Nearshoring in Latin America: A new home for American textile and apparel companies based in China?

Thesis

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Abstract

Although moving operations out of China is expensive, many businesses are considering it because doing business there is becoming more expensive due to rising labor costs and the ongoing threat of intellectual property theft. Other factors driving business out of China include coronavirus pandemic, market volatility, the conflict in Ukraine, the disruption of global supply chains, and fears of a trade war between China and the US, the world's largest importer. Due to this, US businesses have relocated or intend to relocate their sourcing and production operations outside China, utilizing the nearshoring production model. Therefore, the objective of this document is to determine, through a case analysis study, if it is feasible for US companies that specialize in the textile and apparel industry to adopt business processes with a regionalization approach, that is, which can relocate companies from China to Latin America, specifically in countries such as Brazil, Colombia, Mexico or El Salvador.

The methodology of this thesis is based on a mixed methods approach. The qualitative methodology includes unstructured interviews with experts from the manufacturing sector and the quantitative methodology includes the collection and statistical documentary analysis of the commercial links between the countries studied and the US, the advantages, and disadvantages in case they are considered a nearshoring destination, as well as the current state of the textile and clothing industries in each of them.

Keywords: Nearshoring, Market Volatility, Coronavirus Pandemic, Latin America, Regionalization, Global Supply Chains (GSCs).

Resumen

Si bien es costoso trasladar las operaciones fuera de China, muchas empresas están considerando hacerlo porque hacer negocios allí se está volviendo más costoso debido al aumento de los costos laborales y la amenaza constante del robo de propiedad intelectual. Otros factores que impulsan la salida de empresas de China incluyen la pandemia del coronavirus, la volatilidad del mercado, el conflicto en Ucrania, la interrupción de las cadenas de suministro globales y los temores de una guerra comercial entre China y EE. UU., el mayor importador del mundo. Debido a esto, algunas empresas estadounidenses se han reubicado o tienen la intención de reubicar sus operaciones de abastecimiento y producción fuera de China, utilizando el modelo de producción de proximidad llamado nearshoring. Por estas razones, el objetivo de este documento es determinar, a través de un estudio de análisis de caso, si es factible que las empresas estadounidenses que se especializan en la industria textil y de confecciones adopten procesos empresariales con un enfoque de regionalización, es decir, que puedan trasladar las empresas desde China a América Latina, específicamente en países como Brasil, Colombia, México o El Salvador.

La metodología de esta tesis se basa en un enfoque de métodos mixtos. La metodología cualitativa incluye entrevistas no estructuradas a expertos del sector manufacturero y la cuantitativa incluye la recolección y análisis documental estadístico de los vínculos comerciales entre los países estudiados y EE.UU., las ventajas y desventajas en caso de que se consideren un destino de nearshoring, así como el estado actual de las industrias textiles y de confección en cada uno de ellos.

Palabras clave: Nearshoring, volatilidad del mercado, pandemia del coronavirus, América Latina, regionalización, cadenas de suministro globales (GSC).

Introduction

Businesses have long been able to diversify geographically thanks to globalization, which reduces the volatility of their earnings and business risk. However, the coronavirus pandemic, the US-China trade war, the disruption of global supply chains, particularly from China, the top manufacturer in the world, and the fall in economic activity between large economies like the US, China, Europe, and Russia have forced a reversal of globalism, causing some industries to look for new substitute markets.

The term "nearshoring," which is the focus of this study and is presented as an alternative to face the aforementioned situation, refers to agreements and commercial or economic relations that are carried out between regional groups that are "closer to home" in cultural, administrative, geographical, and economic terms (Ghemawat, 2018).

The USA has created the "return to America" plan in response to the trade issues with China, which has caused its companies with operations there to either try to diversify their businesses or leave this market. As a result, the US government has been eyeing Latin America as a potential location for nearshoring. This region has demonstrated macroeconomic weakness but also business opportunities for US manufacturers.

As a result of that, the US pursues benefits like strengthening its position as a global leader, reducing commercial risks and its dependency on China, growing its economy, and diversifying its supply chain while doing so at lower manufacturing costs (Braun, 2020) and (Artecona & Jorge, 2021). The US would face the immense challenge of boosting policies to handle macroeconomic concerns, illegal immigration, political illiteracy, inequality, public security, and the underground drug trade that thrives in the region if it engaged in trade with Latin America.

Therefore, this document will conduct a case analysis study to explore if Latin America can be a potential new home for American textile and apparel companies located in China. Data from countries will be collected and analyzed using a mixed method and the Site Selection Matrix tool to achieve this.

This thesis is divided into five sections. The purpose of the study is outlined in the first; the state of the art is assessed and the procedure for conducting the current research is presented in the second. The third stage involves preliminary screening of potential country markets. It examines the current situation of trade relations between the countries under study and the US, the

opportunities and disadvantages of nearshoring in the short term, and the state of the textile and apparel industries in each of them. It also examines the variables that could impact the requirements that US companies with operations in China would likely consider participating in nearshoring in the region. And a final phase, in which the study's findings and conclusions are presented.

1 Problem Statement

Numerous claims have been made about the relevance of Latin America as a nearshoring destination for foreign businesses. The characteristics of the countries in the region could provide these businesses with competitive advantages. However, there has not been a thorough assessment of the region's nearshoring potential for US companies in the textile and apparel sector seeking to move from China to nearby markets.

The study's usefulness resides in its in-depth analysis of the applicability of this production model in four regional countries: Brazil, Colombia, Mexico, and El Salvador. Through this analysis, the current political, economic, and market situations of each nation will be examined, as well as the advantages and disadvantages they would offer US textile and apparel companies if they choose to relocate there.

Therefore, the research questions that will drive this study are: Could Latin America be the potential new home for US textile and apparel companies located in China? Which could be the potential countries for this purpose?

2 Justification

Given that recent events such as trade wars, the coronavirus pandemic, and tensions between the US and China, among other events, have caused companies to relocate closer to home for commercial and economic benefits, this research focuses on determining if Latin America is an option to the relocation of US companies in the textile and apparel industry seeking to leave the Chinese market.

Through this study, the author will present a thorough analysis of countries like Brazil, Colombia, Mexico, and El Salvador that will serve as a framework for comparison for US textile and apparel companies, particularly those moving from China to Latin America and seeking justifications for doing so as they make strategic decisions.

By concentrating on the manufacturing sector (textiles and apparel industry) and connecting it to actual cases for US businesses looking to relocate to some of the Latin American countries under consideration, this research also aims to connect theoretical research with practical implementation. Finally, it aims to serve as an example for other regions with traits similar to those of the countries investigated and a goal of having a scope comparable to that covered in this document.

3 Objectives

3.1 General

Explore if Latin America can be a potential new home for American textile and apparel companies located in China.

3.2 Specific

- Ascertain the existing state of trade between the chosen nations and the US.
- Find relocation possibilities that are available in these nations in the near future.
- Identify the potential disadvantages these nations may present if American businesses decide to relocate there.
- Determine the country/countries that are advantageous for US companies using the Site Selection matrix.

4 Theoretical framework

Globalization has permeated international business, which clearly has its benefits in terms of "increasing the size of the cake," allowing firms to diversify geographically, and lowering earnings volatility and business risk, as noted (Alvarez & Rangan, 2019). However, this tendency also has adverse effects on economies and businesses. This is particularly valid regarding inequality, which has grown more pronounced due to the coronavirus pandemic. Some industries have moved because of this inequity, while others believe that reversing globalism is advantageous for nationalist or regionalist reasons (Dabic; et al., 2021).

As is well known, businesses have had to deal with catastrophic conditions on all fronts, including disruptions to the world supply chain, the trade war between the United States and China, financial crises, economic downturns, and now the coronavirus pandemic. Both works (Vidya & Prabheesh, 2020) and (García & Mendez, 2021) predict that the pandemic would lead developed economies to decline by 7%, while emerging and developing economies by 2.5%. Additionally, they predicted a more than 13% decline in global trade, hitting levels unseen since the Second World War. Chinese manufacturing, referred to as the "world's factory," has been notably impacted by the lockdowns and confinement measures employed to manage the coronavirus pandemic (Buesa, 2020).

