Nearshoring: priorities for regional development

- **Nuevo León, Aguascalientes and Coahuila have favorable conditions to attract investment related to *nearshoring*. They have more skilled labor, better working conditions and better infrastructure. However, access to water as a basic input is a challenge.**

- **Oaxaca, the State of Mexico and Zacatecas present challenges in attracting investment due to the lack of skilled labor, poor public transportation and insufficient wastewater treatment infrastructure.**

In recent years, the *nearshoring* phenomenon has been identified as an important opportunity to increase the attraction of investments focused on boosting industry. However, **in order to take advantage of this opportunity, the different regions of the country face some structural challenges in several key areas**.

Since 2023, **the Mexican Institute for Competitiveness (IMCO) and the Friedrich Naumann Foundation (FNF) have analyzed different indicators identified as priorities by authorities, investors and potential investors in Mexico**. Based on these considerations, IMCO determined 21 variables related to the labor market, basic inputs, housing and the regulatory environment in the states.

The second edition of this exercise presents an updated version of the situation of the Mexican states in terms of competitiveness and preparedness for the opportunities generated by *nearshoring*.

The research shows that Nuevo León, Aguascalientes and Coahuila perform better than the rest of the states in the four areas analyzed and have the facilities to take advantage of the trend of relocating production chains. In contrast, Oaxaca, the State of Mexico and Zacatecas are states whose structural conditions make it difficult to attract investment and increase economic activities linked to *nearshoring*.

Results by evaluated axis:
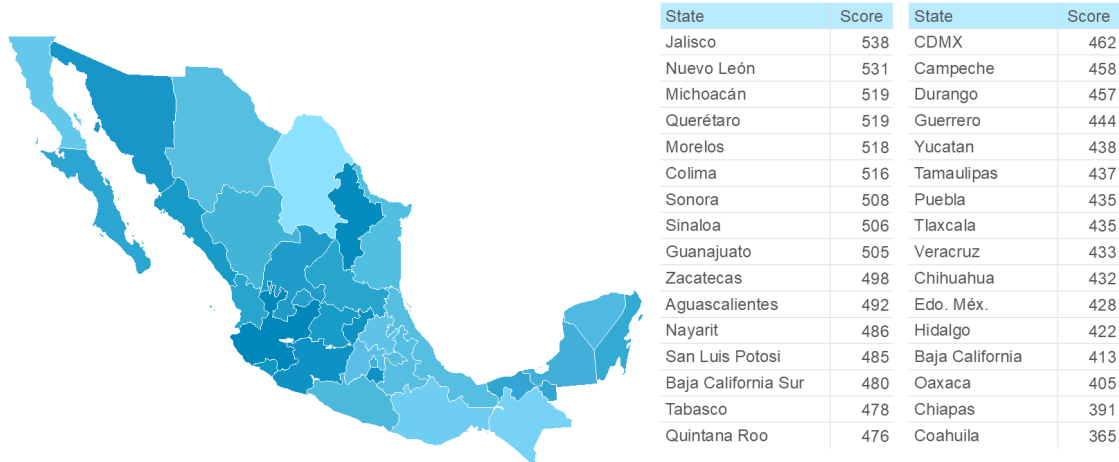
Labor market

Characteristics related to factors such as labor availability, educational level and infrastructure, and access to job training and skills such as English proficiency are analyzed. These characteristics may be attractive to companies and workers interested in taking advantage of the benefits of competitive labor markets.

In this factor, the results show a **greater potential to add more people to the labor market in states such as Guanajuato, Tlaxcala, Sinaloa and Durango**. In Baja California Sur and Jalisco, on the other hand, the labor market shows a lower number of people available and willing to join the employed population.

Additionally, **English proficiency** -an attractive element for investors and transnational companies that may come to the country- **is highest in Jalisco, Nuevo León and Michoacán**, while Coahuila, Chiapas and Oaxaca have the lowest skill levels in the country.

English proficiency in the states (2023)

English Proficiency Index score:	● Medium: 500 - 550	● Low: 450 - 500	● Very Low: <450
National score:	451 (Low)		

State	Score	State	Score
Jalisco	538	CDMX	462
Nuevo León	531	Campeche	458
Michoacán	519	Durango	457
Querétaro	519	Guerrero	444
Morelos	518	Yucatan	438
Colima	516	Tamaulipas	437
Sonora	508	Puebla	435
Sinaloa	506	Tlaxcala	435
Guanajuato	505	Veracruz	433
Zacatecas	498	Chihuahua	432
Aguascalientes	492	Edo. Méx.	428
Nayarit	486	Hidalgo	422
San Luis Potosi	485	Baja California	413
Baja California Sur	480	Oaxaca	405
Tabasco	478	Chiapas	391
Quintana Roo	476	Coahuila	365

Source: Prepared by IMCO with data from *Education First* (EF).

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Housing and basic services

The indicators related to this factor take into account the availability of housing in the states and access to basic services in homes, as well as the number of public transportation vehicles that allow workers to connect with their places of employment.

Annual housing production shows the increase in available space for new workers and their families and reflects the adequacy of a state's housing infrastructure. **Quintana Roo, Nuevo Leon and Aguascalientes had the highest housing production per inhabitant in 2023**, while Guerrero, Chiapas, Campeche and Oaxaca reported the lowest levels.

