

Nearshoring in Central America

January 2024



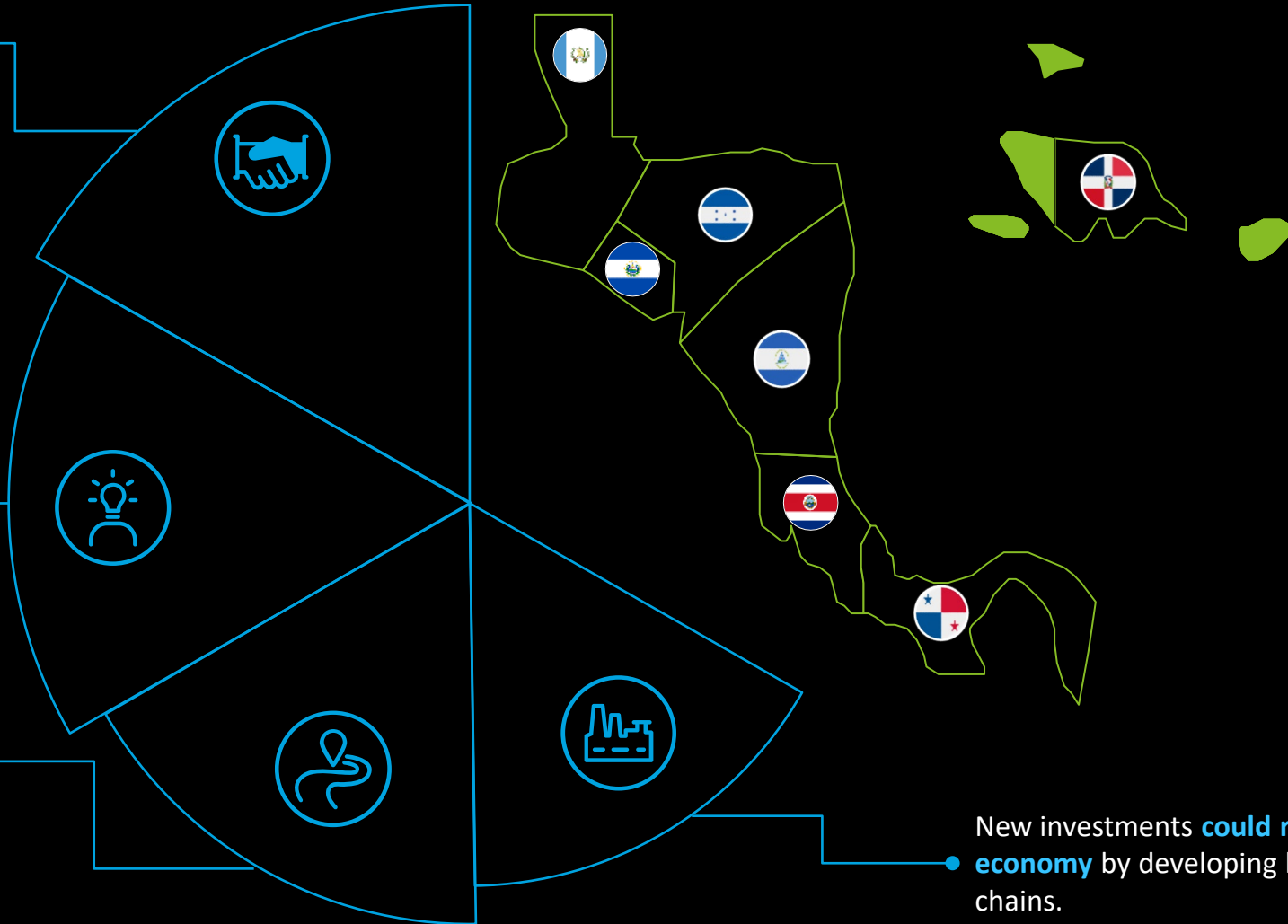
What are the potential benefits of nearshoring for Central America?

Promote value chains' growth, especially in sectors like **semiconductors, medical devices, and textiles**.

It could boost productivity through **R&D**, enhanced capabilities, improved labor skills, and international knowledge exchange.

In the pursuit of FDI, governments could invest in **enhancing physical and logistical infrastructure**.

New investments could **revitalize the economy** by developing local supply chains.



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1. What is Nearshoring?



When a company moves all or part of its production closer to the final consumer, reducing costs and potential logistical setbacks.

Nearshoring | Is it happening?



US-China tariffs

Tariffs imposed by the United States in 2018 have caused some businesses to look for alternative markets to reduce costs.



COVID-19 Pandemic (2020)

The rapid spread of the pandemic led to closing of borders globally, which in turn impacted the availability of goods (e.g., semiconductors) and delivery times during a time when the demand for various products increased.