For their part, supply chain leaders like the US and China are more motivated to assess their sourcing capabilities due to the conflict between Ukraine and Russia. The world market has suffered because of these tensions, for instance, with Russian exports accounting for about 2% of the $19 trillion in annual global trade, but a much larger share of some important commodities: base metals and mineral sources of energy, fats and oils, grains, and wood products, among others. Finding other sources will be challenging for sectors whose raw material suppliers are currently centralized. As a result, supply chains must be redesigned and diversification strategies considered as a possible solution (McKinsey , 2022).

Any adjustments to the Chinese economy are anticipated to impact other economies, prompting them to develop domestic policies and strategies that will give them a competitive edge. These adjustments can occasionally lead to a rise in economic nationalism, which boosts domestic output and employment at home. Additionally, these actions force governments and businesses to reconsider their reliance on China and global supply chains, forcing them to diversify their markets

geographically in search of potential replacements (Shih, 2020a). These actions improve inventory availability for foreign suppliers, enabling them to profit more than those unable or unwilling to take this risk (Lin; et al., 2021).

In addition to nationalism, countries can and have applied different strategies to deal with the global supply chain crisis. Tradability is one of them and is "*determined by the extent to which items can be produced remotely from the market where they are intended to be consumed*" (Shih, 2020b), and is characterized by the reduction of production costs, transport and expiration of products. Conventionally, outsourcing has also been one of the strategies most used by companies for specialized and flexible manufacturing processes (Shih, 2020b).

The "China+1" strategy, on the other hand, which was put into practice prior to the pandemic, has led businesses to diversify their production in third-world nations while keeping their main operations in China (Oxford Business Group, 2020), look for more resilient networks, and lower the cost of the supply chain. Examples include Western and European, as well as American companies that moved some of their operations to Latin America while continuing to produce some of their output there (Pons; et al., 2021).

From another perspective, regionalization, also called "nearshoring," refers to commercial or economic agreements and relationships that are made between regional groupings "closer to home" to offer a solution to the deficiencies generated in the global supply chain (Enderwick & Buckley, 2020). This increases protectionism by bringing together the shared interests of the nations that come together for such purposes and that create regional policies that adapt to their problems and needs.

Traditionally nearshoring can be seen in the relationship between distance and trade. For instance, the United Kingdom exports more to Ireland than it does to China, despite China's economy being nearly forty times larger than Ireland's. In this case, distance can be defined in terms of cultural, administrative, and geographic dimensions but is also affected by economic distance (Ghemawat, 2018). Pons, Cavale, Caglayan, & Pons (2021), cite other advantages such as lower travel costs; lower regulatory distance; fewer differences in culture, language and time zones; higher day-to-day decision making involvement; and higher intellectual property protection. There are many examples of this strategy, the European Union being its best representation. However, after the pandemic, the event that has most led to its implementation is undoubtedly the disengagement that the United States has been carrying out from China.

Theoretically, implementing any of the aforementioned tactics should be simple, but doing so requires funding, which, in the case of small businesses or developing economies, means assistance from financial institutions (Strusani & Houngbonon, 2020). Nearshoring, in particular, appears to be the best practice. However, there are also adverse effects, including the loss of some advantages of hyper-globalization, rapid growth, decreased poverty, and employment prospects for unskilled individuals. These businesses or economies must also bear the price of establishing regional supply chains and effective transportation systems (Enderwick & Buckley, 2020).

Now, this study has focused on the countries of Latin America, which have shown their macroeconomic vulnerability as a result of regional events like the coronavirus pandemic and global events like the decline in economic activity between the US, China, Ukraine, and Europe, which have affected the volume and cost of raw materials produced in the region (Economic Commission for Latin America and the Caribbean [ECLAC], 2020) and (Enderwick & Buckley, 2020). However, given the erratic nature of global trade's supply and demand, as well as the frequent "nearshoring" practiced by countries and businesses to diversify their suppliers in regions close to their final markets, some Latin American countries have been considered potential locations for business relocation whenever it is financially feasible to do so.

A recent survey of supply leaders revealed that "33 percent of companies found that had moved sourcing and manufacturing activities out of China or plan to do so in the next two to three years" (Cortiñas & Schechter, 2021, p. 1); and after the obvious concern of the US about losing its hegemony due to the strong trade tensions with China and the increase in labor costs of its operations in China; the US has implemented a business strategy that focuses on national production policies (reshoring), using Latin America and the Caribbean as some of the target markets for the relocation of manufacturing companies. By doing so, the US hopes to establish itself as a global leader, lower its commercial risks and dependence on China, strengthen its economy (Braun, 2020), diversify its supply chain, and do so at lower production costs (Artecona & Jorge, 2021). Obviously, these policies need to be developed to be "sold" to the region as a chance to fortify international relations and as a guarantee of economic recovery, as indicated, has hit the region's countries hard (Shalala; et al., 2021).

Similarly, the US faces enormous risk when choosing Latin America as a trading partner since it will need to put in a lot of effort to make value chains less susceptible to risk and more robust; reduce incentives for illegal immigration; and undermine the illicit drug trade (Shalala; et

al., 2021); Moreover, as the Inter-American Development Bank [IBD] (2014) cautions, Multilatinas and SMEs, which account for 95% of regional businesses and 13% of exports, also need some adjustments to knowledge and shared experience, common regional knowledge, scaled-up capacity building, customized capacity building; capacity building at scale and customized; coordinated government and stakeholder action.

Targeted countries include Brazil, El Salvador, Honduras, Guatemala, and the territory straddling Haiti and the Dominican Republic. Some of these countries are anticipated to offer the US the best deals, as is the case with Mexico, Colombia, and Chile, with which the US has already signed free trade agreements. Panama and Costa Rica have also become more appealing in a similar manner (Oxford Business Group, 2020). Even though these countries offer attractive investment circumstances in terms of conventional infrastructure, technology, and connections to the US, their politics ultimately prove to be the biggest obstacle (Cortiñas & Schechter, 2021).

As previously mentioned, Latin America may be able to adopt US trade practices. Still, it will be challenging for the region's governments to change their strategies and advance regional integration (Cortiñas & Schechter, 2021). In a similar vein, it is crucial to maintain the assistance that the United States has provided to some of the countries in the region through the development of commercial parks, the expansion of infrastructure, the intensification of digitalization, and the education and training of the labor force (Feinberg, 2021).

Countries in the region have strengthened and increased their diplomatic ties with other countries like China and India, furthermore, Latin American economies are driven by developing countries, which account for 70% of global growth (Vidya & Prabheesh, 2020). Such events have opened a door for Latin America to displace many Asian countries as the top exporters of goods and services to the US. García & Mendez (2021) cite McKinsey's Global Institute, which states that in the short to medium term, 16 to 26% of all global trade worth US$2.9-4.6 trillion could be restored, nearshored, or moved to alternative offshores, highlighting the region's potential and inspiring them to rethink their policies to take such a position.

Through its "return to America" effort, the USA is enticing American businesses with operations in Asia to relocate to Latin America. It primarily assists the transportation, energy, and infrastructure sectors. By imposing tariffs or decoupling the two economies, it seeks out allies in the region for foreign direct investments through purchases and direct production that will help reduce transportation costs and convert the US into a "manufacturing superpower" that is

independent of China (El Comercio, 2020) and (Agencia EFE, 2020). The US Census Bureau reported that manufacturing imports from China to the US decreased for the first time since 2011, despite China's national production remaining flat, demonstrating that this event is primarily the result of trade tensions that started between the US and China in March 2018 (Cerón, 2020). Additionally, a pattern has been observed where well-known corporations, including GoPro, Universal Electronics, Adidas, General Motors, Nike, Apple, and Caterpillar, stopped producing in China and moved their operations elsewhere, resulting in a 25% decrease in FDI in the first quarter of 2020 (Cerón, 2020). Additionally, 153 American businesses operating in China between 2018 and 2020 returned there, and 80% of them intend to do the same between 2021 and 2022, according to Bank of America Global Research research (Moreno, 2020).

Since investing companies, primarily through the figure of off-shoring, move their production outside of their countries in search of their location in nearby markets and final consumption (nearshoring), there is no doubt that this capital flight has created opportunities for various Latin American countries (Cerón, 2020). Since the labor force in the United States is expensive and underqualified in various industries, nearshoring is an effective practice there. As a result, such solutions must be considered.

4.1 Manufacturing industry

The manufacturing industry, usually referred to as the secondary sector of the economy, oversees the bulk and ongoing conversion of raw materials into finished goods. Production of goods, including food, machinery, automobiles, paper, chemicals, footwear, and textiles are included in the manufacturing sector (Espeniel; et al., 2018).

