SAN FRANCISCO
BUSINESS TIMES

Viewpoint: China's Troubles Present a Moment for North America

Sean Randolph – April 7, 2023

Trends are converging to create a window of opportunity for North America, if the U.S., Canada and Mexico can seize it.

The first is a realignment of global supply chains. U.S.-China tensions and supply chain vulnerabilities brought to light by the pandemic are leading many companies to reevaluate their supply chains. The heavy reliance on China is a particular concern, as pandemic lockdowns hurt manufacturing, tariffs left over from the trade war remain in place, China's government pursues statist policies, and the potential for more political disruption looms.

This doesn't mean that companies will just pick up their bags and leave China. The market is too large and its supplier base too deep for any sudden change. But a recent survey by the American Chamber of Commerce in Shanghai shows that many U.S. companies are reconsidering their long-term presence, have moved some investment elsewhere or are planning to.

Where that investment goes is up for grabs. Apart from businesses that may return to the U.S. (reshoring) most are likely to go one of three places: Southeast Asia, India or Mexico. Southeast Asia benefits from its Asian footprint, a young and trainable workforce, growing markets, and business-friendly policies. India's advantage is its large market of 1.3 billion people, a young workforce with a growing middle class, strong technological capacity, and strategic alignment with the U.S.

But Mexico has distinct advantages. Like India and Southeast Asia it has a young workforce and ample numbers of qualified engineers. The U.S.-Mexico-Canada Agreement (USMCA), the successor to NAFTA, provides an institutional framework that offers transparency and market access for both trade and investment. Most important, Mexico offers extremely short supply lines, with the fluid cross-border movement of goods and people. Proximity brings advantages for both executives and suppliers, with reduced costs and transportation times.

Site location specialists report a growing number of both enquiries and investments from U.S. and global companies. Guadalajara, Mexico's leading tech hub, is attracting tech interest and border states such as Chihuahua and Monterey and interior states like Queteraro and San Luis Potosi are attracting industrial investment. In January alone announcements were made of $2.5 billion in nearshoring investment by 23 companies.

Semiconductors are an immediate opportunity. At the North American Leaders Summit in January the three countries agreed to coordinate on semiconductor supply chains, targeting unmet needs and complementary investment opportunities. A first-ever trilateral semiconductor forum will be held later this year. For Mexico this represents a unique opportunity to secure a role in the semiconductor supply chain, supporting fabs in the U.S.

Batteries and electrical vehicles are another field with strong alignment. In January the Mexican affiliate of U.S. EV manufacturer Cenntro Automotive announced a $200 million investment to produce lithium-ion batteries in Monterey and distribute electrical vehicles in Mexico. In parallel, Tesla is reportedly considering its first automotive plant in Mexico, also in Monterey. Both moves build on a strong Mexican base for automotive and EV production.

With the realignment of global supply chains in full swing this opportunity is Mexico's to lose. To compete it needs to offer infrastructure, qualified workers, and safety. Many of those elements are in place, but Mexico needs to put its best foot forward. States and cities will have the lead. If it does, the North American market will be strengthened in ways that benefit businesses and consumers as well as national security.

Sean Randolph is Senior Director of the Bay Area Council Economic Institute.

https://www.bayareaeconomy.org