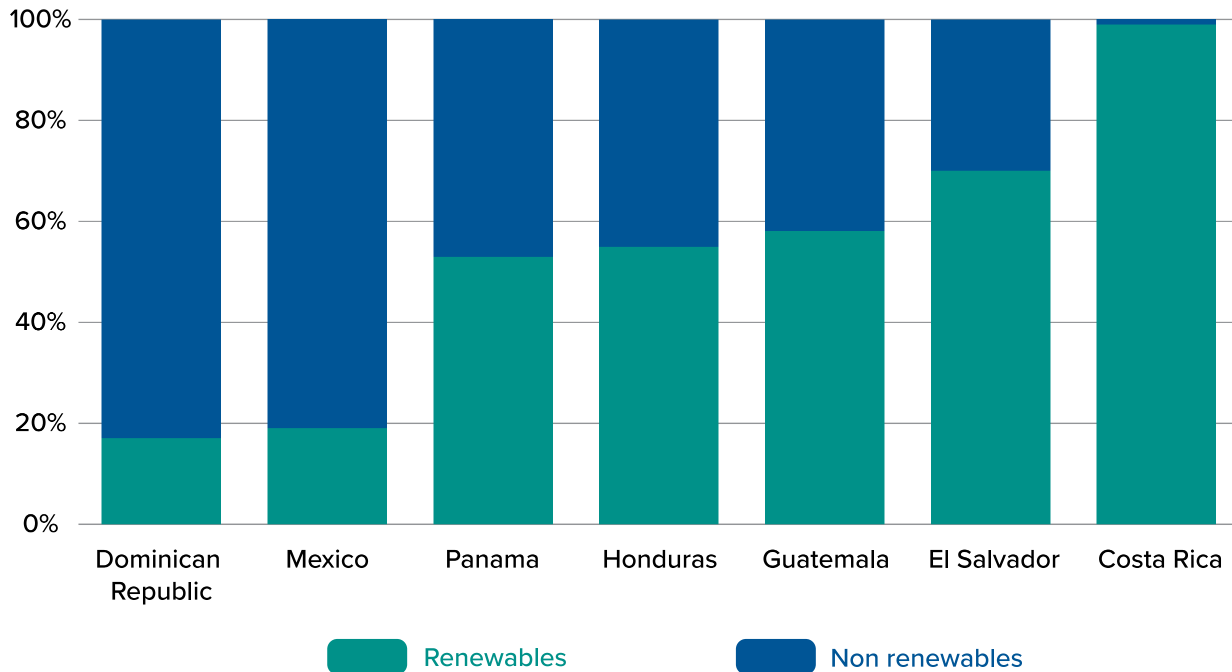
Opportunity #3: Offering reliable, clean energy sources

A key factor in businesses' decisions to relocate supply chains is access to reliable, green, and affordable energy. Renewable energies help lower carbon footprints to meet ESG standards and are the most economical long-term energy source for many countries. Reliable and affordable energy is essential for uninterrupted operations and affects the bottom line. Therefore, countries in the region should focus on their energy and electricity matrices (see figure 3).

Excluding Costa Rica, where the energy matrix is nearly all renewables, countries in the subregion average 45 percent renewable energy generation.[15] While this is relatively high—China's and Vietnam's shares are 23 and 41 percent, respectively—countries in the subregion have room for growth to become competitive renewable energy suppliers. Energy matrices can define the type of nearshoring investment countries receive, facilitating investment in energy-intensive industries in low fossil-fuel jurisdictions, and restricting high fossil-fuel jurisdictions to investment in less energy-intensive industries.

Electricity supply reliability also is a concern. Distribution and transmission grids in the region struggle to meet growing demand from expanding middle classes and new businesses. Central America's electricity grid, SIEPAC (Sistema de Interconexión para Países de América Central),

Figure 3: The makeup of the region's energy supply



Source: Authors' graph based on data from IRENA (2022) and International Energy Agency (2023).

reported shortages in 2023 and 2024 due to increased demand.[16] That year, Honduras experienced blackouts of up to six hours, and Guatemala declared a state of energy emergency in 2024 due to El Niño-induced droughts affecting its hydropower supply. [17] Delays in commissioning major generating plants worsened the situation. Mexico's outdated electricity grid was also in a state of emergency in 2023 and 2024.[18] Despite continued challenges, a successful example of improving electricity distribution is the Dominican Republic, which, with the World Bank's help, invested in reducing distribution losses by rehabilitating the network, upgrading management technology, and reducing outages.[19]

Recommendation: Create regulatory frameworks for renewable energies to reduce the share of fossil fuel dependency, and update transmission lines to achieve reliable electricity.

To expand the share of renewable energies, it is important that policymakers establish regulatory frameworks for new renewable energies and associated technologies, such as green hydrogen, geothermal, smart grids, and energy storage. Regulatory frameworks provide certainty to investors trying to enter the market for renewable energies.

Additionally, financial incentives that lower the cost of capital are needed to improve the investment climate for renewable energy projects. Another approach is allowing self-producers to sell surplus power back to the local grid. Consistent access to lower-carbon fossil fuels, such as natural gas, is essential for backup power and resilience against renewables' variability due to climate change.[20] In countries of the analyzed region, like Costa Rica or El Salvador, where renewables are the norm, energy storage becomes even more relevant for the reliability of electricity.

To improve the transmission lines, it is imperative that the construction of the second SIEPAC circuit moves forward and that national transmission lines are built out, following the example of the Dominican Republic, which focused on assisting distribution companies to reduce losses and rehabilitating existing distribution networks. In

Mexico, it is necessary to expand and modernize the grid, empower the competent authorities, the National Center for Energy Control, or CENACE (for Centro Nacional de Control de Energía) and its subsidiary production company, CFE Transmission, and add more storage capacity.[21]