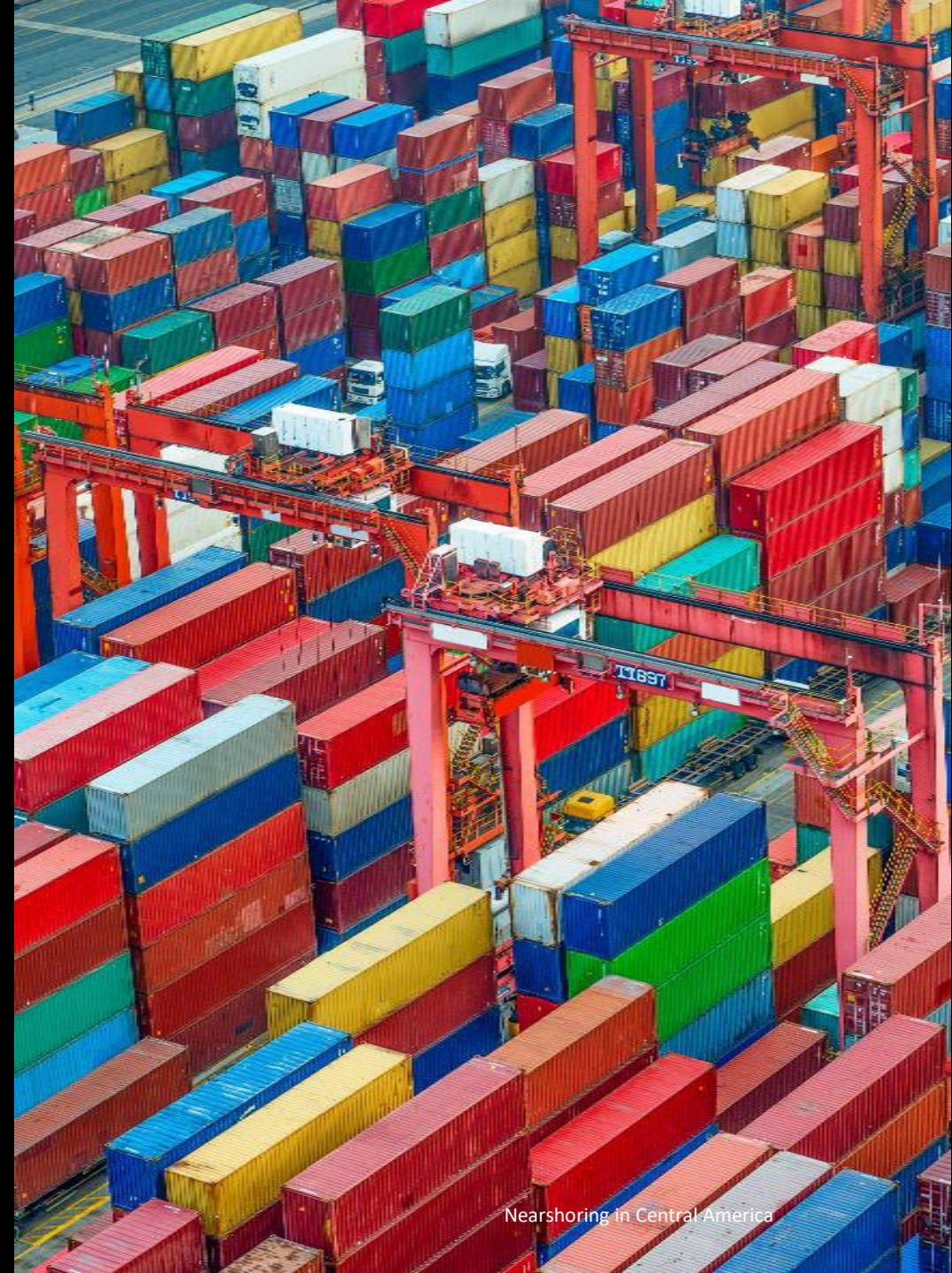
Logistic disruptions

The availability of containers and the increase in the cost of transport, especially maritime, have raised transportation costs by more than 500%, during the Pandemic.



Russia-Ukraine war

The outbreak of the war in Ukraine limited the supply of raw materials, which forced businesses worldwide to look for alternative suppliers.

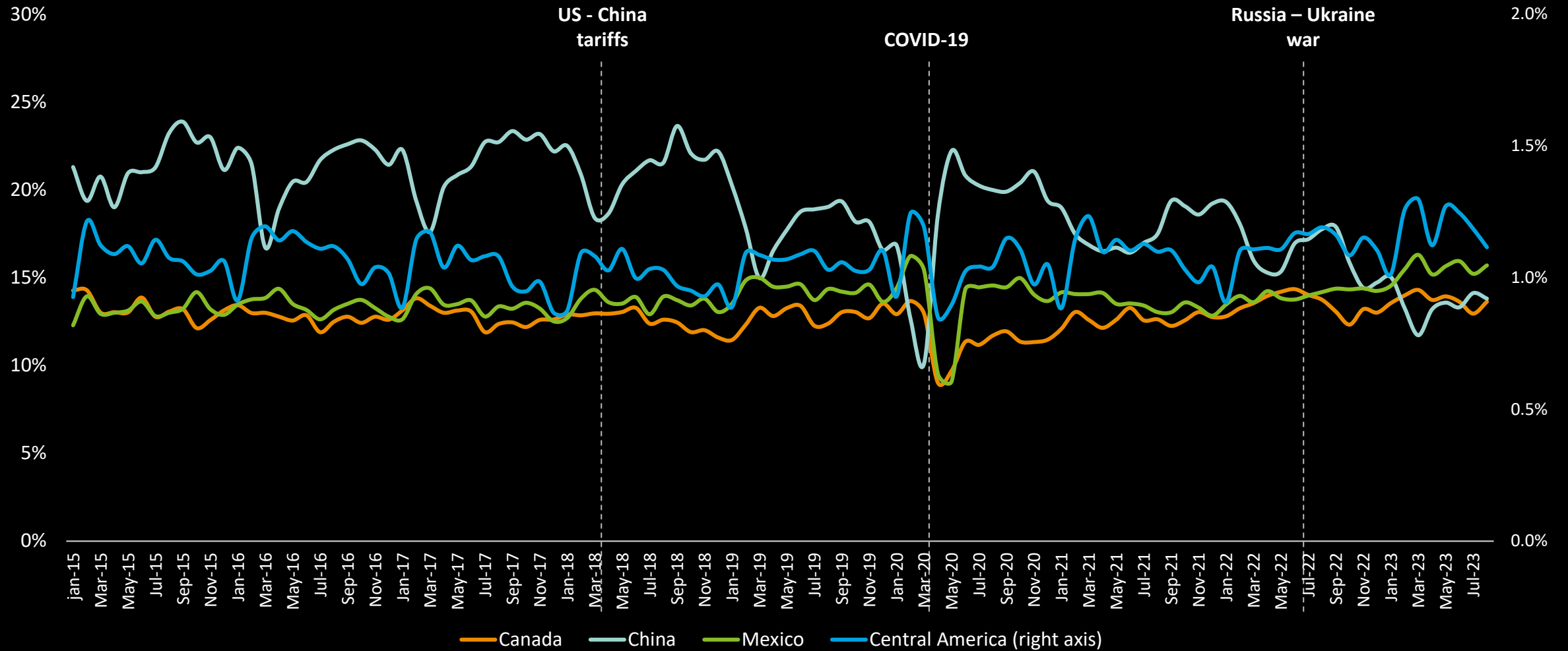


2. Is there evidence of Nearshoring in Central America?



Share of US imports

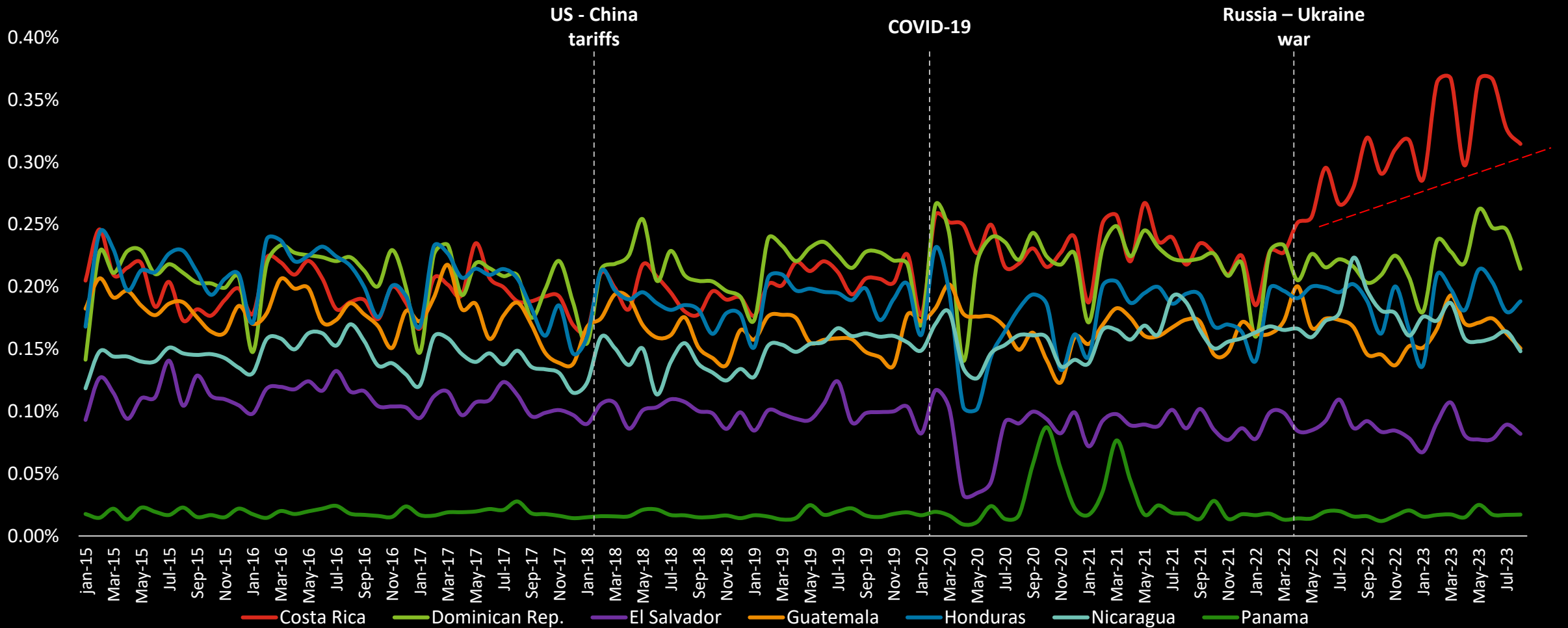
US imports from Central America are limited compared to its main trading partners.