4.1.1 Textile and apparel industry

The treatment of textile fibers, the creation of threads, and the production of garments and other items are all included in the textile and apparel sector. The creation of textiles and apparel from raw materials and their subsequent transformation into clothing and other accessories can be split into two categories. In the first, raw materials are transformed into yarn, which is subsequently used to create fabrics that are dyed and finished. Rolls of fabric, as well as items like carpets, towels, upholstery, or even commercial goods like fire hoses, can all be considered textile fabrics. On the other hand, the apparel sector cuts fabrics and other materials and sews them together to create completed goods like clothing or accessories, such as shoes, coats, jeans, and shirts. Clothing is typically produced in countries with affordable labor prices. However, the greatest profitability factor for both apparel and textiles is the production efficiency of the companies; for this, they must quickly modernize and modify existing products to meet customer demand, for instance, by making clothing from recycled materials, incorporating other materials into products (like electronics), or developing faster and more efficient supply chains to get goods to consumers faster (GlobalEdge, n.d.). An essential component for developed countries is this industry. However, in recent years, they have realized the necessity of moving their manufacturing operations to developing countries where labor prices are lower, reducing costs.

Since they produce undifferentiated goods that compete for price and labor expenses that increase their competitive worth, textile and apparel manufacturers fall under the category of low-tech manufacturers that are not reliant on natural resources (Lucángeli, 2016). Its scale economies and relatively low entry barriers to foreign markets are another one of its hallmarks.

From a worldwide standpoint, the textile market is constantly expanding. In the last ten years, that has climbed globally by 175% for apparel and 97% for textiles (Barbosa, n.d.). China, the European Union, the United States, and India are the top rivals.

TechnologyHQ (2021) claims that despite the coronavirus pandemic impacting sales of these products, China is still the world's top manufacturer and exporter of raw textiles and apparel. According to the WTO, China's market share in terms of worldwide apparel exports decreased from a peak of 38.8 percent in 2014 to a record low of 30.8 percent in 2019 (it was 31.3 percent in 2018). China exported 39.2% of the world's textiles in 2019, setting a new high. The country is becoming a more significant textile provider to numerous Asian countries that export apparel.

Meanwhile, the US stands out as the top producer and exporter of unprocessed cotton and the top importer of unprocessed textiles and unprocessed clothing. With a market size of approximately $70 billion, the textile and apparel industry is one of the world's largest by export value, accounting for $23 billion in 2018. The sector employs 341,300 people and produces textile raw materials, yarns, textiles, garments, home furnishings, and other finished textile items that are competitive on the global market. Companies have recently concentrated on reorienting their operations, identifying more efficient work processes, investing in niche products and markets, reducing costs through cutting-edge technologies, and reshoring/nearshoring production (TechnologyHQ, 2021). Despite decreases in the US, the industry is still significant on a global scale, primarily because of cotton. The coronavirus pandemic's restrictions on the sector, enormous order cancellations, and the suspension of manufacturing had a particularly detrimental effect in 2020 on the sales of apparel manufacturers (11.000 million dollars, equivalent to 32 percent). However, this country's industry was already in decline before the pandemic, with downturns in 2019 of up to 10% from those in 2018, particularly in the leather and apparel sectors (Modaes, 2021).

5 Methodology

This thesis methodology is based on a mixed methods approach. Researchers can gather both quantitative and qualitative data using this form of method, which enables them to have a pluralistic perspective on research methodology and be flexible in their method selection. It also allows several phases of data collection and analysis. For instance, it enables researchers to gather qualitative data, then quantitative data, and then return to a qualitative phase again (Saunders; et al., 2019).

According to the methodology implemented, the phases that took place were:

- **Formulating the research problem:**

Based on the review the literature, it is known that there are different statements about the relevance of Latin America as a nearshoring destination, however, a detailed study has not been carried out on the potential of the region for US companies from the textile and apparel sector looking to relocate from China to nearby markets. Therefore, this approach constitutes the research problem of this thesis, which focuses on exploring if Latin America could be the new potential home for US textile and apparel companies in China and which potential countries could fulfill this purpose.

- **Kind of investigation:**

The descriptive research method is being used to describe and gather data on a variety of phenomena, characteristics, profiles, situations, and contexts of the countries under study, including trade relations between nations, opportunities, advantages, and disadvantages of relocation, as well as a variety of country risk variables, general market traits, country specific characteristics, economic criteria, and competitiveness. This kind of research is useful for accurately illustrating the national contexts of the textile, apparel, and nearshoring industries.

- **Data sources:**

As indicated in the methodology, both quantitative and qualitative sources were used. Quantitative sources included statistics that are primarily used in the Site Selection Matrix and can

be found in Annex 1, while qualitative sources included expert interviews and descriptive reports in the analyzed sector and can be found in Annex 2. Likewise, a mixture of both methods is evidenced during the development of the thesis where the main data source adopted is the secondary one; where it is intended to access information from different databases to compile sectorized reports from each country on the chosen industry, diplomatic sources of each country (free trade agreements, trade barriers, relations between countries, etc.), economic, political and market reports of each country, as well as journalistic sources, among others, to achieve the general objective. These are deep and enriching data that contribute significantly to the study.

- **Statement of the hypothesis:**

Not all descriptive studies involve the formulation of hypotheses. Additionally, because the nature of the study being conducted precludes the use of statistical tests to verify hypotheses, this methodology stage has been omitted (Hernández; et al., 2014). Working hypotheses are developed during the research process and are progressively improved as additional data is gathered.

- **Selection and sample size (shortlist):**

Latin America was chosen as the target market because it is strategically located near the United States and has strong trading connections with most of the countries in the region, making it a logical choice for the nearshoring model.

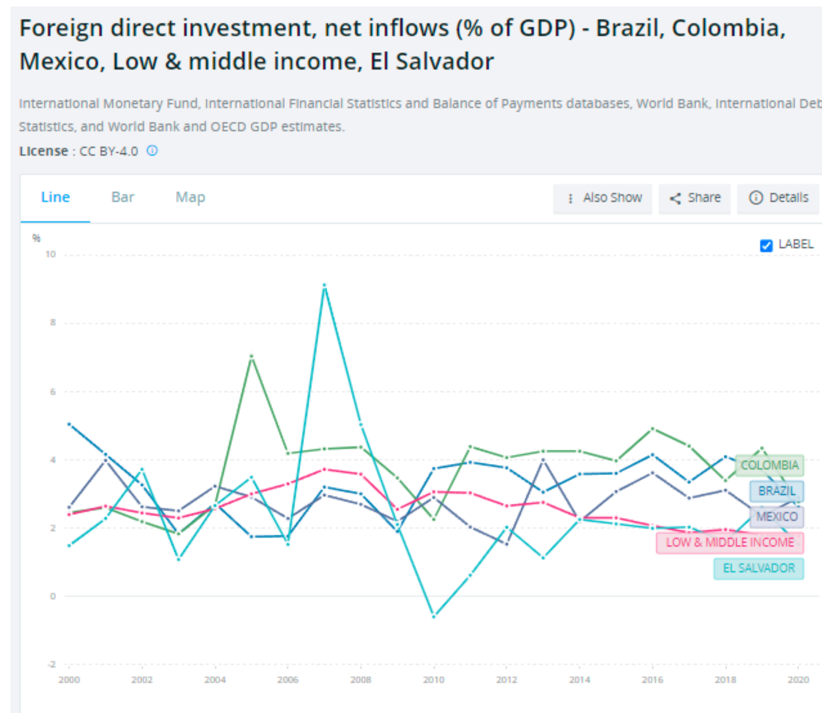
A crucial step in determining which countries offered the best chances was the review of the literature. The elements that characterize nearshoring, such as geographic distance, transportation efficiency, low cost, time difference, cultural differences, and efficiency in the studied industry, were considered when choosing the countries. Other macroeconomic parameters that were taken into account and that could serve as a reference for potential investors were GDP, per capita income, employment, and foreign direct investment, as shown in Figure N 1, also taking into account the possible trade impact they would have on the US textile and apparel industry.

Due to the aforementioned as well as how difficult it would be for the researcher to evaluate the textile and apparel industry across Latin America, the initial units of analysis chosen were Brazil, Colombia, Chile, and Mexico. However, according to the interviewed experts, Chile is currently not a strategic country for the industry since it focuses more on importing textile and

apparel goods from China than producing them (Rios, 2022). Therefore, El Salvador was selected as a substitute country that provides exceptional industry opportunities.