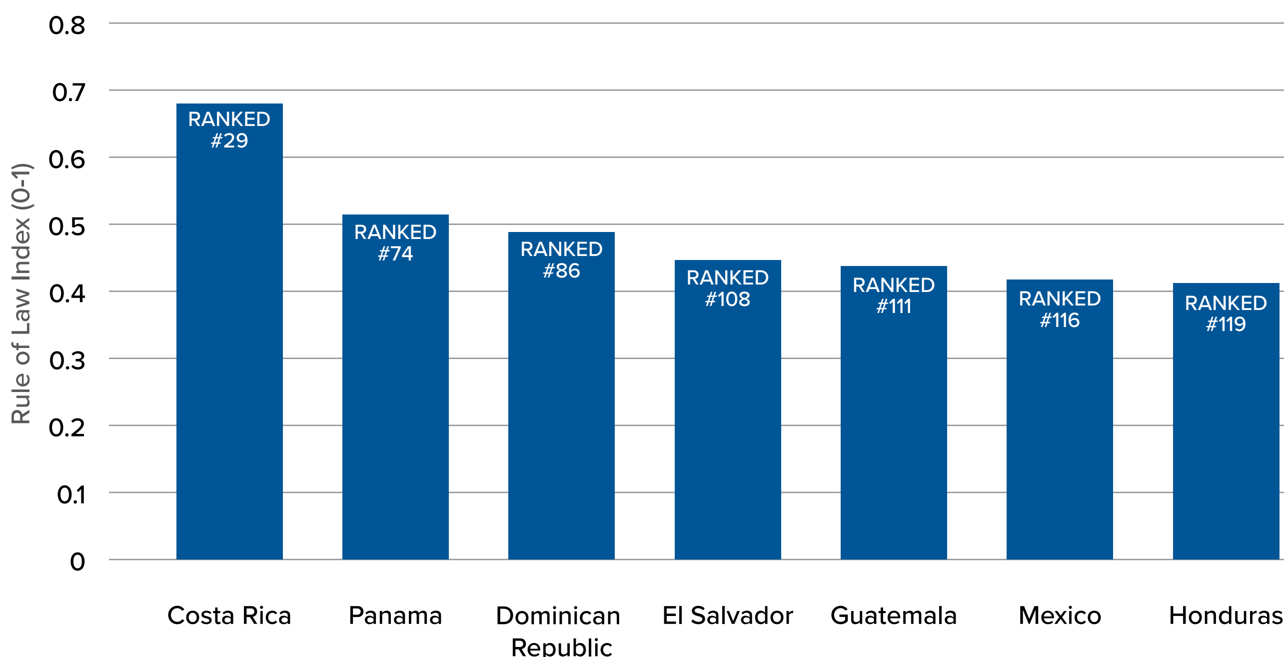
Opportunity #4: Providing legal certainty and strengthening institutionality

Government institutions create the regulatory environments within which companies operate, providing the legal certainty businesses need to make investment decisions. Strengthening government institutions enhances transparency and enforcement capacity. How do the subregion's institutions fare? According to the World Justice Project's Rule of Law Index—which measures regulatory enforcement, absence of corruption, open government, and constraints on government powers—Costa Rica, Panama, and the Dominican Republic rank in the top half globally. In contrast, El Salvador, Guatemala, Mexico, and Honduras rank in the bottom half.[22] Addressing institutional weaknesses and providing legal certainty to investors present a significant opportunity to attract investment and deepen commercial ties.

Challenges in the subregion vary widely. Guatemala struggles with inefficient state institutions, where commercial dispute enforcement takes 1,402 days, double the LAC average of 774 days.[23] Mexico faces issues like weakening independent regulatory agencies for energy and telecommunications such as CRE (Comisión Reguladora de Energía) and IFT (Instituto Federal de Telecomunicaciones), and government involvement in major transactions and concessions. Corruption in public procurement, on the other hand, affects all countries of the subregion.[24]

Despite these challenges, there are successful policies within the region. For example, in 2021, Guatemala passed the Anti-Red Tape Act (Ley Antitrámites) to streamline lengthy administrative processes and promote digitalization of government services for citizens and businesses.[25]

Figure 4: Rule of law in the analyzed region



Source: Authors' graph based on World Justice Project, 2023.

The absence of legal certainty around digital piracy and intellectual property (IP) protection is an example of a challenge preventing subregion countries from attracting companies in advanced manufacturing and the digital economy. IP theft in the form of digital piracy is prevalent in the analyzed region, with Panama, El Salvador, Honduras and Guatemala showing the highest contamination rates in LAC.[26] The inability to counter IP theft is particularly worrying as companies in advanced manufacturing and the digital economy seek legal certainty in the space.

Recommendation: Offer predictable "rules of the game" for investors by strengthening independent regulatory agencies and pursuing digitalization of public services.

A comprehensive solution requires a medium-term, whole-of-government approach that focuses on making government institutions more efficient and transparent (e.g., anticorruption efforts across the electoral and political process, and respect of autonomous regulators). However, individual policies and programs can help steer governments in the right direction.

As such, in the spirit of Guatemala's Anti-Red Tape Act, governments should secure political leadership to advance digital government policies within national agendas, and in a second step, seek to strengthen digitalization efforts through comprehensive and forward-looking national digital government strategies.[27] Multilateral development banks such as the World Bank and the IDB continue to support such efforts across LAC countries.[28]

Finally, offering certainty around IP protections is key to attracting investments in the digital economy and advanced manufacturing. To do so, coordination between governments, businesses, and institutions at the regional level is essential. Strengthening penalties for these activities, creating specialized intellectual property and piracy prosecutors' offices, or training investigators in the use of advanced digital tools should be contemplated by regional governments.

Box 1 | Guatemala: Strategic location, stable economic growth create opportunities

Guatemala is the largest economy in Central America, as measured by gross domestic product (GDP), and has received an increasing amount of foreign direct investment in the last three years, with growth of 7.6 percent in 2023. Guatemala's strategic location, with access to both the Atlantic and Pacific oceans, a regional free trade agreement with the United States (the Dominican Republic-Central America FTA), and stable economic growth (supported by prudent fiscal and monetary management) make it an attractive destination for nearshoring. While agriculture currently dominates its export matrix, services, textile, and pharmaceutical manufacturing have been increasing, with the value added by the manufacturing sector shyly increasing for the last ten years—although the rise is not comparable to that of Mexico or the Dominican Republic. One of the current government's priorities is diversifying exports and facilitating access to more advanced manufacturing supply chains.

While there are clear opportunities to leverage nearshoring trends, challenges specific to Guatemala persist. Chief among them is low central government revenue (10 percent of GDP in 2024) that limits capacity for public investments and restricts both the quality and coverage of basic public services, from education and health to access to water. Seventy percent of Guatemala's labor force is informal, which affects the capacity of the central government to collect revenue, making it the country with the second-lowest tax-to-GDP ratio in the LAC region, after Haiti. Guatemala's state capacity has traditionally also been affected by weak governance and endemic procurement corruption, further distorting government spending and weakening the efficiency of state institutions.

Moreover, Guatemala's workforce lacks the education and training necessary for attracting investments in higher value-added products (see opportunity #1, chapter V). Furthermore, infrastructure connecting cities is outdated, with deteriorating roads, ports, and airports, further exacerbated by frequent and recent natural disasters (see opportunity #1, chapter III). Finally, the reliability of its energy distribution has worsened in recent years (see opportunity #3, chapter III).