Source: CBRE. Seasonally unadjusted figures.

Share of US imports from Central American countries

Costa Rica has increased its presence on US imports.



Source: Census Bureau U.S. Seasonally unadjusted figures.

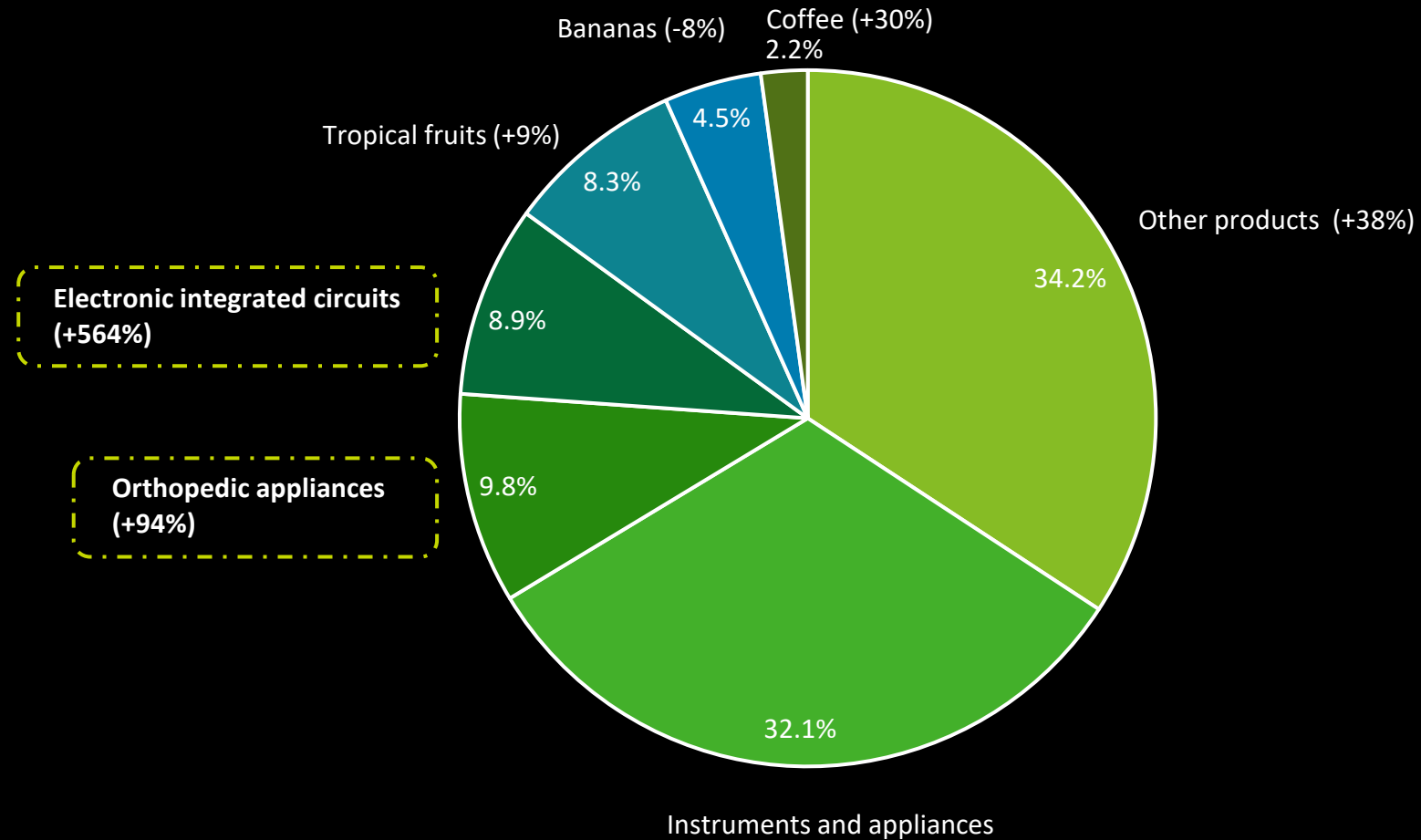
US imports from Costa Rica

Medical devices represent the highest share.



Top ten products imports from Costa Rica to US and their annual variation (2021-2022)

(Share of total imports, %)