Figure 1

Foreign direct investment inflows in Brazil, Colombia, Mexico, and El Salvador



Source: (The World Bank, 2020a)

- **Collection, analysis of data and presentation of results:**

Various reliable resources, including documents, reports, books, articles and statistical sources were used. The information was organized and structured in tables for analysis. There are two categories of results that can be distinguished. The first group includes the findings from the literature research on the topic and served as the foundation for determining the market selection factors that led to the second group. Tables and graphs were added as supporting components to the presentation of the results, and the market site selection tool was also used.

6 Development of the thesis

6.1 Preliminary screening of the shortlisted countries

A state of the textile and apparel industry will be presented for the shortlisted countries, as well as its commercial relationship with the United States, the short-term proximity opportunities, and the potential advantages and disadvantages. This will serve as the basis for defining variables of the Site Selection Matrix that will lead to answering the question, and research objectives.

6.1.1 Brazil

Since 2011, the US and Brazil have had a trade relations agreement (ATEC) that allows them to work together on relevant issues, including trade facilitation, technical trade obstacles, and innovation-related challenges. Three annexes—one each for trade facilitation, good regulatory practices, and anticorruption—were added when this agreement was amended in 2020.

On the other hand, Brazil ranked as the fourteenth foreign market for US exports in 2019 (Office of the United States Trade Representative [USTR], 2019a). 3% of all US exports are made up of wheat, eggs, dairy products, and processed foods. In terms of agricultural imports into the US in 2019, Brazil ranked ninth, contributing unroasted coffee, fruit, and vegetable juices, cooked or preserved red meats, tobacco, and essential oils. The sectors of travel, professional and management services, as well as telecommunications, computer, and information services, were the biggest recipients of Brazilian service imports into the US in 2019. US foreign direct investment (FDI) in Brazil's equities reached $81.7 billion in 2019, up 3.4 percent from the previous year. Manufacturing, banking, insurance, and mining took the lead (USTR, 2019a).

According to a recent UNCTAD research (2021), Brazil is the Latin American economy that is best prepared for the IT industry. Due to the fact that it is a field where work has already been done and where there is a skilled and diverse workforce, this competitive advantage makes FDI through subcontracting with the US and Europe feasible. Another benefit that makes nearshoring with the US feasible is that Brazil is two hours ahead of Eastern Standard Time, which aligns business days and improves communication and productivity. Finally, proximity benefits

American subsidiaries in a geographical sense. If the parent firm needs to outsource manufacturing-related services, this reduces travel times as well as delivery times for sea/air freight.

Manufacturing is another area where the nation appears to be competitively well-positioned; for this reason, there is a national program known as Brasil Maior (larger Brazil), which intends to create tax advantages for Brazilian manufacturers and lower financing and energy costs. The goal is to remove the "Cost of Brazil"—fiscal, legal, financial, and infrastructure barriers—that have made it difficult for Brazilian businesses to compete in the home market and for importers and exporters to compete globally.

Government websites offer support for investing in Brazil, such as the SECOMS (Trade and Investment Offices) network of the Brazilian Ministry of Foreign Affairs, which advertises investment opportunities and draws foreign investment to Brazil. However, many of them are broken or old, making it difficult for potential investors to discover information or feel confident.

According to the World Bank's 2020 Ease of Doing Business Report, Brazil was ranked 124 out of 190 nations. One of the key issues is that this market has a complex regulatory structure that restricts the importation of US goods. The main barriers to doing business in Brazil include high tariffs, a hazy customs system, high and unpredictable tax loads, and an overburdened judicial system. Medical device, health, and safety imports from the US to Brazil have unique difficulties when trying to comply with local laws and regulations (International Trade Administration, 2022).

For instance, the Ford company, which spent more than a century in Brazil, decided to stop operating in the various production facilities there starting in 2021 due to the pandemic's persistently unfavorable economic environment, which made it clear that much more was required to build a sustainable and successful future for the company (Ford, 2021).

A bilateral Trade and Economic Cooperation Agreement (ATEC) protocol that contains obligations in three areas—trade facilitation, sound regulatory standards, and anti-corruption—was signed by the US and Brazil in 2020 to remedy this situation. Brazil has had to create and reevaluate some of its laws to support a regulatory environment that is transparent, dependable, and predictable for American businesses and that enables better promotion of bilateral trade and investment, such as (International Trade Administration, 2022):

- The Law of Regulatory Agencies and the Law of Economic Freedom, which make certain regulatory practices - GRP - legal obligations for all Brazilian regulatory agencies. These

practices include public consultation requirements and the use of a regulatory impact analysis (RIA).

- The Brazilian Council for Foreign Commerce (CAMEX) developed best practices for developing and analyzing regulatory actions that impact international trade by resolution 90 on December 7, 2018.
- To facilitate better regulation implementation in Brazil, the Casa Civil (the country's executive branch) developed an RIA Regulatory Impact Drafting Guide and Guidelines for Brazilian Regulators. These were developed with input from all relevant federal regulatory authorities in Brazil, including the Ministries of Finance, Planning, and the Economy, as well as INMETRO, and are compliant with OECD standards.

Politically speaking, the industrial strategy for Brasil Maior is anticipated to result in advantageous tax benefits for Brazilian businesses as well as lower borrowing and energy prices. To enhance the competitive climate of the nation, some factors need to be addressed, specifically:

- The severe competitive disadvantage caused by labor expenses.
- Brazil's high corporate tax rates reduce the competitiveness of Brazilian businesses, and the country's allure for Chinese, American, and South Korean foreign investment.
- Imports are becoming less expensive, and exports are becoming more expensive due to the Brazilian real's ongoing appreciation. Automobiles, capital goods, textiles, and footwear are just a few industries that have already suffered because of this problem.

The executives who analyzed the effects of the Brasil Maior policy provided the following suggestions (World Economic Forum, n.d.):

- Low productivity and labor costs in Brazil impact the country's competitiveness, so it's crucial to preserve high-quality technical expertise in fields other than engineering, such as welders, machine operators, and construction workers. The development of talent, innovation, and education must therefore be prioritized, with a particular focus on primary education, as well as the fields of science, technology, and innovation.

- As the railways are insufficient for the nation's demands, invest in infrastructure projects that enhance logistics and transportation, and hence overall competitiveness.
- Given that Brazil's energy strategy primarily focuses on oil, gas, and derivatives, it is important to invest in energy availability, dependability, and efficiency and encourage the growth of renewable energy alternatives.
- Simplify the tax code and lessen the tax burden on businesses by understanding and adhering to Brazil's complex tax code, which is necessary because the country's current employment laws place a heavy tax burden on employers.
- Create a stable political, legal, and regulatory environment. Brazil needs appropriate public policies and initiatives that promote domestic production rather than protectionism.
- Create programs to help Brazil transition from a commodity exporting country to a manufacturing economy that focuses on promoting corporate innovation.

6.1.1.1 Brazil’s textile and apparel industry

Brazil is the fourth-largest textile industry in the world, and it stands out for being self-sufficient in cotton production (The Brazilian Textile and Apparel Industry Association [ABIT], 2019). Brazil is the seventh-largest producer of clothing in the world (producing 8.9 billion garments annually), and those that come before it in the production of yarns, fabrics, and knitwear are China, India, the United States, Mexico, Turkey, and South Korea (Barbosa, n.d.).

This sector contributes 17.2 percent and 4.1 percent of the country's total GNP, demonstrating its importance to the Brazilian economy and its significant social impact. Regarding international trade, it can be argued that the national currency's appreciation has a large impact, and its involvement is not very substantial. Currently, it is the world's 34th largest importer and 26th largest exporter (Barbosa, n.d.).

More than 380 thousand tons of synthetic fibers and multifilaments are produced annually by the textile industry, which also generates close to $1,060 million in sales and about 9,000 direct jobs. The domestic market provides 40% of the raw materials, while imports worth around US$2.5 billion annually, provide 60%. This industry is known for its high levels of technological sophistication, is a component of the "petrochemical-textile complex," which produces nearly all

types of synthetic fibers (polyamide, polyester, acrylic, elastomeric, and olefinic), and is distinguished by being an intensive industrial sector in terms of the use of capital and raw materials. As a result, their companies are heavily dependent on investments in research and modernization to boost the efficiency of their industries (Associação Brasileira de Produtores de Fibras Artificiais e Sintéticas [ABRAFAS], n.d.).