RECOMMENDATIONS:

To seize the nearshoring opportunity, the country must continue long-term institutional strengthening initiatives to effect civil-service, public-procurement, political-party, and democratic reforms, and continue building strong anticorruption institutions. The government must also focus on low-hanging fruit, such as public policy on digitization of transactional public services. Following the example of the Guatemalan Superintendency on Tax Administration's digitalization effort, digitizing public services could be replicated in ministries such as health, communications, environment, education, and labor. Guatemala also can build digital government tools such as interoperability platforms, digital identity, and digital signature, among others, as well as improving the quality of in-person provision of transactions through investment in qualified personnel and one-stop shops.

To address the human-capital challenge, Guatemala should invest in technical training focused on English, programming, and management skills. By working with the private sector and higher education institutions (see opportunity #1, chapter V), to streamline technical and vocational training curriculum to match employer demands, Guatemala can close the skills mismatch between employers and prospective employees. To close infrastructure needs and interconnectivity among cities, Guatemala's Congress should closely evaluate passing the pending infrastructure bill, which would modernize roads across the country. To address energy distribution challenges, it's important to reduce the frequent regulatory changes of the energy sector and modernize local transmission lines.

Source: World Bank, 2022.

Box 2 | Dominican Republic: Stability and private-public dialogue make it a candidate for advanced manufacturing

At an average growth rate of 5 percent since 2000, the Dominican Republic (DR) stands out as the fastest growing economy in Latin America and presents one of the most attractive FDI environments in the region, with eighty-seven free trade zones (FTZs) and underscored by relative political stability and both a high level of private-public dialogue and collaboration that is rare in the LAC region. Traditionally known for services, specifically tourism, DR has been able to diversify into advanced manufactured goods production in, for example, electronic products and medical devices, with the latter now constituting the country's largest export sector, accounting for US$2.25 billion in annual exports. The United States is the largest recipient of DR exports, enabled by a liberalized free trade regime via DR-CAFTA and enhanced by strong bilateral relations as a founding member of the Alliance for Development in Democracy (ADD). DR's steady growth, political stability, and growing industry maturity make it a prominent candidate to expand existing nearshoring opportunities in medical devices and electronics, and venture into more sophisticated industries such as microelectronics, semiconductor assembly, testing and packaging (ATP), and printed circuit board assembly (PCBA).

To do so, however, challenges around the power sector, human capital, and institutional alignment must be addressed. First, as described earlier, while the DR has achieved some success in upgrading its power sector, it is still relatively unreliable, representing high costs for the state (between 1 and 2.3 percent of GDP). And while DR aims to increase its share of renewables, the energy matrix is still dominated by imported fossil fuels. Moreover, there are persistent skills gaps in the Dominican labor market, where 19 percent of firms consider human capital one of the main bottlenecks to investment attraction. Finally, in the effort to attract FDI, better coordination between government agencies with overlapping mandates (e.g., ProDominicana and the Ministry of Industry and Commerce) could yield additional efficiency gains, and would allow for prioritization of investment in new sectors, such as advanced manufacturing. The DR is already taking active steps to address some of these challenges.

RECOMMENDATIONS:

To seize the nearshoring opportunity, Dominican Republic must make its power sector more reliable and, to the extent possible, encourage renewables. To improve reliability, a reform of the power sector—currently being contemplated by the Dominican Senate—should top the agenda. The amplification of geothermal energy as a source of energy should be considered in the reform process, along with allowing renewable energies to connect to the national grid. Concretely, allowing self-producers of renewable energies that have power surpluses to sell it via power purchasing agreements (PPAs) and inject that energy into the local grid could alleviate distribution stress, while making the electricity matrix greener (see opportunity #3, chapter III).

To close the skills gap (in addition to replicating the successes of private-public alliances on vocational postsecondary training, such as INTEC's collaboration with US company Eaton [see opportunity #1, chapter V]), the government should seek to modernize curricula at the high school level to equip the youth with skills necessary to meet current market demands. Additionally, reducing the inequality of opportunities across genders and between rural and urban areas is a necessary step to even out skills attainment across demographics. Finally, as shown in opportunity #2, chapter V, it is important that agencies, ministries, and embassies tasked with investment attraction streamline and combine their efforts to focus on strategic industries that support a future-ready national and hemispheric economy.

Sources: World Bank, 2022 and 2023a.

Box 3 | Mexico: USMCA and manufacturing muscle make it a strategic ally for nearshoring

Today, Mexico is the No. 1 US trading partner, the ninth-largest exporter in the world and the first in Latin America supported by a network of twelve FTAs with fifty-two countries. Most economic sectors are open to FDI, and Mexico ranks twelfth as a global FDI destination and fifth among developing economies.

Three reasons make Mexico a strategic ally for nearshoring in North America. First, it participates in North American production-sharing under the United States-Mexico-Canada Agreement (USMCA), ensuring trade and investment predictability. The USMCA and deep economic ties with the United States make Mexico a unique case in the analyzed region. Second, Mexico boasts a robust manufacturing sector, contributing 18.7 percent to GDP and ranking twenty-second in global economic complexity, enabling participation in intermediate and advanced manufacturing. Third, its trade promotion programs like Manufacturing, Maquiladora, and Export Services Industry (or IMMEX) bolster exports by allowing duty-free imports for production destined for export markets. Lastly, Mexico's youthful, skilled labor force, with an average age of twenty-nine, supports manufacturing, including advanced sectors, while remaining cost-effective compared to competitors like China, despite recent minimum wage increases.

However, realizing the full potential of nearshoring requires substantial investments in infrastructure and human capital and improvements to safety and security. Mexico needs robust public and private investments in transportation, telecommunications, water, and renewable energy, estimated at around US$70 billion for the latter alone. Improving physical infrastructure such as highways, airports, ports, and railways is imperative for seamless domestic and international connectivity, and essential for efficient logistics. Furthermore, advancing technologies such as 5G networks is crucial to support business growth and competitiveness. Effective trade facilitation and streamlined customs procedures are also crucial to reducing operational costs and enhancing the ease of doing business across Mexico and North America.

Mexico needs to invest heavily in its human capital to be able to take part in advanced manufacturing, increase productivity, and access better-paid jobs. Mexico is contending with safety and security threats that significantly escalate the operational costs for businesses. Ensuring the rule of law and decisively confronting criminal activities are imperative steps for enhancing the business environment in Mexico.