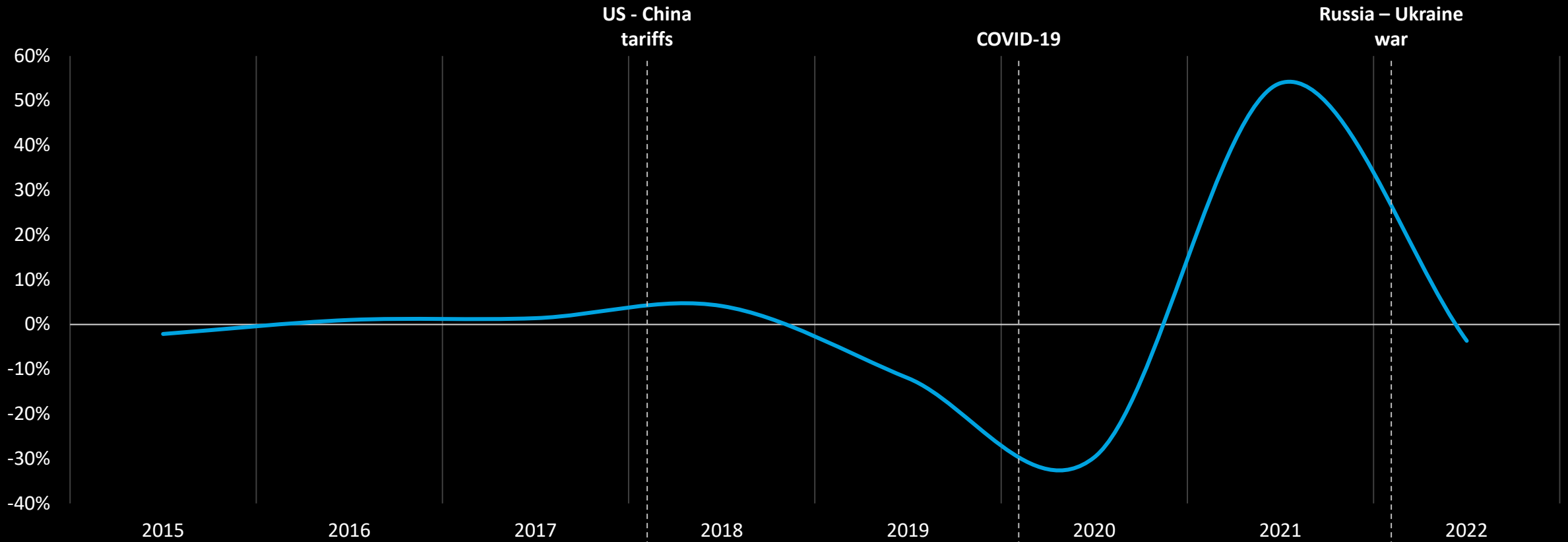


Foreign Direct Investment (FDI) to Central America

As regards FDI, it rebounded after the pandemic but dipped slightly in 2022.



FDI in Central America (2015-2022)
(annual variation, %)



Source: ECLAC.

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Nearshoring in Central America

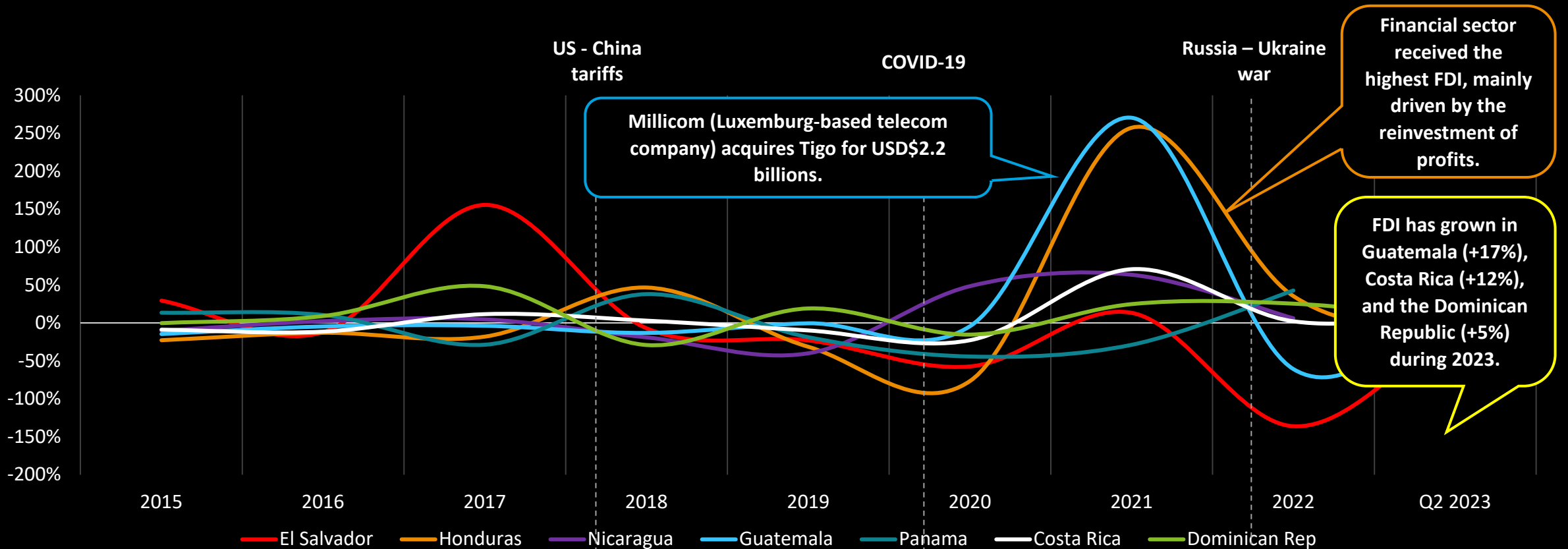
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FDI in Central American countries

By Q2-23, Guatemala, Costa Rica, and Dominican Republic stand out.