In terms of **public transportation, there is a disparity in access** to passenger transportation units between Mexico City and the rest of the country. While in Mexico City there are almost 3,000 passenger transportation units per million inhabitants, in the remaining states the availability is between 126 and 767 units per million people. Chihuahua, Zacatecas and Colima have less than 160 passenger vehicles per million inhabitants.

Annual housing production per 10 thousand inhabitants (2023)

Annual production at the national level:	**1.1 dwellings** per 10 thousand inhabitants

| State	Production	State	Production
Quintana Roo	4.3	Durango	0.9
Nuevo León	3.7	Baja California Sur	0.9
Aguascalientes	3.0	Morelos	0.8
Yucatan	2.5	Zacatecas	0.8
Hidalgo	2.4	San Luis Potosi	0.7
Colima	2.1	Puebla	0.7
Tamaulipas	2.0	Edo. Méx.	0.6
Querétaro	1.9	Michoacán	0.5
Coahuila	1.9	Veracruz	0.5
Jalisco	1.6	Tlaxcala	0.2
Baja California	1.5	CDMX	0.2
Sonora	1.4	Tabasco	0.2
Guanajuato	1.3	Guerrero	0.1
Chihuahua	1.2	Chiapas	0.1
Sinaloa	1.2	Campeche	0.1
Nayarit	1.0	Oaxaca	0.1

Infrastructure

The availability of basic inputs was considered, i.e., access to electricity and water at affordable prices and with a constant supply. In addition to the marginal prices of electricity and the availability of renewable water, the sufficiency of the water infrastructure of the states is analyzed.

The **number of plants dedicated to treating** industrial **wastewater** relative to the amount of water licensed for industrial use in a region reflects the sufficiency of the infrastructure to reuse water resources and ensure their sustainable supply. **Campeche and Baja California Sur had the best performance** in this area, while Veracruz, Nayarit, Chihuahua, Coahuila and CDMX showed insufficiency.

In addition, the **supply of reliable and competitively priced electricity** is one of the guarantees that companies must have. Electricity is obtained at more affordable prices in some northern states, particularly **Baja California, Sonora, Sinaloa and Chihuahua.** In contrast, Baja California Sur and Quintana Roo have the highest electricity costs.

Industrial wastewater treatment plants per hm^3 of water licensed for industrial use.

National level: **1.2** plants per hm^3
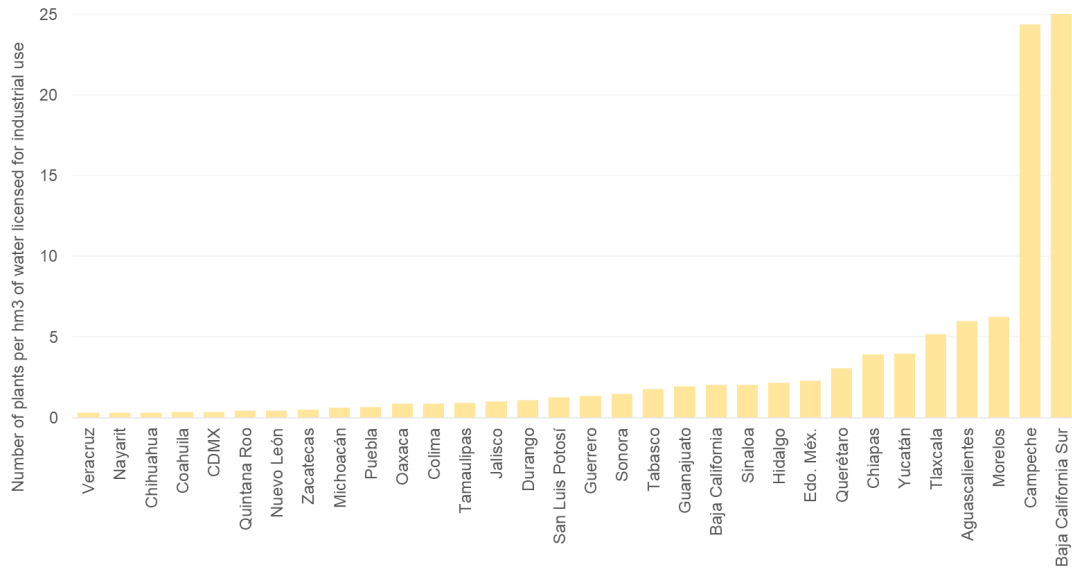
Source: Prepared by IMCO with data from CONAGUA's National Water Information System (SINA) para 2020.

Rule of law and regulatory framework

Finally, indicators of crime incidence in companies, perception of the efficiency of the entity's regulatory framework and the existence of government programs aimed at attracting investment were considered.

The variable related to **government programs** -which can give a **boost to companies** and increase competitiveness- was most prevalent in **Sinaloa and Yucatán**; in Hidalgo and Morelos few companies identified any such program.

This diagnosis is a starting point for outlining a tailor-made work route that addresses the priority pending issues for each entity and generates the necessary conditions to promote regional development in the country.

Consult the full document here.

IMCO is a non-partisan, non-profit research center dedicated to enriching public decision-making with evidence to advance towards a just and inclusive Mexico.

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