THE END OF NEARSHORING & REMITTANCES TO MEXICO:

MÉXICO, THE NEW CONGO?

In recent years, Mexico has been one of the main beneficiaries of the **nearshoring** phenomenon, driven largely by the trade policies of the Trump administration and the growing trend of U.S. companies relocating their supply chains closer to their consumer market during the COVID-19 pandemic.

Additionally, **remittances**, which have been a vital source of income for millions of Mexicans, have also seen a considerable rise. However, the recent political developments and Trump's new victory suggest that both these factors might be nearing their end, which could have a devastating impact on Mexico's economy.

The End of Nearshoring

Nearshoring—relocating production to countries near the United States, primarily Mexico—has been a key driver of Mexico's economic growth over the past decade. Tensions between China and the U.S., along with the need to diversify supply chains after the COVID-19 pandemic, spurred this trend. Mexico became a critical destination for manufacturing, particularly in sectors like automotive, electronics, and machinery, due to its proximity to the U.S., competitive labor costs, trade agreements like the USMCA (formerly NAFTA), and growing demand for products in the U.S. market.

However, the future of this model appears to be in jeopardy. The current administration in Mexico, under President Claudia Sheinbaum Pardo, continues the protectionist policies of her predecessor, Andrés Manuel López Obrador, which often run counter to the economic openness and competitiveness that fueled the nearshoring boom. Uncertainty surrounding energy reforms and legal security has created a less attractive investment environment, leading some companies to reconsider their expansion plans or even move back to the U.S. or to other countries with more favorable investment policies.

Compounding this, President Trump has announced the possibility of **tariffs of 25% or more** on any product imported to the U.S. to bring jobs back that production to American soil. As U.S. companies seek to ensure greater autonomy through automation and artificial intelligence, they may further reduce their reliance on Mexico by shifting operations back home.

Remittances: A Pillar in Danger

Remittances are another crucial pillar of the Mexican economy. According to the Bank of Mexico, remittances sent by Mexican migrants from the U.S. surpassed $60 billion in 2023, representing a vital source of income for many families and a significant part of the nation's Gross Domestic Product (GDP).

One of the biggest threats to remittances is the possibility that President Trump might impose tariffs or taxes on money transfers to Mexico. During his presidency, Trump showed a tendency to tax international money transfers, arguing that immigrants should contribute more to funding U.S. domestic programs. If such a policy were reinstated, remittances—currently a lifeline for millions of Mexican families—could drop drastically, as migrants would face higher costs for sending money home.

Such economic restrictions would affect both Mexican workers in the U.S., who would see their disposable income for sending home reduced, and the families that rely on those funds for their daily survival. A fall in remittances wouldn't just affect the immediate well-being of millions; it could have devastating consequences for Mexico's economy, leading to further depreciation of the peso and increased economic inequality.

Economic pressures in the U.S., from factors like the trade war with China, rising interest rates, and a possible recession, could reduce the purchasing power of Mexican migrants and, by extension, their ability to send money home. Moreover, if the Trump administration implements policies favoring job repatriation or incentivizes the integration of immigrant workers into the U.S. economy through tax benefits, remittances could be hit hard.

Impact on the Mexican Peso

The combination of these factors—**the potential decline of nearshoring and a reduction in remittances—could trigger a series of events that severely affect the Mexican peso.**

If companies begin relocating their operations outside of Mexico, mass unemployment could result from factory closures and businesses that depend on manufacturing for exports to the U.S. This, in turn, would reduce domestic demand and affect consumption, while a flight of foreign investment toward the U.S. could accelerate the peso's depreciation.

The reduction in remittances would also add pressure. Remittances not only provide crucial support to millions of Mexican families, but they also represent an influx of U.S. dollars into the Mexican economy. Without this constant flow of dollars, demand for pesos will drop, potentially triggering a sharp decline in the currency's value.

The result would likely be a **severe devaluation** of the peso against the U.S. dollar, making imports—including basic goods like food, medicine, and fuel—more expensive. This could lead to **runaway inflation** and a decrease in purchasing power for Mexicans, disproportionately affecting the middle and lower classes.

Rising Unemployment & Investment Flight

Another major risk is **investment flight.** With rising political, economic, and legal uncertainties due to reforms like the judicial overhaul, many investors may look to the U.S. as a safer market, one that continues to offer stability, access to cutting-edge technology, and business-friendly policies, including tax incentives. U.S. companies in particular, who had previously bet on nearshoring, may opt to return home or further diversify operations to countries like India or Vietnam, where costs are even lower.

The **resulting unemployment** would be a serious and immediate problem. In sectors like automotive, electronics, and manufacturing, thousands of workers could lose their jobs, escalating social and political tensions in a context of rising inequality.

In Conclusion

The end of nearshoring and the decline of remittances could create a perfect storm for the Mexican economy. **The devaluation of the peso against the dollar and rising unemployment from the flight of investment are just some of the consequences looming on the horizon.**

It is crucial for the Mexican government to act quickly to restore investor confidence, improve legal certainty, and create a more stable economic environment with less violence to prevent the situation from worsening.

If Mexico fails to adapt to the new geopolitical and economic realities, the country could face a period of significant economic instability that will not only affect the economy but the lives of millions of Mexicans in a permanent way. Competition with the U.S. is intensifying, and Mexico will need a renewed strategy to retain investment and maintain financial stability. Otherwise, **it could risk becoming the next Congo of Latin America.**

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