RECOMMENDATIONS:

To seize the nearshoring opportunity, the government, private sector, academia, labor, and civil society should align efforts to make the best of this transformational opportunity. Mexico must develop a comprehensive national nearshoring strategy with a forward-looking perspective to ensure that every region reaps its full advantages. Crucially, establishing robust regulations is essential for fostering an optimal business environment. Addressing subnational regional development needs and revamping subnational regulations are paramount to mitigate regulatory disparities, particularly to prevent states, notably in the southern areas, from being left behind, thus curbing potential increases in inequality.

Prioritizing skills development in areas like English proficiency and STEM disciplines is vital. Updating educational curricula to align with the demands of the twenty-first-century economy will not only empower Mexico's workforce, but also enable its enterprises to excel in advanced sectors, catalyzing sustainable economic growth.

Unlocking US "push" factors

Governments in the analyzed region must enhance domestic pull factors, while the US government plays a crucial role in facilitating push factors for nearshoring. Why should the US government and companies care about nearshoring to this region? The COVID-19 pandemic, the Russian invasion of Ukraine, and heightened tensions with China have highlighted the US need to diversify supply sources and build resilient supply chains. Deeper economic integration can raise local living standards in nearby nations, reduce migration pressures, and lower costs for US consumers. Moreover, increased US presence can counterbalance China's influence in regional infrastructure and energy projects. All countries in the analyzed region are democracies with favorable US trade agreements, providing a window for enhanced US engagement. For it to occur, however, three opportunities need to materialize: (1) Existing US trade policy needs to be leveraged, (2) US development policy must be tailored to US strategic goals, and (3) existing US policy initiatives should be leveraged.

Opportunity #1: Leveraging existing US trade policy toward the region

Commercial integration through FTAs has been pivotal for deeper economic ties in the region. Between 1994 and 2007, the United States signed FTAs with all analyzed countries (NAFTA in 1994, DR-CAFTA in 2004, Panama-US Trade Promotion Agreement in 2007), lowering tariffs and enhancing market access. These agreements boosted trade volumes and attracted FDI to the region.[29] The fact that the United States has existing FTAs with all countries analyzed presents a critical opportunity for nearshoring to occur.

The challenge is that these FTAs do not always incorporate modern trade provisions—updated IP protections, environmental and labor provisions, digital trade, etc.—critical for companies to relocate supply chains based on current market incentives. Modern IP protections, for example, are imperative to attract semiconductor investment. Since 2007, the agreement with Mexico (i.e., NAFTA) is the only FTA that has been significantly updated, becoming the USMCA in 2020. The agreement incorporated new chapters covering updated IP rights, digital trade, anticorruption measures, good regulatory practices, and labor and environmental provisions, among others. Whereas the USMCA reflects more recent trends in trade, agreements such as the DR-CAFTA or the Panama-US Trade Promotion Agreement are outdated by contrast.

The Americas Partnership for Economic Prosperity (APEP) presents a possible framework for updating the provisions of trade agreements with the region. APEP includes a Trade Track aimed at bolstering regional competitiveness "by building upon . . . existing trade links and economic cooperation."[30] However, after the United States hosted the first APEP Leaders' Summit in November 2023, there has been no indication that APEP will involve tariff liberalization or other market access commitments that updating FTAs would allow.

Recommendation: Work with partner countries to ensure provisions of current FTAs are best utilized in promoting nearshoring and supply chain resilience and sustainability.

Identifying the limitations of existing agreements like DR-CAFTA and the Panama-US Trade Promotion Agreement could be instrumental to facilitating new nearshoring investments. The International Trade Commission, the Congressional Research Service, in coordination with the FTAs Free Trade Commissions (oversight body for the agreements), could assess the effectiveness and limitations of current FTAs, and analyze what effects the incorporation of state-of-the-art IP rights, digital trade, regulatory practices, trade facilitation, and labor and environmental provisions would have on trade relations with the analyzed region. Similarly, the Department of Commerce could lead a task force to identify critical sectors (e.g., pharmaceuticals, medical devices, semiconductors) in the subregion that could benefit from reduced tariffs and improved trade facilitation. Ensuring compliance with FTAs and providing information to businesses where FTA benefits are underutilized

Deeper economic integration between the US and the region can raise local living standards in nearby nations, reduce migration pressures, and lower costs for US consumers. Rene DeAnda/Unsplash.

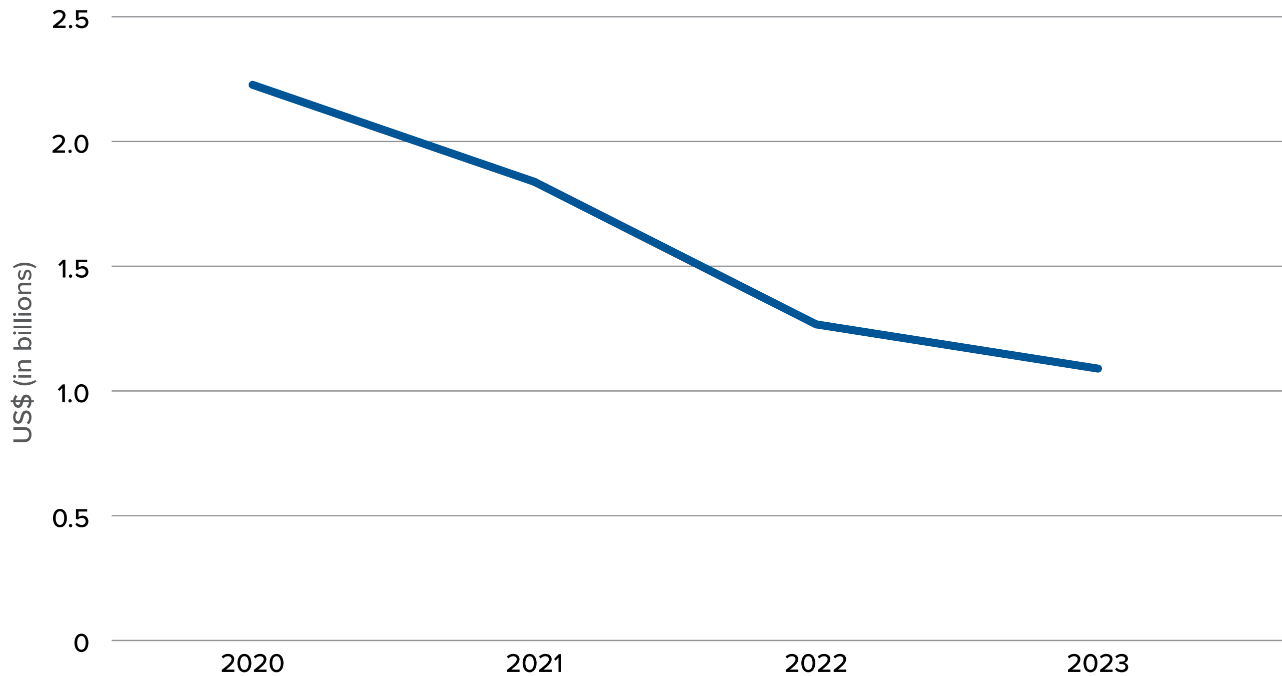
is crucial. In seeking to modernize current FTAs, it is imperative to preserve their market integration components, such as rules of origin.