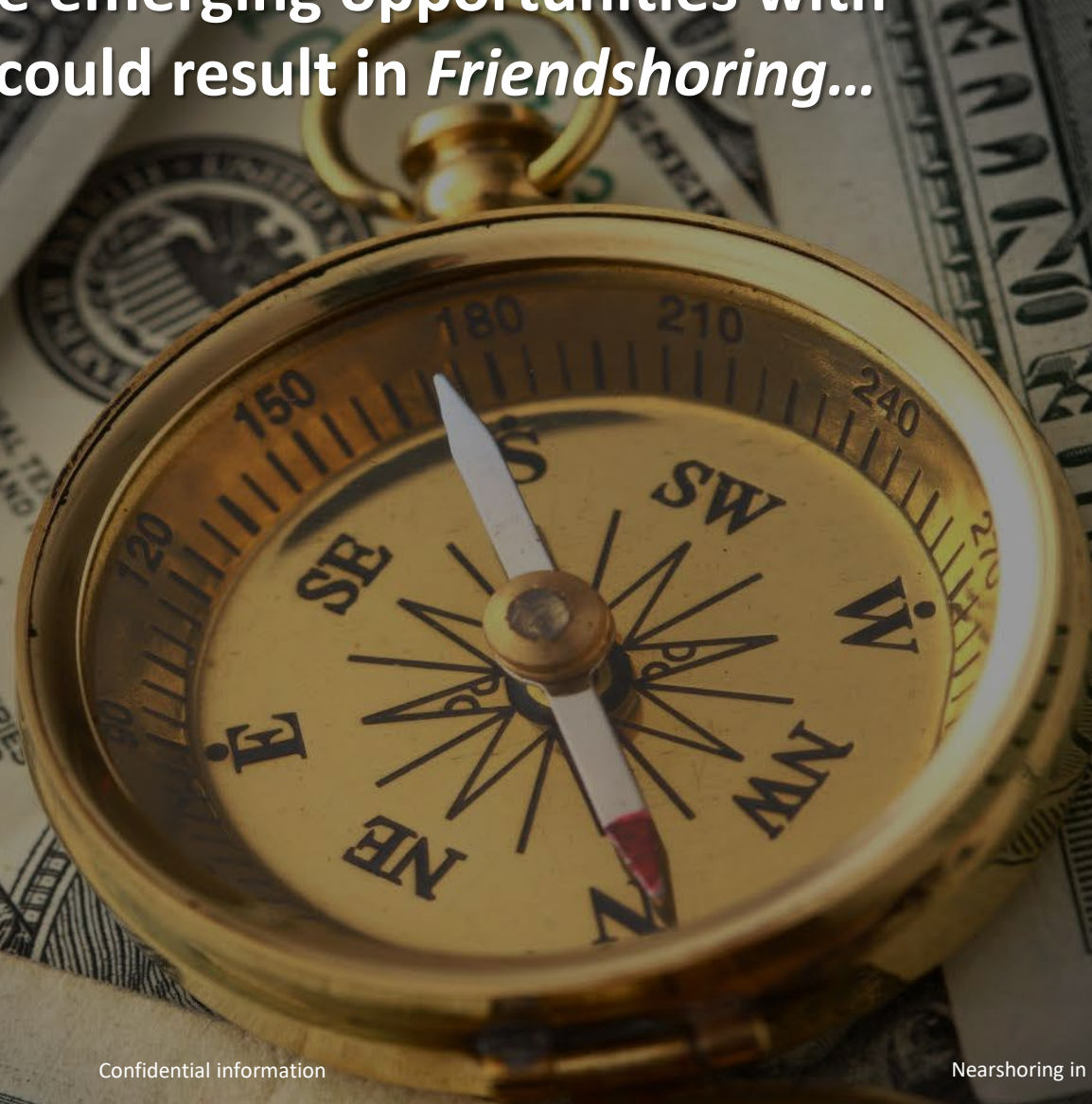


FDI in Central America countries (2015-2022)
(annual variation, %)



Source: ECLAC.

Until now, the impact of Nearshoring in the region has been limited. Nevertheless, there are emerging opportunities with its key trade partner (US) that could result in *Friendshoring*...



3. Opportunities from Friendshoring?





What is Friendshoring?

Is a trade practice where supply chain network are focused on countries regarded as political and economic allies.

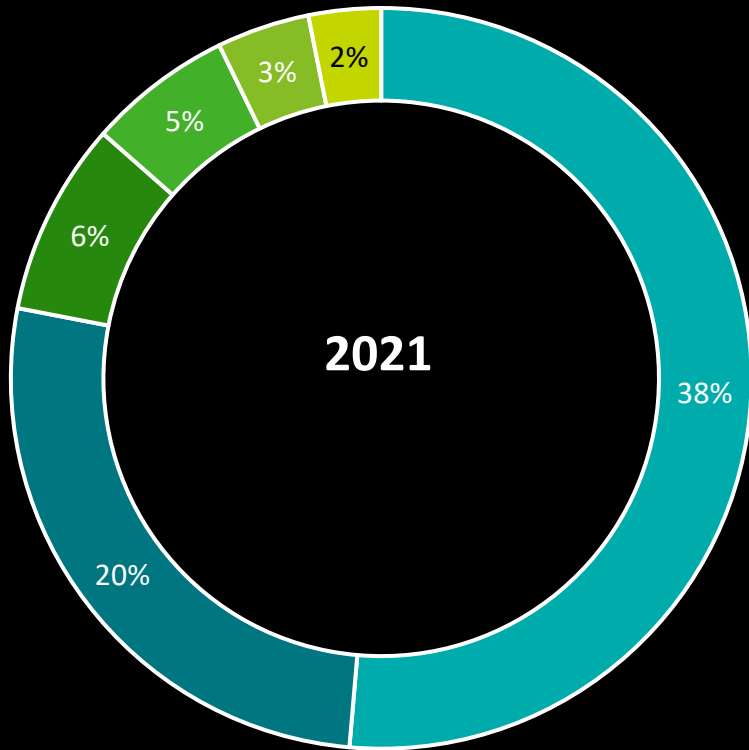
Source: World Economic forum.

FDI in Central America from USA

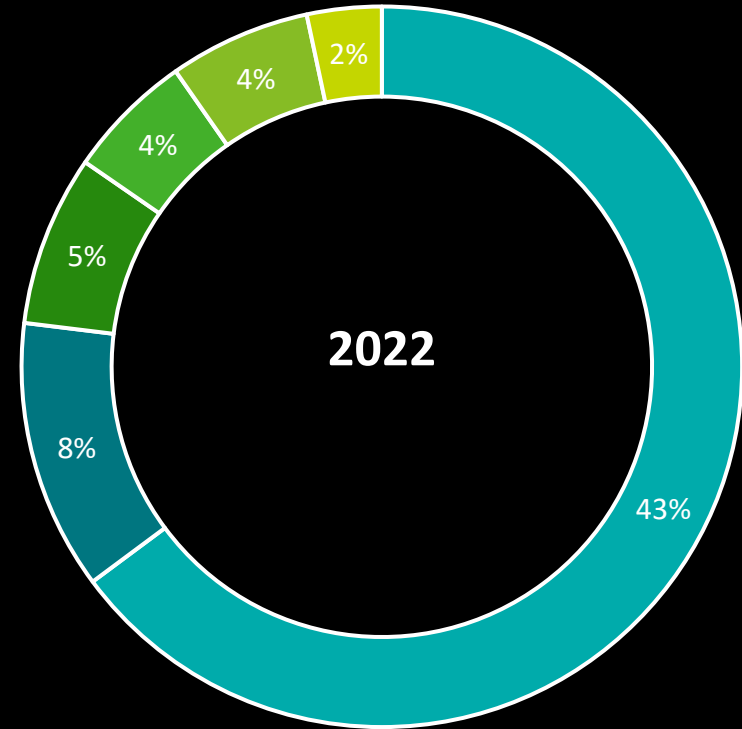
The region maintains a robust business relationship with the US, its primary investor.



FDI in Central America (2022)
(Share in total FDI, %)



