

Title A: How Nearshoring Could Make Local the New Global

Subtitle A: Why local matters and how investors can benefit from it

Title B: Why the Future is Local

Subtitle B: How an increasing trend toward nearshoring will shape the economy of the future

Title C: The Power of Nearshoring in the Global Economy

Subtitle C: Why local is the new global



[Image Source](#)

Globalization was *the* force driving much of the last century's economic gains. For decades, many have regarded open markets and the free movement of goods and people across borders as the ultimate goal.

Worldwide markets allowed billions of people around the globe to enjoy seemingly endless productivity gains and prosperity. Although the growth is expected to slow in the coming years, global trade will top

[\\$32 trillion](#) in 2022, a new record.

But as ongoing trade wars and international conflicts feed rumblings of an [end to globalization](#), some suggest it's [time to reassess](#) the global market and shift our economic focuses closer to home.

What will happen to the economic gains of the last century if local becomes the new global? How can investors prepare for widespread nearshoring?

The Benefits of International Supply Chains and Globalization

Much of the world economy has benefited from global value chains that link resource-rich countries to regions with strong consumer demand, allowing businesses and consumers to access new markets and products from all over.

With complex supply chains becoming increasingly common, globalization has been a significant factor behind many major modern successes. An international supply chain is now an integral aspect of most organizations' operations.

As well as benefiting businesses, these supply chains have allowed people in many countries access to resources, products, and foods previously unavailable or difficult to find locally. This helps level the playing field between nations and ensures everyone has access to modern necessities no matter where they live.

At the same time, supply chains are [furthering job creation](#) as more industries open up around the world. Overall, globalization and supply chains are invaluable tools that help ensure economic stability and benefits to citizens around the globe.

The tougher side of global supply

The crises of the past few years make it hard to ignore the challenges created by supply chains that crisscross the globe.

First, it was the U.S-China trade conflict, then lockdowns related to the COVID-19 pandemic, followed by seemingly endless shortages and supply chain hiccups. The war raging in Ukraine since early 2022 has only created further challenges for a global population reliant on Russian natural gas and Ukrainian grains and chemicals.

All these factors lend uncertainty to the world's economic situation and highlight the challenges of relying on interconnected global supply chains.

Who bears the risks for critical supply chains?

It's not only well-off car buyers or faraway corporations that suffer when supply chains go haywire. Average consumers and producers must also cope with the chaos.

For example, at times, it was more profitable for shipping companies to [send empty shipping containers](#) back to China to pick up their next load than to wait for those containers to be loaded with American grains and produce.

The farmers and collectives who grew these products take the loss, as their customers across the ocean don't pay for goods that never arrive.



[Image Source](#)

Will Supply Chain Problems Continue to Hamper the Global Economy?

Although COVID-19-related supply chain disruptions have begun to ease, the overall geopolitical situation has created concern for the economy.

Current risk factors include potentially significant increases in [U.S. shipping congestion](#) and spillover from the Russia-Ukraine conflict in Northern European ports; [limitations of air freight](#) transport, particularly in the Asia-Eastern lane; and [bottlenecks for adequate and reliable](#) transport services.

Baseline issues facing global companies

Aside from the risks resulting from the current geopolitical climate and shipping capacities, there are general challenges associated with globalization.

Two central factors cause risks in global supply chains that are difficult to assess: a lack of upstream visibility and interconnectedness across sectors. In simpler terms, most companies have limited visibility past their tier ones, and supply bases are often interlinked across seemingly unrelated industries.

Because of global reliance on a handful of suppliers, several specific industries face ongoing supply chain issues.

Semiconductors: The building blocks of (seemingly) everything

While the geopolitical situation doesn't affect the metal required to produce semiconductors, neon gasses can pose some challenges for semiconductor manufacturing. It's estimated that before 2022, [50 percent of the world's neon gasses](#), a critical component for lasers used in semiconductor production, came from Ukraine.

Beyond neon gas, the semiconductor supply chain is causing other issues too. Semiconductors remain a [significant bottleneck](#) in the [auto and consumer electronics](#) industry, keeping volumes limited for much of the last two years.

Chemical supplies are linked to natural gas

Most European chemical companies receive only [one to two percent of their total revenues](#) from Russia. However, many aspects of chemical production rely on massive quantities of natural gas.

BASF, one of the world's largest chemical producers, whose products are [integral to polyurethanes](#) and other plastic production, [relies heavily on natural gas](#) from Russia.

While chemical supply chains are rarely visible to the public, their resources are critical components for many types of goods across multiple global supply chains. Chemical shortages could mean that product manufacturers can't produce at full capacity, transportation companies face supply issues, and retailers may not have enough goods.

The effects of breakdowns in chemical supply chains can cascade, disrupting business operations and supply chains worldwide.

Produce, grains, and agriculture

Beyond being the [former breadbasket](#) of Europe, the Ukraine war's impact on fertilizer production is negatively impacting worldwide agriculture.