But trade flows can be enhanced by more than new FTA provisions. The Office of the US Trade Representative should seek to foster regulator-to-regulator coordination (i.e., customs agencies) between the United States and countries of the analyzed region, to streamline good regulatory practices and address existing trade chokepoints. Low-hanging fruit such as better regulator-to-regulator coordination can increase trade flows, even in the absence of updated trade agreements. The upcoming 2026 review of USMCA, a cornerstone of North American competitiveness, should focus on enhancing its efficiency and competitiveness for all North American industry.

Opportunity #2: Tailoring development and investment policies to US strategic goals

Development and investment policies are crucial tools of the US government to unlock the right push factors of nearshoring toward the region. The US International Development Finance Corporation (DFC) has enormous potential to be instrumental in these efforts. Be it through debt financing or equity investments in, for example, infrastructure projects, or through political risk insurance tools that incentivize investments abroad, the DFC can actively contribute to overcoming the domestic challenges presented in the last chapter, such as outdated port infrastructure or unreliable electricity grids. Investing in projects that facilitate nearshoring to the subregion don't just have a high developmental impact, but also align with the DFC's foreign policy mandate of advancing US interests abroad. However, to assist in nearshoring efforts to the analyzed region, the DFC must overcome institutional challenges and better align

Figure 5: New DFC commitments in active projects in the Western Hemisphere (2020-2023)



Source: Author calculations based on DFC data, 2024a.

its development policy mandate with its foreign policy mandate.[31] Nearshoring, after all, not only provides development benefits by creating better living standards for those residing close to the United States, but it advances foreign policy goals as it seeks to derisk US supply chains while limiting the influence of China in Latin America and the Caribbean.

The DFC is not currently well equipped to mobilize financing for countries in the analyzed region to incentivize the relocation of supply chains through nearshoring investments. In fact, DFC has become a less active bank in LAC (which is still the second-largest global recipient after Africa), as seen in figure 5, due to the Better Utilization of Investment Leading to Development Act (BUILD Act) requirement that the DFC prioritize investments in low income (LIC) and lower-middle income countries (LMIC), of which there are very few in LAC. It also is not authorized to support projects in high-income countries in LAC.

All countries of the analyzed region, except Honduras, fall outside of the LIC and LMIC categories, restricting their eligibility to be recipients of DFC financing (see figure 6). Panama, as a high-income country, cannot receive DFC funding.[32]

Additionally, while the DFC's financing mechanisms are primed to invest in the region's infrastructure, US legal and regulatory requirements create obstacles that can make investments in strategic infrastructure a lengthy process, slowing the flow of nearshoring investment.[33] In addition, because the DFC must notify Congress of the potential impact of its investments on US jobs, many investments do not move forward because of concern regarding potential political fallout (e.g., the textile industry), even though many of the US companies would not locate production in the United States anyway.

Figure 6: Income categorization of countries in the analyzed region

Country	Income category
Mexico	Upper middle income
Dominican Republic	Upper middle income
Guatemala	Upper middle income
Honduras	Lower middle income
El Salvador	Upper middle income
Costa Rica	Upper middle income
Panama	High income

Source: World Bank, World Development Indicators, 2022.

Recommendation: Investment and development policy must be tailored to US strategic goals, requiring a loosening of institutional constraints on DFC lending to LAC.

To fulfill its foreign policy mandate effectively, the DFC should have flexibility to invest in upper-middle-income and high-income countries when there's a strategic imperative. Streamlining lending processes could encourage US companies to undertake strategic, capital-intensive investments in infrastructure and the energy sector, thereby promoting further nearshoring. Removing, reducing, or revisiting certain legal and regulatory requirements (e.g., "notice periods") on infrastructure investments could empower the DFC to support new infrastructure projects and reduce reliance on Chinese goods and services, curbing Chinese influence. Following the successful example of its debt-for-nature swaps in Ecuador and Belize, the DFC should continue to use political risk insurance tools to "crowd in," i.e., direct government spending to, in this case, encourage US companies to make strategic, capital-intensive investments in the analyzed region. Finally, the DFC should be encouraged to pursue nearshoring projects, particularly where the potential negative impact on US jobs is insubstantial.

Opportunity #3: Advancing the existing toolbox across the US government

The US government comprises numerous agencies and initiatives that, beyond just the DFC, can boost nearshoring's impact through greater coordinated efforts. Interagency collaboration and leveraging recent legislation like the CHIPS Act and the IRA are crucial for influencing supply chain relocation decisions, providing financial incentives for companies to deepen engagement in the region.

The US Trade and Development Agency (USTDA) supports US job creation by funding feasibility studies, technical assistance, and pilot projects that integrate US private-sector innovation into global infrastructure projects.[34] For every dollar spent, USTDA generates US$231 in US exports.[35] An example is USTDA's feasibility study in Colombia, enabling Missouri-based Aclara (a unit of Hubbell Power Systems) to supply advanced metering systems, improving electricity infrastructure in Valle del Cauca. The IRA creates new opportunities for USTDA by making US clean energy developers more competitive, reducing the cost of exporting clean energy infrastructure. This allows USTDA to partner with clean energy exporters, addressing regional infrastructure gaps at a lower cost while boosting US exports and job creation.[36]

While USTDA works with US companies of all sizes, the US Small Business Administration (US-SBA) can aid nearshoring by building local supply chains involving regional small and medium-sized enterprises (SMEs) and increasing US SME exports, currently under 30 percent of total export value. The US-SBA hereby can play a role in incentivizing US SME exports to the analyzed region, while at the same time incentivizing transfer of knowledge to improve local SME development.