USA, Luxemburg, Colombia, Mexico, Panama, Spain



USA, Mexico, Colombia, Panama, Spain, Luxemburg

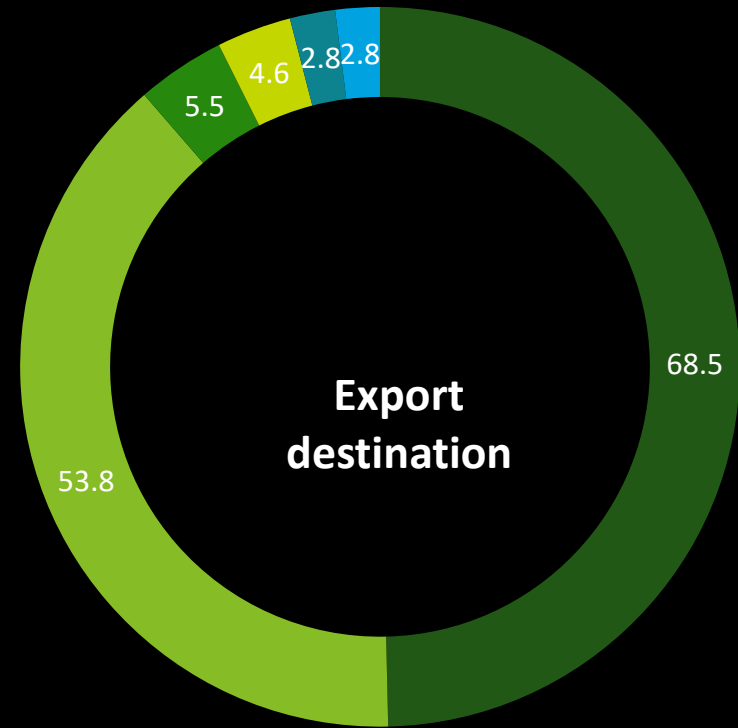
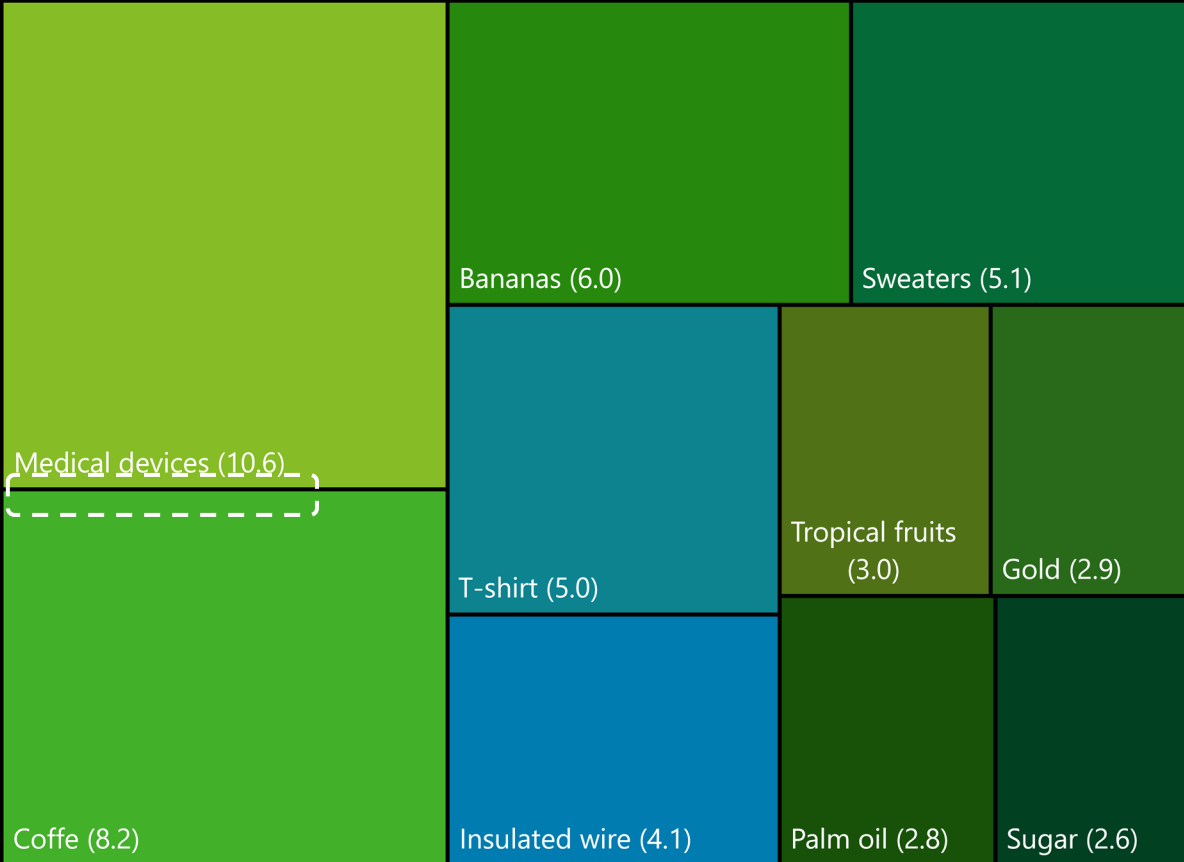
Source: ECLAC. Note: Nicaragua and Panama are not included.

Exports from Central America

The strong trade ties with the U.S. enhance the region's appeal for Friendshoring.



Main export products and destinations (Share of the total, %)



- Remaining countries
- United States
- Mexico
- Netherlands
- Belgium
- Panama

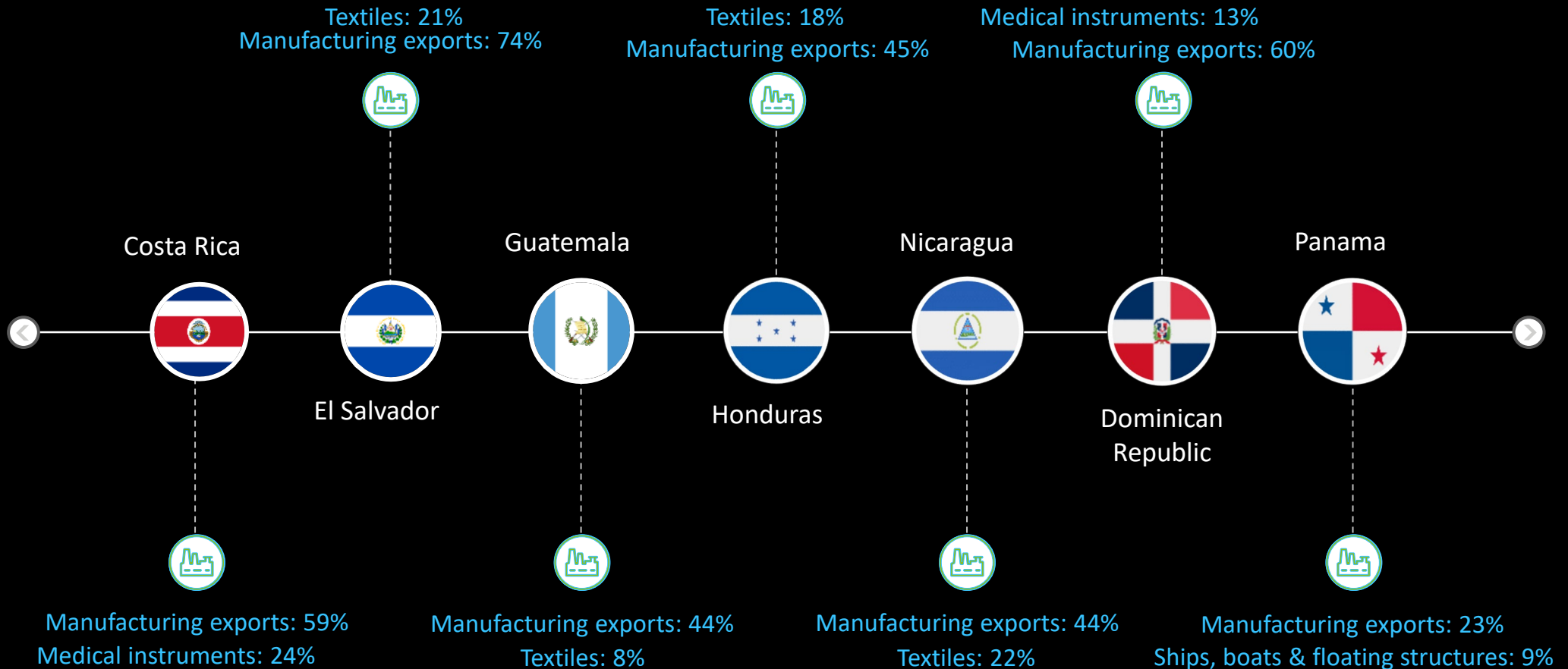
Note: The CAMC is a trade bloc composed by Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador.
Source: Observatory of economic complexity.