Brazil is a sizable and untapped market with established legal frameworks that enable cooperation with other countries in the region on a strategic and logistical level.

The country has made significant investments in textile machinery, spending more than USD 10,500 million during the past 16 years (Barbosa, n.d.).

Brazil's significance in the fashion industry is crucial given that it was the only country from Latin America to rank among the top 10 worldwide markets for apparel and accessories in 2019, outpacing Japan and Germany in revenue. In the same year, it outperformed France in terms of global revenue for women's and girls' apparel, placing tenth. Brazil placed ninth in the global market for men's and boys' clothes in 2018, ahead of South Korea and Russia (Statista, 2022a).

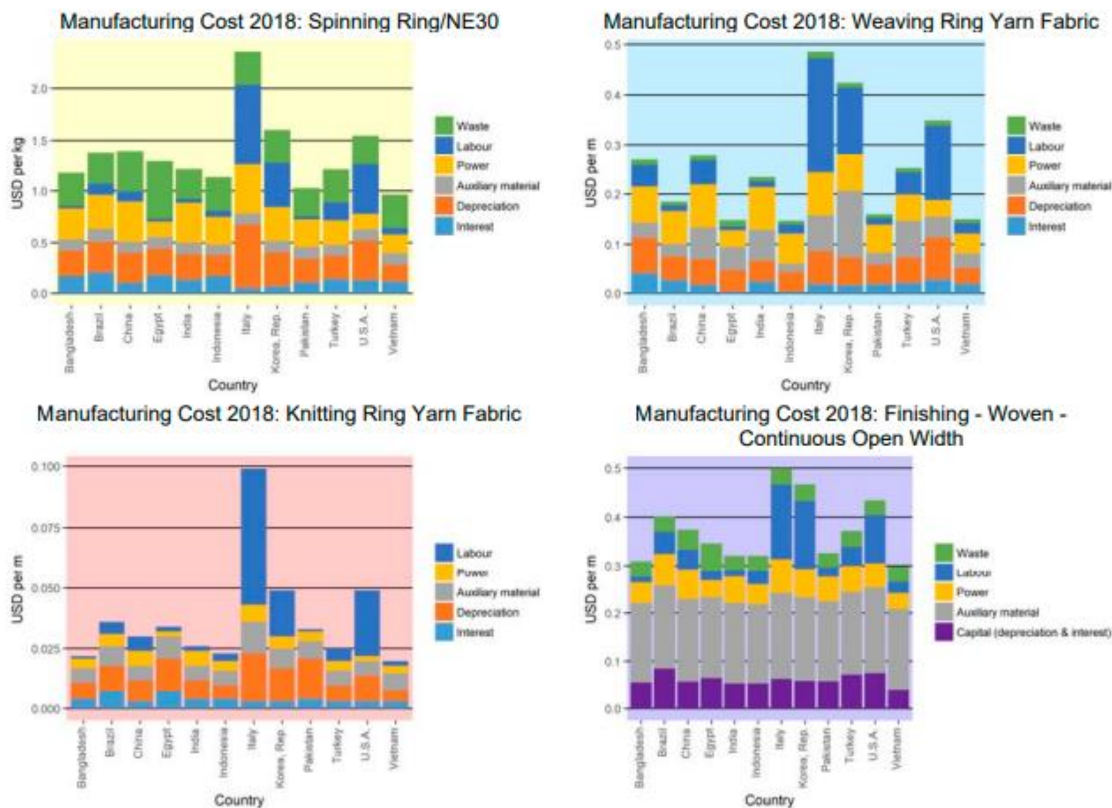
Brazil's trade balance showed a surplus in 2021. However, this country's textile and apparel sector exported goods worth more than 1 billion USD that year. The value of the imports was roughly 5.2 billion dollars; hence the trade balance for the textile and apparel sector was negative by 4.1 billion dollars due to the coronavirus outbreak (Statista, 2022b).

Despite the coronavirus-related crisis, the industry was going through in 2020, employment in the Brazilian textile industry increased along with higher-than-average utilization of installed capacity. Due to this upbeat picture, there are now great expectations that will attract foreign direct investment (Agência Brasil, 2021).

The International Textile Manufacturers Federation (ITMF) examines the manufacturing and overall costs of broken yarns and fabrics, texturing, weaving, and knitting from Pakistan and Bangladesh, Brazil, China, Egypt, India, Indonesia, Italy, Korea, Republic, Turkey, USA, and Vietnam in the 2018 International Production Cost Comparison (IPCC). Spinning Ring, Weaving Ring Yarn Fabric, Knitting Ring Yarn Fabric, and Finishing - Woven - Continuous Open Width are the categories in which the expenses are examined. According to the figure Nº2 (ITMF, 2018), Brazil was the second country with the lowest labor expenses in 2018 (Bangladesh is the first), even overtaking China:

Figure 2

International Production Cost Comparison (IPCC) in the manufacturing industry (2018).



Source: (ITMF, 2018)

6.1.2 Colombia

The High-Level Dialogue Colombia-United States (DAN), the most significant binational relationship mechanism between the two countries and the highest instance at the political level for the diversification of the bilateral agenda, highlights Colombia's position as the US's closest strategic ally in the western hemisphere and as its strongest partner on an economic level. The DAN has achieved the following results (Cancillería de Colombia, n.d.):

- Strengthening cooperation on critical energy challenges, such as the growth of offshore oil and gas, the offshore industry's regulatory framework, offshore spill response, the search for unconventional reserves, and technical research in geothermal energy, among others.
- Memorandum of Understanding to assist the development of Colombia's legal economy and the commercial expansion of the nation's cocoa industry.

- A Memorandum of Understanding on Cooperation on Illegal Gold and Other Precious Metals Exploitation, which outlines the cooperative task of regularizing and formalizing small-scale mining to reduce the impact on the environment and mercury pollution.
- The Colombia-US Free Trade Agreement, which was signed in November 2006 and came into effect in 2012. This Agreement has made it possible for the two countries to have a relationship that will increase trade and investment opportunities and create job chances. With the FTA, Colombia hopes to encourage non-mining energy exports and US investment while lowering the cost of capital goods and raw materials to boost its competitiveness.

Nearly 7,000 Colombian businesses have shipped over 250 new products to the United States for the first time since the Free Trade Agreement went into effect. Since 2012, more than 230 US firms have made investments in Colombia, and the country has also benefited from more than 115 investment initiatives funded by that country.

In addition to attracting new investments, the FTA has generated security and stability for US investors to choose Colombia as a destination for their investments (at least before 2022).

Colombia ranked as the 22nd trading partner for US exports in 2019. - Total US exports of $2.7 billion, primarily of corn, soybean meal, soybeans, pork, and dairy goods -. In terms of agricultural imports to the US in 2019, Colombia ranked as the 25th largest exporter of goods, including coffee, tea, spices, live plants and trees, precious metals and stones, and other unique items. 2019 saw a significant increase in Colombian services imports into the US, particularly in the tourism, transportation, and intellectual property industries. US foreign direct investment (FDI) in Colombian stocks in 2019 was $8.3 billion, up 2.6 percent over the previous year. Mining, manufacturing, banking, and insurance took the lead (USTR, 2019b).

It is vital to note that Colombia has strategically supported the United States in several areas for a long time. Due to the election of a new president, the first from a left-wing party, this country is currently going through one of the most important periods of its democracy. Given that it is a socialist movement and that the elected president, Gustavo Petro, has plans that are hostile to the US on subjects like relations with Venezuela, this could hurt the two nations' relations. His socialist policies would undoubtedly halt oil and gas contracts and the pension system, which would impact Colombia's economy and make the United States unwilling to assist the country (Semana, 2022).

Although nearshoring has been more popular recently, Colombia has developed cooperative relationships with American businesses since 2010, as around 450 American companies there support 100,000 direct and indirect jobs. Like indirect investments, direct foreign investment from the US to the country in the last ten years totaled US$25,148 million, or 17.7% of the total amount of investment that entered the country. The distribution of representation by sectors is as follows: 30% of industries 4.0 are dedicated to chemical and life sciences initiatives, while 26% are dedicated to agribusiness and 22% to metallurgy. (Portafolio, 2021).