Additionally, US agency programs can support bilateral engagements to promote nearshoring. Examples include the US State Department's

International Technology Security and Innovation Fund (ITSI Fund),[37] implemented in Mexico, Panama, and Costa Rica via the CHIPS Act, and the Transaction Advisory Fund (TAF), offering legal and consultative services for sustainable infrastructure development.[38] Although TAF prioritizes LICs and LMICs, which excludes most countries of the analyzed region, its feasibility studies and contract reviews are crucial for regional infrastructure projects. The US Department of Commerce's Commercial Law Development Program (CLDP) provides assistance for commercial legal reforms, improving business environments. CLDP's programs with northern Central American governments in implementing transparency initiatives to improve and simplify customs clearance procedures and, separately, its program with the government of the Dominican Republic to improve its public procurement process show the nimbleness of the CLDP to overcome domestic challenges to nearshoring.[39] These initiatives are examples of how the US government and regional governments can work in tandem to incentivize nearshoring.

Recommendation: Include the breadth of US government programs and agencies as a tool of intragovernmental, bilateral engagements to catalyze nearshoring.

The US government can enhance nearshoring efforts in the region by optimizing existing tools and integrating agency programs into broader economic engagement strategies. High-Level Economic Dialogues (HLEDs), which include annual cabinet-level dialogues with strategic allies, are a good tool for inter-agency collaboration and should be preserved where they exist (like in Guatemala or Mexico) and assessed for possible replication in other countries (the rest of the analyzed region).

USTDA can incentivize nearshoring and create US jobs by working, for example, with clean energy exporters benefited by the IRA to offer cost-effective clean energy infrastructure programs in the subregion.[40] The US-SBA can support nearshoring initiatives through financial assistance, guidance, and training programs for US companies via its Export Assistance Centers and Export Financing Manager program. Additionally, Mexico and Central American countries can adopt SBA best practices for SME development, with the SBA providing training and capacity building for public officials.

Programs like the State Department's TAF and Commerce's CLDP help address challenges to nearshoring. To maximize these programs, TAF should be allowed to operate in upper-middle-income and high-income countries if it aligns with US strategic interests. Commerce's CLDP projects in both northern Central America and the Dominican Republic offer a blueprint for countries like Mexico, where businesses face a challenging legal and regulatory environment.

Enhancing public-private sector collaboration

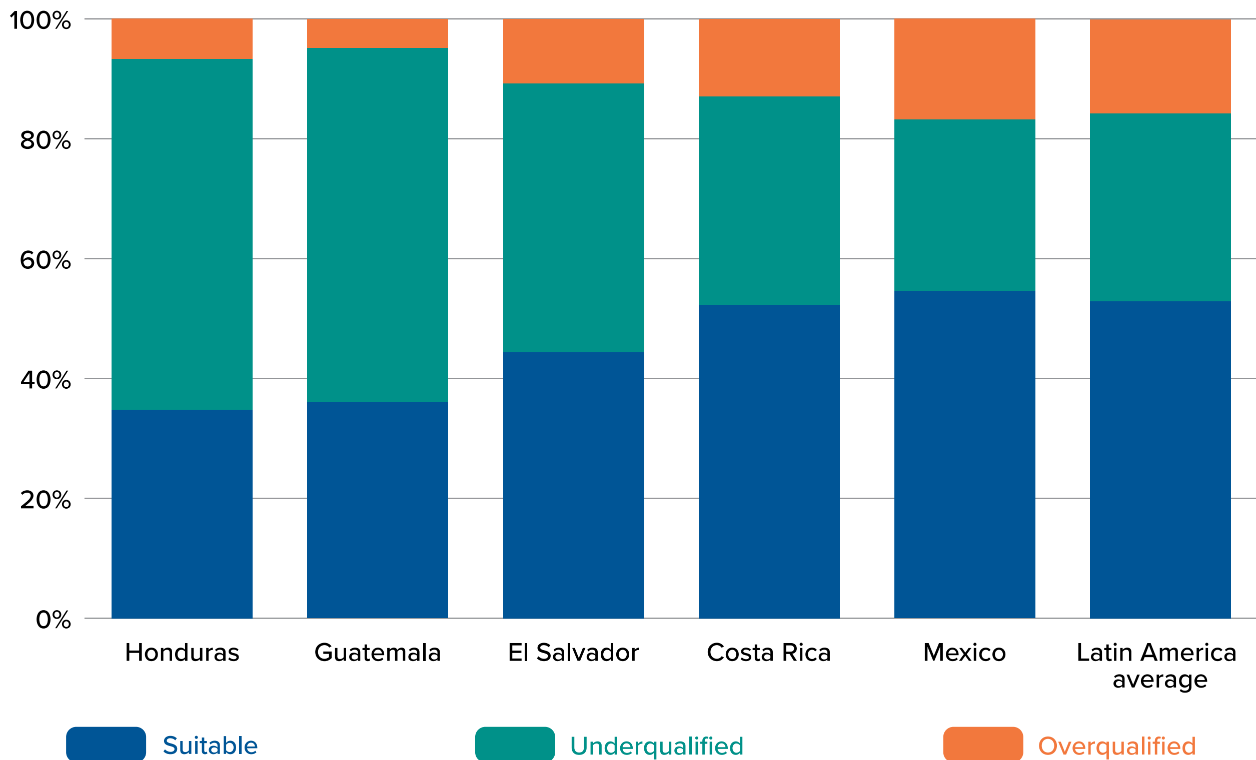
While governments are important actors in providing the right set of incentives for nearshoring to occur, it is ultimately the private sector that makes nearshoring investments, deciding to relocate supply chains or start new operations in recipient countries. As such, public-private collaboration is of the essence. Three opportunities present concrete avenues for the governments of the analyzed region to collaborate with the private sector and vice versa: (1) strengthening workforce development, (2) enhancing trade and investment promotion through multisectoral collaboration, and (3) supporting industries through smart incentives.

Opportunity #1: Strengthening workforce development

Intel's new plant in Costa Rica and Jabil's plant in the Dominican Republic highlight nearshoring's potential to attract investments in high-value supply chains like chip and medical device manufacturing. However, realizing this potential requires enhancing the region's workforce skills in collaboration with the private sector.

Despite improvements in education access over the past two decades, challenges to human capital persist in the analyzed region. According to the World Bank's 2020 Human Capital Index, which

Figure 7: Workers by level of qualification: suitable education, underqualified, or overqualified, 2019 (percentages)



Source: Huepe, 2023.