Some countries of the region have the potential to leverage Friendshoring, given their export-oriented manufacturing industry



Main export products

(Share of manufacturing exports and of the major manufacturing product, as % of total exports)



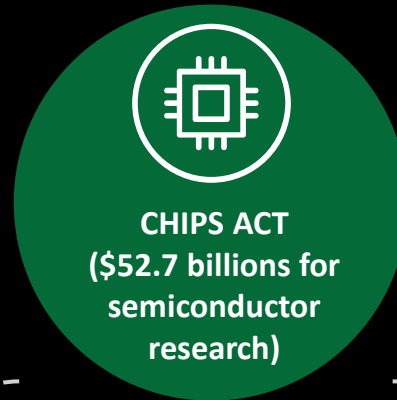
Source: UNCTAD.



3.1 Semiconductor production policy in US (CHIPS ACT), as an opportunity for Friendshoring in Central America

Incentives for semiconductor manufacturing in US

United States is working to make the global semiconductor supply chain less susceptible to disruptions, by producing locally, or by bringing it closer to the US market.



Manufacturing

- \$39 billions in manufacturing incentives.
- \$2 billions for the semiconductors used in automobiles and defense system.



Development

- \$13.2 billions for R&D and workforce development.



Tax incentives

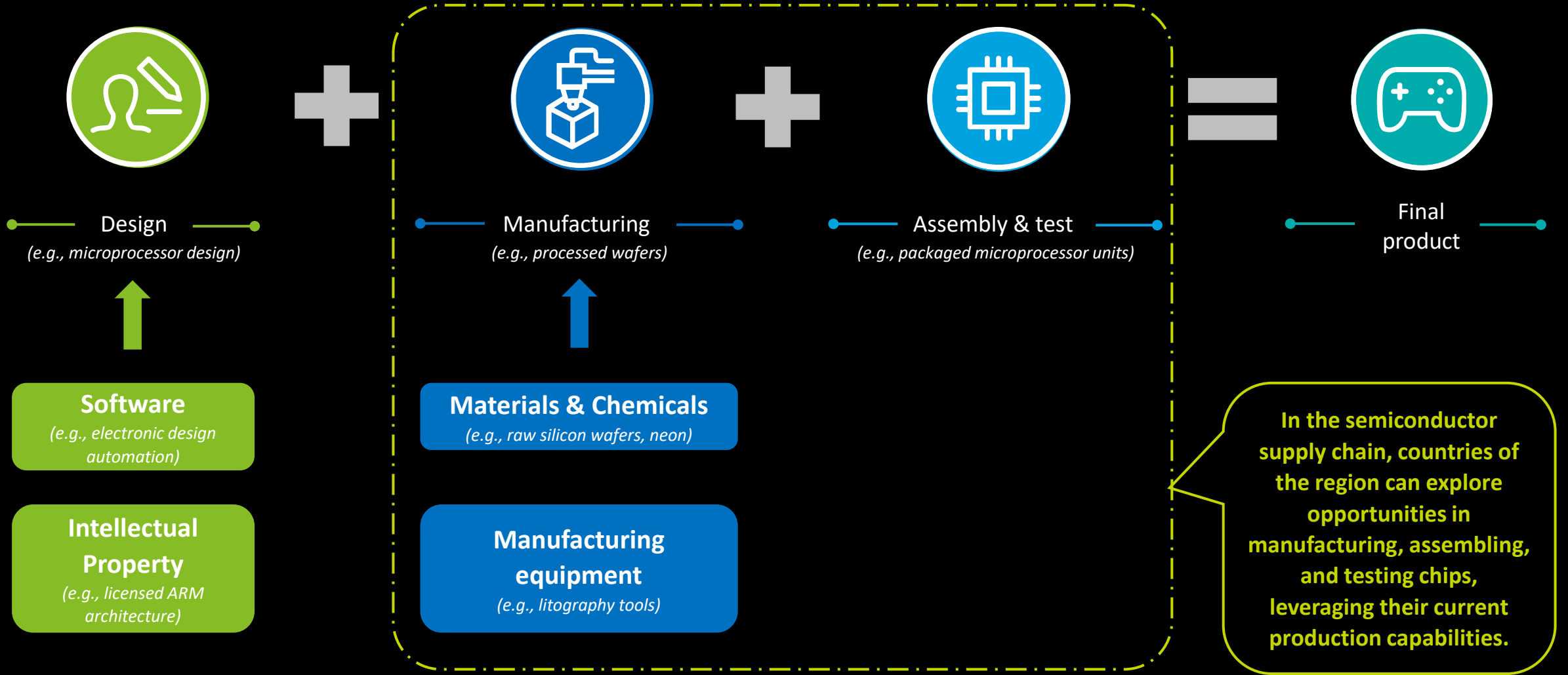
- 25% investment tax credit for capital expenses for manufacturing of semiconductors and related equipment.



International Tech Security and Innovation

- \$500 million to provide for international information communications technology security and semiconductors supply chain activities.

Semiconductor value chain



Design Revenue in 2021: \$13.3 billions.