Belarus's biggest potash producers declared [force majeure](#) directly after Russia's invasion of Ukraine. As Russia and Belarus accounted for [about 35 percent](#) of global potash production in 2021, fertilizer supplies are expected to be affected.

Ammonia is another critical component of many fertilizers, and Russia used to supply [around 20 percent](#) of the world's ammonia.

Aside from the economic stresses related to the Ukraine war, food supply chains are also threatened by climate change, causing [heatflation](#) and pushing some countries past [peak farmland](#). Although humankind is famously capable of adapting, acute risks can cause significant strain in the mid-term.



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Supply chains provide the backbone for global trade

International supply chains have opened up most of the world to global goods and services. But the tendency of offshoring companies to rely on just-in-time shipments from the opposite side of the globe also introduces risk to the system.

The past few years underscore that through offshoring, we've created a situation where a [singular part of the world](#) supplies the vast majority of certain critical components or crops. The issues are likely to continue as long as supply chains remain stretched and dependent on specialized regions.

Solving these challenges requires a change in supply management strategies. A more diversified, localized value chain, i.e., through nearshoring, will help protect producers and consumers by allowing them access to multiple sources and shipping methods. A move from offshoring to nearshoring could give the world's

supply chains the resilience necessary to avoid the crises of the past years.

Nearshoring vs. Offshoring

There's a shift in some supply chains that is gaining momentum. "It's not about deglobalization," [said Michael Burns](#), managing partner at supply chain investment firm Murray Hill Group, "It's the next stage of globalization that is focused on regional networks."

This shift toward regional networks offers a potential alternative to the complex and risk-laden global web responsible for many ongoing supply chain issues.

The tradition of outsourcing to competent partners

Offshoring involves outsourcing across national borders, generally to companies far away from the end-consumer country, often resulting in significantly lower production costs. For example, some 60 percent of [U.S.-based multinational corporations' labor force](#) was abroad as of 2014.

Nearshoring is a commonly used term for nearshore outsourcing. It's similar to offshoring in that it involves hiring an outside partner to provide goods or services, but from the same geographical vicinity.

The organization decides what activities to transfer, either temporarily or permanently, and an activity previously done locally is now outsourced to a nearshoring partner.

Who benefits from a shift to regional supply chains?

Nearshoring local economic activities can help organizations control costs while managing their operations effectively.

For American-based companies searching for alternatives to the traditional Asian supply base without sacrificing the economic advantages, that means turning to partners in Canada and Latin America.

At the same time, countries like Colombia and other Latin American economies are [searching for new growth engines](#). Investors in those economies stand to benefit from the historical opportunity.



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How Nearshoring Helps Companies and Consumers

Some firms outsourcing work have found that nearshoring affords access to a cost-effective global network of development and production teams.

Part of its popularity growth is due to the [increasing labor](#) costs in many western countries. By nearshoring, companies can reduce costs, outsource to nearshore locations with lower taxes and wages, and work with nearshore teams that share a common cultural understanding.

This often lets them improve product quality or find ways to provide additional services that would not otherwise be available. It also gives consumers access to a wider range of technology options, specialized talent, and a broader selection of raw and agricultural products at a lower cost.

In short, nearshoring helps firms remain competitive in the market while still providing great value for customers.

Boosting domestic capabilities through onshoring and nearshoring

Companies that trust their supplier networks have long used just-in-time procurement to quickly supply goods to customers.

Nearshoring solutions help businesses avoid building additional storage facilities or keeping a comprehensive inventory. Instead, the company keeps stocks low and refreshes them as necessary from a nearby regional supplier.

In addition, through nearshoring, companies can benefit from wages and set-up costs comparable to, or even cheaper than, establishing a similar operation abroad. These businesses gain access to experienced professionals with specialized skills that may not be available domestically, helping them to overcome local labor shortages and quickly expand their capabilities.

Further, trade with neighbors in Canada or Latin America often means protecting U.S. employment in a way that trade with Asian countries does not. For example, while only [four percent of Chinese imports](#) contain American-made components, around 40 percent of U.S. imports from Mexico use American-made parts.

Easing transportation jams

In recent years, nearshoring has emerged as an effective way to [reduce transportation logjams](#). As countries become more interdependent and global economic activity increases, it's becoming critical for certain sectors like manufacturing, tech, and agriculture to rethink the logistics of their operations.

A container takes about a month to travel between China and the United States. During the worst supply chain disruptions of the past three years, that time frame doubled and occasionally even tripled. Shipping from partners in Latin America can cut that time in half.

Nearshoring also helps reduce long-distance transportation needs by relocating supply chains closer to their final destinations, which lightens the load on roadways and shipping infrastructure while providing cost-effective solutions. Reducing transit time is particularly beneficial for any good that's fragile or has a

short shelf life, such as produce and other fresh food products.

Nearshoring strategies can help businesses alleviate these problems while increasing their efficiency, effectiveness, and environmental impact.