Strengthening vocational training programs in advanced manufacturing is key to closing the skills gap in the labor force. Shutterstock/VG Foto.

evaluates education, employment, and health metrics, Guatemala, Honduras, the Dominican Republic, and El Salvador score below the LAC average, with scores of 46, 48, 50, and 55 percent, respectively. This means that the average child born in 2020 is estimated to be 46 percent as productive (in the case of Guatemala) compared to if they had received a high-quality education and full healthcare. In other words, the subregion's health and education system affect the productivity of its workforce. Thus, it is not surprising that companies in the analyzed region report difficulty in accessing required skills.[41] Figure 7, which includes most LAC countries, further illustrates that workers in the subregion often lack adequate qualifications for their roles, which is particularly notable in Guatemala, Honduras, and El Salvador, indicating a significant skills mismatch.

To address the skills mismatch, both long-term education quality reforms and short-cycle technical and vocational education training (TVET) are crucial. TVET programs, noted for their flexibility and quick response to labor market needs, boast high graduation rates and positive labor market outcomes across LAC.[42] However, enrollment in TVET and similar short-cycle programs remains low in the region compared to Europe or North America, where demand and supply are also limited. To ensure effective labor market outcomes, the curricula of these programs must align closely with private-sector needs. A notable example is Eaton, a US power management company that partnered with Instituto Politécnico de Haina (IPHA) in the Dominican Republic. This collaboration tailored the curriculum to meet Eaton's demands, facilitating internships for recent graduates of its technical training programs.[43] Similarly, in Mexico, Arizona State University and Mexico's secretariat of foreign relations established an alliance between US and Mexican academic institutions and semiconductor manufacturers to align manufacturers' demands with academic curricula.[44] Both the Dominican and Mexican examples demonstrate successful collaboration among academia, government, and the private sector.

Recommendation: Institutionalize closer collaboration between the public and private sectors to close the skills gap between jobseekers and employers, and improve the region's human capital.

It is imperative that the private and public sectors collaborate in strengthening existing providers of public and private technical education. In doing so, private and public providers should consult with current and prospective employers to channel market demands into the curricula being taught, to improve employment outcomes. Institutionalizing internship programs with local employers (like Eaton with IPHA) is a good self-correcting mechanism to align market demands with curricula. Ministries of education should also host dialogues with employers and ensure coherence across TVET providers. Where possible, governments would be advised to increase subsidized vocational education programs in public and private institutions and provide financial aid to students in critical fields (e.g., technology manufacturing). Countries in the subregion currently provide little to no financial aid for vocational training. Ministries of education should also work with ministries of production to locate technical institutes and four-year research institutions (such as INTEC) in industrial nodes and coordinate industry-wide requirements, so graduates can supply a wider range of companies within the same industry.

Opportunity #2: Enhancing trade and investment promotion through multisectoral collaboration

To mobilize new investment and trade efficiently across the region, governments should enhance targeted investment promotion efforts without requiring major policy shifts. Two key instruments requiring close public-private collaboration stand out: investment promotion agencies (IPAs) and free trade zones.

IPAs play a crucial role in attracting new companies by providing information services (identifying and approaching potential investors, assisting investors with analyzing business opportunities, obtaining businesses permits, etc.) that lower information barriers, thereby attracting multinational firms to their countries. IDB estimates that each dollar spent on investment promotion generates up to forty-one dollars in additional FDI.[45] However, many IPAs in the region have been weakened; for instance, Mexico dissolved ProMéxico in 2019, and Costa Rica faces conflicting mandates between CINDE and Procomer.[46] Countries like Guatemala simply lack a public IPA. Among the existing IPAs in the subregion, an IDB study finds that, relative to their Organisation for Economic Co-operation and Development (OECD) peers, they lack specialization in target industries and countries, traits the study finds the most successful IPAs around the world have.[47]

FTZs are another effective tool for investment promotion, exemplified by success stories in Costa Rica, Panama, El Salvador, and the Dominican Republic. These zones create favorable investment conditions and compensate for weaknesses in the national business environment, but success depends on robust public-private collaboration. The Dominican Republic, with the most FTZs in the analyzed region, has focused on creating sector-specific economic clusters within FTZs and ensuring they receive special treatment across various sectoral policies (energy, social, and water policies). For example, companies in FTZs can buy cheaper electricity directly from generators as nonregulated users. Effective governance models, such as the National Council on FTZs (Consejo Nacional de Zonas Francas de Exportación), have been critical in facilitating agreements between private and public sectors and driving the country's export growth (see the box on the Dominican Republic), with estimates showing that for every US$100 granted to corporations in incentives, the FTZs in turn provide US$620 to the national economy, underscoring their economic impact.

Recommendation: Incorporate private-sector input in the decision-making process of investment promotion schemes such as IPAs and FTZs, to render both tools more effective.

Governments throughout the subregion should consider strengthening, establishing, or reestablishing IPAs. Their institutional strength, conveyed by adequate resources, domestic government's trust, and continuity, is a necessary condition to operate successfully. Once the institutional strength is granted by the governments, IPAs would be well advised to specialize in attracting specific industries and companies that the country's government and private sector deem strategic. To be able to specialize, these agencies need to be part of the dialogue between a government and the private sector, and be recognized as a tool that both the government

and domestic private sector can leverage to channel new investments in the country. Invest in El Salvador, the new IPA in that nation, stands out as recent successful example of an IPA leveraged by both the government and domestic private sector, and has specialized in attracting the digital economy to the country, a sector recognized as strategic by both the public and private sectors.

Following the best practices of other regional FTZ projects, governments should also consider expanding and/or inaugurating free trade zones. While a trade-off exists in relinquishing tax revenue, evidence shows how FTZs have positive spin-off effects that channel throughout the economy. Additionally, Dominican Republic's sector-specific FTZs show how governments can diversify investment away from simply manufacturing and on to, for example, service-sector investment.

Opportunity #3: Supporting industries by following winners

Nearshoring will benefit sectors differently across subregions and countries. Governments may be tempted to implement industrial policies using fiscal incentives to support specific sectors. Industrial policies through, for example, the US CHIPS Act or the EU's "Green Deal" (legislation and regulation) select sectors strategically and provide substantial subsidies, a practice sometimes known as "picking winners." However, emulating global economic powers' strategies could be risky for the subregion's countries. Historically, picking winners in countries with weaker institutions has led to political capture by interest groups and unforeseen market distortions. Moreover, compared to the US and EU economies, countries in the subregion have less fiscal flexibility to engage in extensive subsidy competition or absorb potential failures.[48]

To avoid issues related to political capture or "draining" fiscal resources, governments could consider a strategy of "following winners."[49] Rather than picking winners, governments should aim to create conditions that allow prospective winners to emerge and to encourage the growth of already emerged or emerging winners. Such interventions require a close degree of coordination with the private sector, to make sure that the government interventions are helpful to companies and yield the desired results.