Additionally, the Colombian American Chamber of Commerce has identified 1,906 products that could present opportunities for Colombian businessmen to export to the US, focusing on the clothing, agribusiness, aluminum, steel, and construction sectors. Although China has not entirely replaced these markets, it could if it is successful in increasing its market participation, and some businesses have been preparing for the US market and are increasing their sales volumes (Portafolio, 2019).

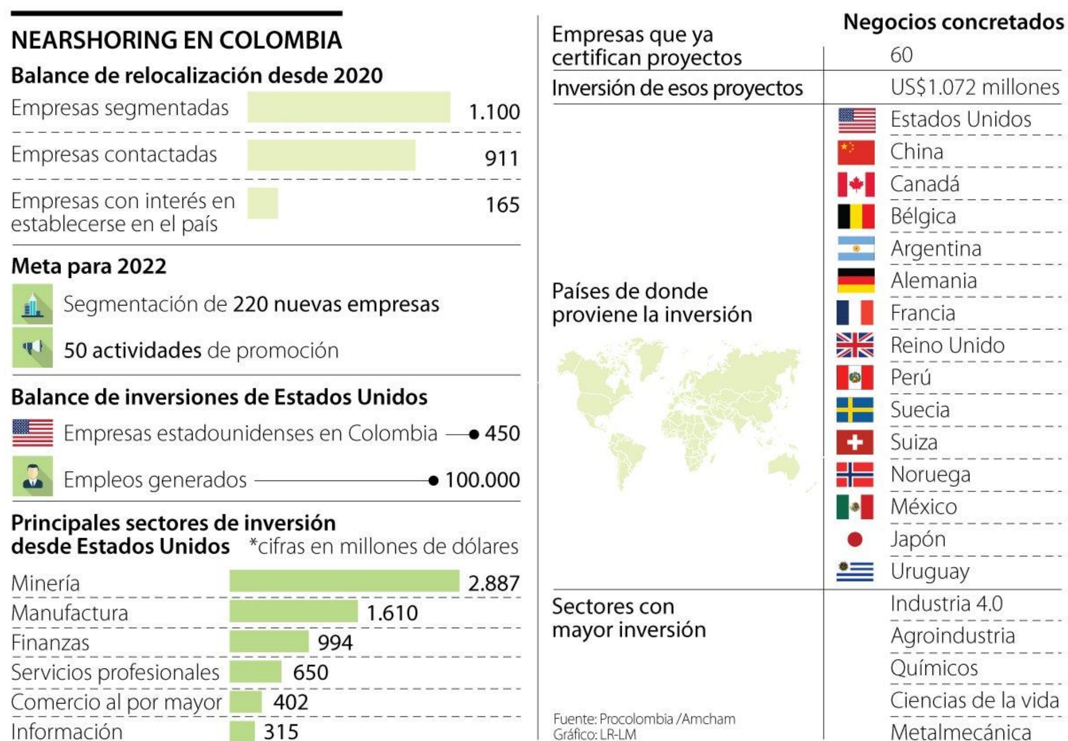
Due to Colombia's strategic location, the Valle del Cauca region has the best conditions for nearshoring with American businesses. Among them, the following stand out: the region's productive capacity (180 foreign capital companies, of which 35 are American), its competitive advantages that ensure the supply chain (access to the Port of Buenaventura, five port terminals with direct connection to US ports, six free zones, an international airport, and the best highway network in the country), similar time zones, in addition to taking advantage of the free trade agreement between both countries that favors the commercialization of goods and services. Metalworking, which includes the segments of light metal manufacturing, general machinery and equipment, and metal structures for construction, Electrical Equipment, which includes the segments of electric accumulators, wiring devices, and electricity distribution and control apparatus, Pharmaceutical and Medical Supplies, which includes the segments of pharmaceutical supplies and vitamins, medications for therapeutic or prophylactic use, and surgical instruments. The furniture sector, toys that require assembly on a large scale, board games, and auto parts, particularly in the fabrication of automobile seats, electrical wiring, engine ignition equipment, and metal-mechanical components, are further prospective market segments (Invest Pacific, 2020).

Colombia has made a significant commitment to encouraging commercial interactions between Colombian businessmen and those of other nationalities through the government agency Procolombia to serve as a collection hub for the relocation of multinational enterprises. As is shown

in figure Nº3, due to this, it has so far divided more than 1,150 businesses into different categories, contacted 935 of them, 165 of which have expressed interest in setting up shop in Colombia, and 61 of which have certified investment projects with businesses worth US$1,072 million, among others in the agribusiness, Industries 4.0, chemicals, and life sciences sectors. Due to the anticipated outcomes in 2022, this is the most significant commercial event of the year. In less than a week, 2,000 Colombian exporters from 24 departments will do business with 1,000 buyers from 50 countries, with a significant opportunity to grow non-mining energy exports (Portafolio, 2022).

Figure 3

Nearshoring in Colombia figures to 2020



Source: (La República, 2022)

Although the country is making use of the nearshoring opportunity, particularly in the manufacturing, textile, and agricultural sectors, companies do not have the same potential as those in other countries, and only a select few can access FDI due to Colombia's export restrictions, which apply to goods that need or require certifications or meet quality standards. The demand is for local businesses to update their credentials to benefit (Portafolio, 2019).

Companies moving around the globe, especially those with American roots, give Colombia a chance. However, the country must make efforts to quicken economic expansion, boost

competitiveness, generate more formal jobs, and have a more sustainable economy and stability due to its large amount of debt, which could lead to financial and economic issues in the upcoming years. To do this, it must implement effective commercial policies that direct the nation toward greater inclusion in global value chains and access to technology for the Colombian business sector. These bottlenecks include the relevance of education, greater employment generation, attraction of talent, and greater adoption, adaptation, and implementation of new technologies (Master, 2021).

6.1.2.1 Colombia's textile and apparel industry

Colombia is the fourth-largest economy in Latin America. Its textile sector is among the most significant in the nation since it is a major global supplier of swimwear and underwear.

The industry contributes 9.4% of the industrial GDP, supports more than 600,000 people (approximately 2,000 in the textile industry and 80% in the apparel sector), and accounts for more than 5% of all national exports. It distinguishes out as South America's first flat-woven garment exporter for items like bras, pants, girdles, and control clothing. By 2019, more than 1,200 Colombian businesses in the sector sold their products to more than 100 nations, with sales of clothes and footwear reaching a total of USD 8 billion. Because of its geographic location, the country has quick access to 680 ports worldwide and more than 1,500 million consumers worldwide via 4,500 maritime routes, enabling it to meet global demand quickly. The industry benefits from the 16 free trade agreements (FTAs) that have been formed, including those with Mercosur, Andean Community, the United States, the European Union, the Northern Triangle, Canada, and others that provide zero-tariff access to significant consumption areas (Procolombia, 2022).

The country often imports more goods from the industry than it exports, resulting in a trade deficit. For instance, $401 million worth of raw materials were exported, and $668 million worth were imported between January and September 2019. USA, Ecuador, Mexico, Peru, European Union, Guatemala, Brazil, Costa Rica, Chile, and Panama were the top export destinations in 2018. The sector had 9,337 businesses in 2019, of which 7,118 are in the apparel industry and 2,219 are in the textile industry. Of these, 78 percent are micro-enterprises, followed by 16 percent small businesses, 4 percent medium-sized businesses, and 1 percent major businesses. Clearly, this industry has difficulties like the fight against smuggling, a lack of skilled labor, informal business

practices, technological modernization, raising added value, and utilizing trade agreements (Mincomercio, n.d.).

According to the Colombian Chamber of Clothing and Related Products, one in three of the nation's clothing—or 32 percent of the sector—is contraband. This is one of the major problems for the industry in the country. With 46,653 million pesos, the sector got the greatest proportion of the 222,433 million pesos seized between January and June 2021 (Pérez, 2021).

Even if they are smaller than in 2019, Colombia's FDI sector flows through free trade agreements are expected to be positive for 2020 and the following years (12.5 million dollars). Among the top investing nations are Canada, Mexico, Ecuador, and the United States. Similar patterns are seen in the same era with countries with which Colombia has no free trade agreements, specifically Saint Kitts & Nevis, Australia, and Panama (2.5 million dollars) (Colombia. Banco de la República, 2021).