Mitigating geopolitical complications

In recent years, the global economy has also faced significant volatility due to [geopolitical complications](#).

One of the most critical recent issues has been the ongoing U.S.-China trade dispute, which has had a major impact on economic activity around the world. Tensions increased during former President Trump's administration with tariffs on Chinese imported goods that triggered trade gaps and security concerns over trade agreements.

As a result, nearshoring has become an attractive option for many companies and consumers looking to limit their exposure to such instabilities.

By utilizing nearby economies instead of those located in more turbulent regions overseas, businesses, individuals, and governments can ensure greater reliability and security in their trading activities.



[Image Source](#)

Governments Use Trade Policy to Incentivize Nearshoring

Following the supply chain issues of the past few years, businesses are not the only ones reevaluating supply chains. Regimes around the world are increasing efforts to influence global trade.

The recent U.S. CHIPS Act

The U.S., in particular, has signed initiatives such as the CHIP and Science Act which encourages worldwide manufacturers to [invest in United States production facilities](#). This is part of an effort to reduce outsized reliance on countries such as China, allowing increased independence through purchasing locally-produced goods.

June 2022 also saw the launch of the USDA's framework to build more [just and resilient food systems](#). Although the initiative's focus would be on the U.S. food system, this potentially improved infrastructure

would allow for reduced carbon emissions while seeking to improve access to nutritious foods.

These incentives seek to further solidify local as the new global and highlight the advantages of nearshoring and localizing supply chains.

Colombia's transition away from extractive industries

It's not only the United States encouraging nearshoring. Colombia is also in the middle of a big push to increase foreign investment and benefit from the drive to bring the supply base ["back to the Americas."](#)

The Latin American nation, long dependent on oil and gas exports, seeks to grow alternative exports while transitioning away from traditional extractive industries. A core tenet of [recently elected leftist Gustavo Petro's](#) economic plan is to grow tourism, sustainable agriculture, and other non-oil exports.

The plan seems to be off to a promising start. In the first three quarters of 2022, a weak Colombian peso allowed Colombia to realize an [increase in non-mining and energy exports of nearly 20 percent](#) (over the same period in 2021) to neighboring countries.



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Nearshoring Has Advantages Beyond Short Supply Lines

While short supply chains can improve resilience and stability, there are other advantages to nearshoring.

Lower transportation costs

By utilizing other countries relatively close to home, instead of distant locations across different continents, companies can reduce their transportation costs and their carbon emissions significantly.

In addition to these substantial, tangible financial and environmental savings, new technology is making nearshoring more efficient. Companies are no longer restricted by physical borders since modern communication methods allow for collaboration wherever needed, faster and more reliably than ever before.

As a result, nearshoring is a practical choice for businesses seeking efficient global operations with reduced environmental impacts.

Easier protection of intellectual property

Intellectual property and the ability to protect it has become increasingly important for companies with outsourced employees abroad.

Nearshoring allows businesses to outsource operations and personnel to locations with strong legal protection of intellectual property. The proximity of these locations to the outsourcer requires less coordination, making it easier for outsourcers to monitor and protect the secrets of their business.

Ultimately, nearshoring can result in greater security for sensitive information and a more streamlined process.

Greater control over operations management of suppliers

Companies no longer have to be limited by their footprint. Nearshoring is an attractive business strategy, allowing companies to extend activities to outsourced employees without sacrificing control.

By locating outsourced employees in a nearby region, companies can introduce technology and practices that enable improved visibility, greater risk mitigation, and better communication – all of which are critical for maintaining control over operations management.

Additionally, nearshoring provides outsourcers access to qualified talent while helping them maintain control on a more local level.

With nearshoring, a world of opportunities has opened up for investors as well as those seeking to achieve optimal production outputs quickly and efficiently.



[Image Source](#)

Investing in Alternatives to Global Supply Chains

The supply chain struggles of the past few years caught many consumers, politicians, and business leaders by surprise. As many nations [seek to reshuffle](#) trade allegiances and shore up supply lines, there's a push to re-localize.

The reality will likely instead focus more on nearshoring where it makes the most sense than on re-domesticizing all production.

Agriculture is one sector that will benefit greatly from nearshoring. As the world's population continues to grow, finding reliable sources of natural resources and affordable labor is more important than ever. From the perspective of the U.S., few regions are likely to benefit from a drive for localizing the food supply as much as Latin America.

[Colombia](#) stands out as a shining example in Latin America, with its bounty of limes, coconuts, and

avocados already renowned worldwide. With an ideal climate combined with ocean access on both sides for easy transportation plus an existing sophisticated farming infrastructure – it seems that nearshore food production from Colombia could be just what the U.S. needs.

As local becomes the new global, savvy U.S. investors can get ahead of the trend and take advantage of the opportunity presented by the increasing nearshoring of agricultural activities.

If you're interested in learning about how you can invest in the agricultural potential of a nearshoring partner like Colombia, complete the contact form below.