Recommendation: Governments should provide incentives for winning industries to further grow, avoiding the draining of fiscal resources for industries that have yet to prove their yield.

To be able to follow winners without risking the traps of picking winners, ministries of production or economy should focus on providing public goods that can be easily applied to a revealed but incipient sector. For example, if a country has been successful in producing and exporting transistors for modern TV or radio equipment (showing success in exporting electronic devices) by enhancing the skills of its labor force through vocational training, it could devote resources to upskilling its labor force to learn the processes for operating the assembly, testing, and packaging (ATP) of modern semiconductors, thereby testing whether this intervention attracts a higher value-added production. Costa Rica, which has been successful in attracting investments in the semiconductor industry, in fact had already established academic and technical programs in advanced manufacturing like TV manufacturing, which allowed it to incorporate a tailored focus on semiconductor manufacturing into its academic and technical training, and attract investment in this subsector.[50] To be able to carefully calibrate this policy approach, the government needs to assess the market demand for such an intervention, for which public- and private-sector coordination is essential.

Conclusion

Through nearshoring, countries like Mexico, Guatemala, El Salvador, Honduras, Costa Rica, Panama, and the Dominican Republic have a window of opportunity to attract new investments and foster inclusive growth. Through nearshoring, too, the United States has a unique window of opportunity to derisk its supply chains and deepen its economic engagement with the region, all while countering Chinese influence. To do so, however, three necessary factors need to take place in conjunction to nearshoring: first, governments in the region must improve their domestic pull factors. Second, the United States needs to incentivize nearshoring by unlocking push factors. And third, there needs to exist a close collaboration between the private and public sectors in facilitating these pull and push factors. For the presented policy toolbox to be successful, regional governments, the US government, and the private sector must work in tandem. Individual initiatives for actors to work in tandem have been identified throughout the report. The work seeks to be a useful tool for policymakers in the United States and the region, as well as a point of reference for business leaders navigating the decision of whether to pursue nearshoring. Future iterations of the report will seek to explore nearshoring opportunities in South America, add a rigorous, comparative quantitative analysis on industries and countries best positioned for nearshoring, and incorporate US national security as an unexplored tool for the US government to incentivize nearshoring to the region.

Nearshoring Working Group and Rapporteurs

Formation of the Atlantic Council Nearshoring Working Group was announced in June 2023 at an event with the Senate co-sponsors of the Americas Act, Senator Bill Cassidy (R-TN) and Senator Michael Bennet (D-CO). For their efforts since the first meeting in fall 2023, we thank our Nearshoring Working Group members, whose commitment, expertise, and leadership continue to advance new ideas to turn rhetoric into reality and are reflected in the pages of this first report of the group. Members who provided crucial input and have decided to have their names associated with the report are listed below.

Nearshoring Working Group Members

Founding Members

Karim Lesina, Executive Vice President & Chief External Affairs Officer, Millicom (Italy)

Samuel Conde, Founding Chairman and Senior Advisor, ADD-USA Business Council and ASIEX (Dominican Republic)

Corporate Partners

Mario Di Giovanni, Senior Government Affairs Adviser, FedEx (USA)

Jose Gonzalez-Ocampo, Senior Director of Corporate Affairs and Sustainability, CMI (Guatemala)

Members

Everett Eissenstat, Partner, Squire Patton Boggs (USA)

Antoni Estevadeordal, Resident Fellow, Georgetown Americas Institute (Spain)

Edgar Villanueva, Manager of Environment Analysis, CMI (Guatemala)

Jaime Granados, Trade & Investment Division Chief, IDB (Costa Rica)

Brennan Grignon, former Supply Chain Lead, Department of Defense (USA)

Andrew Herscowitz, former Chief Development Officer, DFC (USA)

Charles Lichfield, Deputy Director, GeoEconomics Center, Atlantic Council (UK)

Jason Marczak, Vice President & Senior Director, Adrienne Arsht Latin America Center, Atlantic Council (USA)

Luz Maria de la Mora, Nonresident Senior Fellow, Adrienne Arsht Latin America Center, Atlantic Council; former Undersecretary of Foreign Trade (Mexico)

Ana Margarita Reyes, Director, ARLOGSA and former Head of Logistics Cabinet Secretariat (Panama)

Marcelo Salazar, former Director of Foreign Trade and Treaty Administration, Ministry of Industry (Dominican Republic)

Jacqueline Foglia, former Executive Director, Consejo Nacional de Inversiones (Honduras)

Leonor Selva, former Executive Director, Asociación de la Empresa Privada (El Salvador)

Alberto Trejos, Dean, INCAE Business School, Former Minister of Trade (Costa Rica)

Juan Carlos Zapata, Executive Director, FUNDESA (Guatemala)

Over the course of a year, Nearshoring Working Group members provided their inputs through over thirty individual consultations with Atlantic Council experts, as well as two formal meetings of the group, where they deliberated on the existing opportunities to unlock nearshoring investment and discussed how to implement policies to achieve it.

Rapporteurs

Luz Maria de la Mora, Nonresident Senior Fellow, Adrienne Arsht Latin America Center, Atlantic Council; former Undersecretary of Foreign Trade, Mexico

Martin Cassinelli, Program Assistant, Adrienne Arsht Latin America Center, Atlantic Council

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Jason Marczak
Vice President & Senior Director
Adrienne Arsht Latin America Center
Atlantic Council

Endnotes

1. IDB, 2022.
2. The report will focus exclusively on the countries nearest to the United States: Mexico, those in northern Central America (Guatemala, El Salvador, and Honduras), and the original Alliance for Development in Democracy (ADD) countries (Dominican Republic, Costa Rica, and Panama).
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4. (US Chamber of Commerce 2023)
5. Emilie Sweigart, 2024.
6. World Bank, 2023c; and Gamarro, 2023.
7. ICTSI, 2021.
8. World Bank, 2021a.
9. Centro de Estudios de Telecomunicaciones de América Latina, 2023.
10. Orozco and Padilla Pérez, 2023.
11. NTM = Non-tariff measures are policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both. AVE= An ad valorem equivalent is the equivalent in percentage terms of a specific, mixed, compound or other duty containing a specific element. For example, the AVE of a specific duty of $1.00 per KG levied on a product with a unit value of $10.00 per KG is equal to 10%.
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Atlantic Council

1030 15th Street, NW, 12th Floor,
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(202) 463-7226, www.AtlanticCouncil.org