6.1.3 Mexico

Mexico surpassed China and Canada as the top trading partner for US goods in 2019. In 2019, it ranked as the second trading partner for US exports of plastics, cars, mineral fuels, electrical machinery, and machinery. It also serves as the second export market for agricultural goods. Vehicles, equipment, electrical equipment, optical and medical devices, and mineral fuels are among the imports to the US. The categories of travel, transportation, technical services, and other services accounted for most service imports from Mexico to the US in 2019. The US foreign direct investment (FDI) in Mexican stocks in 2019 was $100.9 billion, up 5.2 percent over the previous year. Manufacturing, finance, insurance, and non-bank holding corporations were at the forefront (USTR, 2019c).

To implement the renegotiations and modernization of the NAFTA agreement, the USA, Mexico, and Canada (USMCA) agreement came into effect in July 2020 (Congressional Research Service [CRS], 2020). The US ITC conducted a study on the USMCA's probable economic impact in 2019. The findings indicated that the USMCA is anticipated to have a minor but favorable impact on the US economy. According to some analysts, the USMCA's increased rules of origin requirements for cars could result in greater production and compliance costs as well as higher prices, which could hurt US vehicle sales (CRS,2020). However, the capacity of US automakers

and part manufacturers to transfer suppliers, production sites, and ability to tolerate increased costs may limit the overall impact. The coronavirus pandemic and the complicated rules have made it challenging for vehicle firms to put the laws into practice.

Mexico has some market advantages over other Latin American nations, including the following (de la Mora, 2020):

- The USMCA and the other 12 FTAs with 48 nations provide Mexico access to more than 1.3 billion customers and 60% of global GDP.
- According to the WEF, Mexico provides a reliable infrastructure and logistics network: Mexico is in the top 30 percent of nations with the best transportation infrastructure.
- Low shipping rates from Mexico to the United States ($9 vs. $140 from China to the United States) and strategic location. Additionally, the U.S. and Mexico share more than 50 ports of entry, which helps shorten the number of days spent at sea for several locations.
- Mexico's industrial base is inventive and diversified. Mexico's economy is the 19th most complex in the world, with more than two-thirds of its exports coming from high-complexity industries.
- Mexico leads in manufacturing production:
    - Mexico became the 6th largest world producer of vehicles (2019) and ranked 4th exporter worldwide (2018)
    - 6th largest supplier of aircraft parts to the USA (2019)
    - 6th largest exporter of information technology products and services (2018)
    - 8th largest exporter of medical devices worldwide (2017)
    - Competitive and cost-effective manufacturing sector: In 2019, the Global Manufacturing Cost Competitiveness Index placed the industry at 86.
- In the OECD, Mexico ranks third in terms of mobile broadband subscriptions.
- A talented, young, and competitive workforce (Share of graduates come from engineering programs in 2017)

In addition to the above, the free trade agreement such as the United States, Mexico and Canada Agreement (USMCA), the use of US standards, the proximity to the US and the fact that

79% of Mexico's exports correspond to goods manufactured, make this country a candidate for nearshoring with the United States (Development Bank of Latin America [CAF], 2022).

Mexico is an obvious nearshoring choice for US or US-oriented businesses since it is already the US's top trading partner. Additionally, Mexico's economy is very diverse and is becoming increasingly specialized. The automobile and aviation industries may be where their highly developed industrial and manufacturing capabilities are most apparent.

Due to Mexico's closeness to the United States, the extensive trade and investment ties established by the North American Free Trade Agreement (NAFTA), and the United States-Mexico Agreement, the economic and commercial ties between the two countries are of interest to Americans. The United States-Mexico-Canada Agreement (USMCA) and the close economic links between the two nations (CRS, 2020).

Although there are strong trade relations between the two nations, there are questions about how Mexico is handling its commitments under the T-MEC or USMCA agreement, which could lead to conflicts between the parties (Morales, 2021):

- Restrictive administrative and regulatory policies strengthen Pemex and the Federal Electricity Commission's (CFE) dominating position in Mexico and undo the T-energy MEC's market reforms by limiting the competition of private, foreign, and domestic investment. Other businesses are allegedly affected by the infractions, including electronics, food, medicines, and telecommunications.
- Concerns about trade include the illegal trade in wildlife and timber through Mexican ports, labor complaints, sexism in hiring and recruiting for jobs, protectionist proposals, higher costs for US companies that sell covered mobile devices, and a lack of transparency in the procedures for regulatory approval of agricultural products.

A deteriorating investment environment in any of the three countries harms the economy, security, and growth potential of North America as a whole, and undermines the TMEC's ability as an instrument of legal certainty.

The Mexican government has intervened in the drug trade, but issues still need to be resolved through effective policies. For its part, Harmon (2021), emphasizes that trade, security, and immigration are the most pressing problems affecting relations between the US and Mexico. The latter two are caused by terrorist activities involving other nations that use the border to enter

the US. Since the US has threatened Mexico with tariffs on its products unless immigration is controlled, which has been the cause of crime in the border region of both nations, these issues significantly impact trade. Finally, Mexico needs a national development program to advance economically; as a result, a stronger relationship with the US can assist it in achieving this goal.

To increase its capacity for long-term economic growth and decrease income inequality, Mexico must keep enacting important structural reforms. The OECD recommends implementing several policies, including those to improve the quality of institutions, particularly its judicial institutions, reduce informality; improve social conditions and educational programs; maintain a more responsible fiscal position to keep the debt to GDP ratio stable; and maintain a monetary policy to deter inflation. In some areas, like the automotive sector, Mexico has successfully built globally competitive industries, but not in all of them. In addition to being technologically outdated, underproductive, and operating outside of the formal economy, the smallest and most traditional Mexican businesses do not reflect government initiatives to privatize industries, liberalize trade, and invite international investment that lack modernization, are informal, and are ineffective (CRS, 2020).

6.1.3.1 Mexico’s textile and apparel industry

Although the textile and apparel sector has a trade deficit for Mexico (textiles account for this sector's trade deficit, while apparel-related products have a trade surplus), this sector is crucial for creating nearly 20% of all manufacturing jobs and contributing to the economy, as shown by the fact that in 2019 it made 133 million 407 million Mexican pesos (MXN) to the country's GDP (Montano, n.d.). The textile and apparel industry made up 3.2 percent of Mexico's manufacturing GDP in 2019, ranking tenth among the most significant manufacturing economic activities in the nation (Instituto Nacional de Estadística y Geografía [INEGI], 2020).

It is emphasized that this sector produces more than it imports. Inputs used by the textile sector cost 58.9 pesos, while those used by the apparel industry cost 57.1 pesos and were imported for 41.1 pesos (INEGI, 2020). Cotton gins, the production of synthetic resins, and the finishing of textile products are the inputs that the textile industry imports most frequently, and the production of machinery and equipment for the textile industry, the production of coated fabrics, and the

finishing of textile products are the ones that the apparel industry imports most frequently (INEGI, 2020).

Regarding exports, ready-made apparel accounts for 76.4 percent and textile products for 23.6 percent. Of the latter, 56 percent are sent to the United States, which is the second-largest market, followed by the countries that make up the so-called Single FTA (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), where exports increased from 2.6 percent in 2011 to 3.4 percent in 2018. 60 percent of the overall imports are made up of textile products, with ready-made clothing accounting for the remaining 40 percent. The two largest suppliers are China (29.3 percent) and the United States (36.2%). It is crucial to emphasize that the USMCA or T-MEC trade agreement, which became effective in 2020, emphasizes critical methods to boost the regional supply chain in the textile and apparel industry. The textile business primarily provides inputs to other industries (intermediate demand) and the industry for producing final consumer goods, which must be emphasized (sold to final demand). The nation has improved its competitiveness through research and technology to develop in this field. Examples of how cutting-edge technology can enhance comfort and usefulness include so-called "smart fabrics," which use high technology to increase their functionality and comfort (Logycom, n.d.).

The production of fabrics is the standout activity for the textile sector's contribution to GDP in 2019, and the production of clothes is the standout activity for the apparel industry. Although the textile and apparel sector's GDP contribution has dropped, there has been significant development since the North American Free Trade Agreement (NAFTA) was established until China's accession to the World Trade Organization in 2000 (WTO). When compared to the production seen in prior years, the GDP of the textile and apparel industry declined as of that year. However, it should be noted that as of 2015, when the Textile Decree, which aims to promote this economic activity, went into effect, the industry's GDP rebounded (INEGI, 2020).