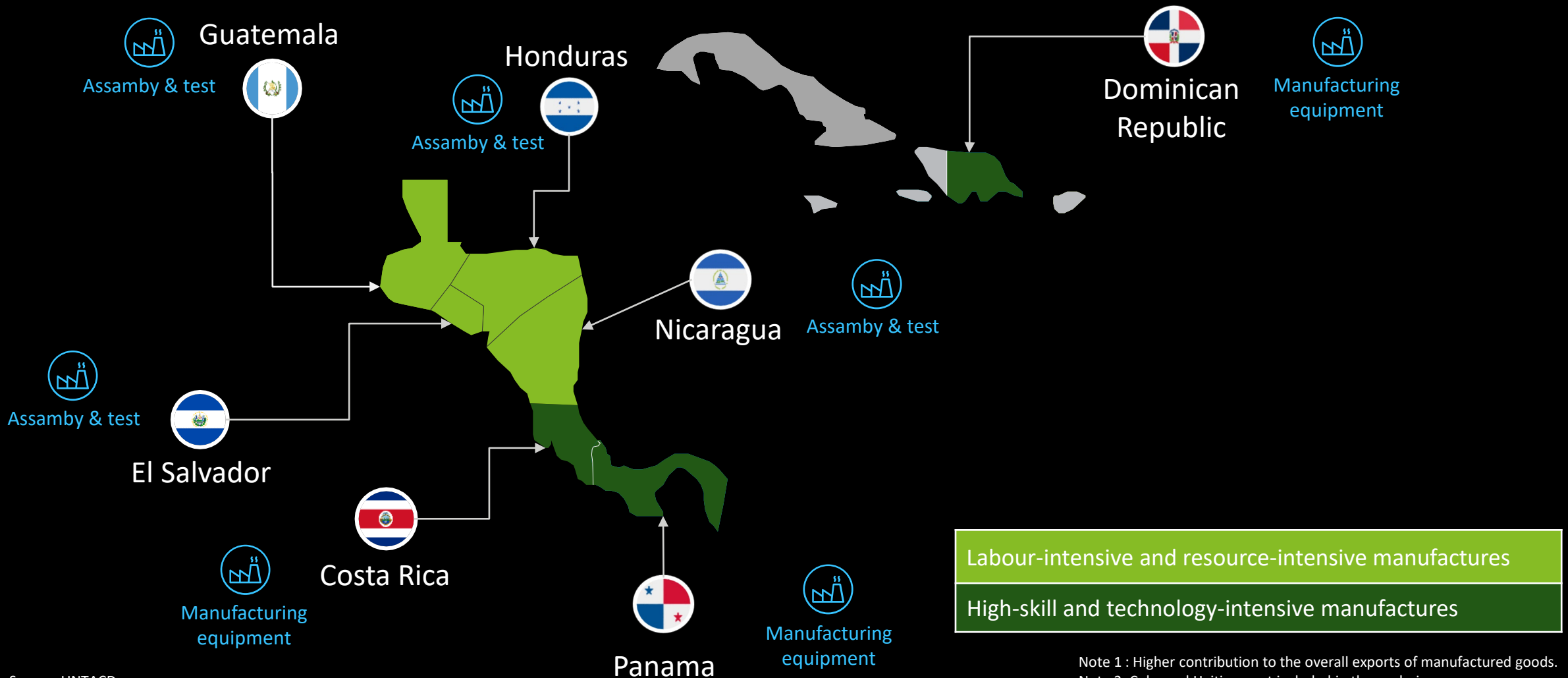
Materials market in 2022: \$44.7 billions.
Semiconductor Manufacturing Market in 2021: \$108.5 billions.

Assembly, test and packaging equipment market in 2021: \$15.2 billions.

Source: Center for strategic & international studies, October 2023.

Countries with a more skilled workforce could better leverage the semiconductor production policy

How could they participate in the semiconductor production value chain?



Source: UNTACD.

Note 1 : Higher contribution to the overall exports of manufactured goods.
 Note 2: Cuba and Haiti are not included in the analysis.

4. Initial outcomes of “Friendshoring” in Central America

Early outcomes of Friendshoring in Central America

Collaborative Efforts in Semiconductor Supply Chain Development

Costa Rica, Panama, and the Dominican Republic are working with the US Department of State to explore opportunities for developing the semiconductor supply chain.

El Salvador Tech Alliance

In 2023, Google Cloud partners with the government of El Salvador in a multi-year agreement to foster the country's technological hub ambitions, with a focus on digital government, healthcare, and education.

Investments drawn to the region through friendshoring*



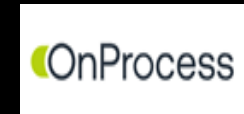
1.2 billions over next two years



\$7 millions for new offices



\$130 millions for industrial warehouses

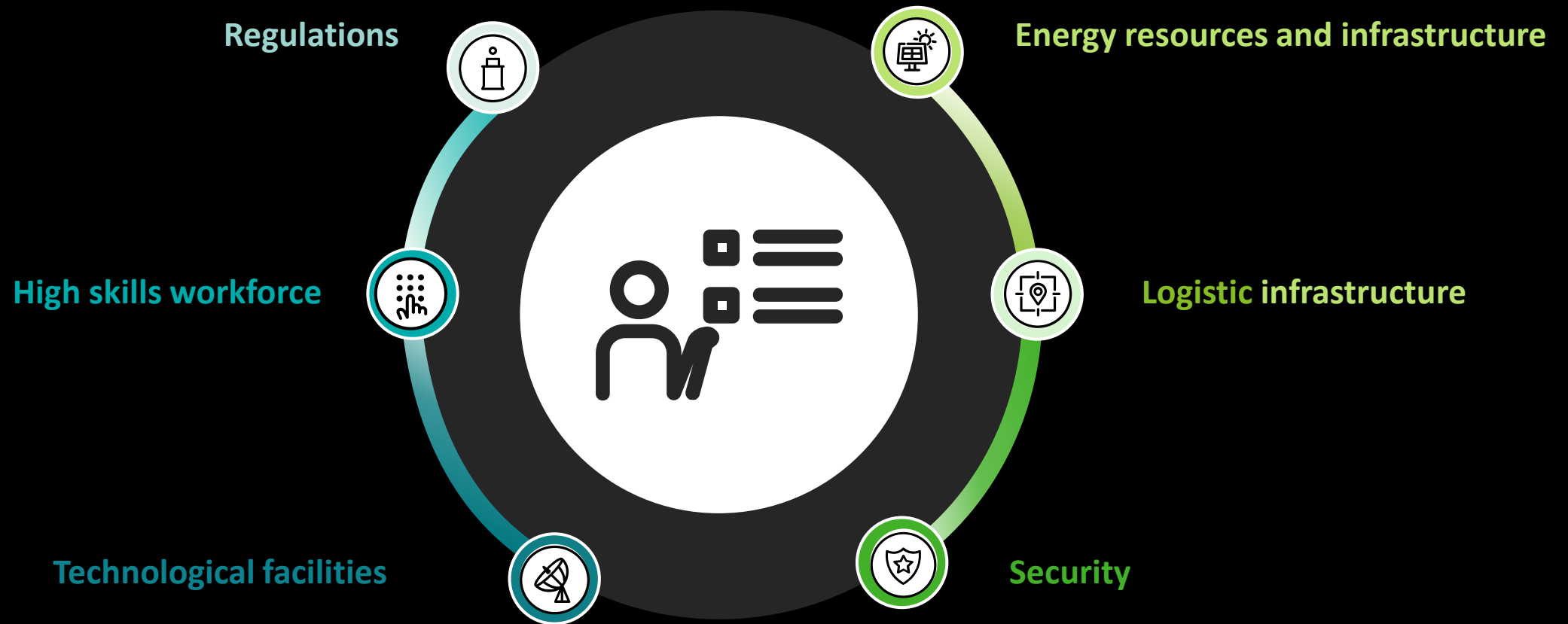


\$5 millions for new offices

5. Challenges that the region faces to take advantage of Friendshoring



Challenges for Friendshoring in Central America



In summary...



Nearshoring

There is scarce evidence for Nearshoring in the region yet, except maybe, in Costa Rica.

Challenges

Governments could enhance economic regulations, improve infrastructure, and invest in education and training linked to manufacturing sector.

Friendshoring

This is a great opportunity for the region to attract investments in sectors, like medical devices, electronic components, textile manufacturing, logistics, among others.

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