According to INEGI (2020), wages per employee in the textile and apparel sectors are lower than in the manufacturing industries, which is relevant to the cost of labor in the sector. Between 2013 and 2019, incomes in the textile business rose from 11,589 to 11,696 Mexican pesos per person per month, while those in the apparel industry rose from 8,360 to 9,026.

Regarding the sector's potential, Mexico's expanding automotive, aerospace, and medical device industries have boosted demand for specialized clothing, technical textiles, and industrial fabrics. Mexico has emerged as one of the primary alternatives for textile manufacture in recent

years due to wage inflation in China and other important Asian economies in the sector. Coupled with proximity to high-demand markets such as the United States, which accounts for more than 70% of Mexico's textile exports, and the ability to provide quick turnaround times, textile and apparel producers can produce high-quality goods profitably thanks to their proximity to countries with significant demand, such the United States, which imports more than 70% of Mexico's textile exports. Because to the nation's free trade agreements, a textile factory in Mexico also has access to numerous benefits for the industry, such as reduced production costs, premium industrial locations, and excellent market potential.

Regarding the political landscape, there are concerns because Mexico's president, Andrés Manuel López Obrador, has proposed several reforms, such as the electrical one, which aims to increase electricity prices and delay plans to transition to cleaner energies. This would reduce private access to investment and, as a result, lower the competitiveness of local industries, including textile businesses and the automotive industry. Considering this, the United States' detractors claim that the country is in breach of its commitments under the trade deal it has with Canada (Cota, 2021); (F, Rios, Personal Communication, May 18th 2022).

Similarly, the industry has come to be unprotected throughout several administrations due to illegal imports from nations with which Mexico does not have trade agreements, unfair competition, and the entry of clothing of questionable origin onto the national market (González, 2019). These factors all contribute to the harm done to the national industry. The sector must be driven by affordable energy prices and ethical business practices.

Due to undervaluation (tax evasion practice where a value is declared that is less than the real costs) of about 53% in the importation of products from the sector, illegal imports, and abuse in the management of sectoral programs like IMMEX (Manufacturing, Maquiladora and Export Service Industry), the installed capacity of the factories that are dedicated to the textile sector, especially to the production of threads in the country, decreased between 30 and 50% in 2019 compared to 2018. Illegal imports impede the regular growth of the sector since they supplant demand for domestic goods with lower-quality imports into the nation. The GDP of the manufacture of textile inputs and finished goods fell by 6% in the first quarter of 2019 compared to the same period in 2018. Mexico's textile exports have stagnated since 2010 because they range between $6 billion and $6 billion 200 million dollars. These challenges are to blame for the GDP decline in manufacturing textile inputs and finishes (Andrade, 2020).

6.1.4 El Salvador

A free trade agreement (FTA) between the United States and El Salvador came into effect in 2006. The Dominican Republic, Costa Rica, Guatemala, Honduras, and Nicaragua are the other parties to this FTA, which is also known as the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). Trade in products and services, as well as issues relating to government procurement, investment, telecommunications, electronic commerce, intellectual property rights, transparency, labor protection, and environmental issues, have been greatly liberalized by the Parties under the Agreement (USTR, 2019d)

The majority of the US exports to El Salvador in 2019 were mineral fuels, machinery, electrical equipment ($212 million), and cereals. El Salvador was placed 50th among US trading partners. It was 61st in imports into the US, with rankings in the following categories: electrical machinery, knitwear, woven clothing, other specialties ($102 million), and sugar. The areas of travel, telecommunications, computer and information services, and transportation all had significant imports from El Salvador in 2019. US shares of foreign direct investment (FDI) in El Salvador totaled $889 million in 2019, a 7.4% decline from 2018 (USTR, 2019d).

El Salvador, the smallest nation in Central America, has distinguished itself for having modest economic growth in recent decades while still managing to reduce poverty and inequality significantly. In fact, according to the Gini index, El Salvador's inequality decreased from 0.54 in 1998 to 0.38 in 2019, making it the region's most egalitarian nation (LAC) (The World Bank, 2022).

The nation has recently carried out a process of economic and social development that has allowed it to be acknowledged worldwide as a nation moving toward modernity, with a strong financial system, a stable and expanding economy, and legal security that has supported foreign funding business (Leyva, 2022).

CAMTEX (2018), lists the following as some of El Salvador's competitive advantages:

- Because the nation lies in the middle of America, it is at a prime location that acts as a bridge for businesses seeking quick responses and meeting client demands in North and South America.

- El Salvador permits businesses to establish themselves in free zones and service parks, which results in competitive manufacturing prices. Firms can take advantage of tax breaks and access services that make running their business and engaging in international trade easier in these industrial parks.
- Tax incentives and attractions: The nation's regulatory framework includes an investment incentive program that provides both domestic and international investors with enticing advantages. There are laws in El Salvador that support and safeguard investment.

Other benefits, according to Bizlatin (2022), include:

- Foreign businesses that establish themselves in El Salvador can take advantage of the country's business opportunities with other countries like India as well as free trade agreements like the Central American Common Market, the Latin American and Caribbean Economic System (SELA), Central American Integration (SICA), the Association of Caribbean States (ACS), and DR-CAFTA, which provides access to highly lucrative markets like the United States, the Dominican Republic, and Costa Rica.
- El Salvador has strong international relations and a pro-trade and pro-export government, so there are many government incentives for doing business there.
- Using El Salvador's export-friendly infrastructure, free trade agreements, and skilled manufacturing sectors, it is possible to import raw materials into the nation, add value, and then sell in foreign marketplaces in other countries.

Despite the coronavirus pandemic, exports and consumer spending fueled by remittances helped the economy grow by 10.7 percent in 2021. The forecast is positive, projecting that the economy will expand by 1.9 percent in 2023 and 2.9 percent in 2022 (The World Bank, 2022).

One of El Salvador's biggest challenges is the requirement to go forward with changes for fiscal sustainability that help prevent over-indebtedness. For its part, the country suffers from crime and violence, which endanger social advancement and economic expansion and are among the causes of Salvadorans' emigration. And finally, the nation is extremely vulnerable to climate change's effects because of its significant vulnerability to natural disasters (The World Bank, 2022).

El Salvador is ranked 91st out of 190 countries in the Doing Business report (The World Bank, 2020b), dropping spots from earlier rankings, indicating that doing business there is getting more difficult (85th place in 2019).

El Salvador's public sector has a corruption perception index score of 34, which indicates that most citizens believe there is significant corruption in the sector, which is a difficulty for the nation (Datosmacro.com, 2019).

6.1.4.1 El Salvador's textile and apparel industry

Since 1950, El Salvador's textile and apparel industry has been one of the most significant in the manufacturing sector due to its role as the primary exporter, accounting for 46% of all exports, and as one of the major sources of income employment (creating nearly 74,000 direct jobs and more than 200,000 indirect jobs) (CNN, n.d.).

El Salvador was the 16th-largest apparel exporter to the US in 2020, and the US was the country's biggest consumer, purchasing 73.4 percent of all exports, followed by Honduras (14.8 percent) and Guatemala (4.9 percent). In general, the sector's exports this year totaled US$1,928.1, of which 32.5 percent were maquila and 67.5 percent were not, representing a fall of 26.2 percent, or US$684.4 million, compared to 2019. This decrease was brought on by the coronavirus pandemic (Asociación Salvadoreña de Industriales [ASI], 2021).

By 2020, the sector exported 85.5% of ready-made clothing and 14.5% of textiles/fabrics, with the following ready-made clothing products standing out: Ready-made clothing, knitted cotton t-shirts and t-shirts, knitted sweaters, pullovers, and similar items, t-shirts and t-shirts made of other knitted textile materials, knitted men's or boys' underpants made of cotton, and other hose, pantyhose, tights, and other hosiery articles made of synthetic fibers are all examples of textiles that are directly made of yarns and fabrics. On the other side, imports decreased by 26.9 percent, or US$467.3 million, to US$1,269.1 million. 56.5 percent of these imports were textiles and fabrics, while 43.5 percent were ready-made clothing. The United States was the primary supplier, followed by Honduras and China (ASI, 2021).

The lack of raw material providers is one of the industry's biggest problems, which is why some businesses have set up shop to create these locally rather than rely on imports. Companies in the industry are similarly suited to meet the various needs of the industry and compete in the global market (CNN, n.d.).

The industry was long regarded as a maquila, meaning that materials were shipped from the United States just to be put together and sent back to the north with little additional value. This

situation is altering, nevertheless, since the nation now possesses Central America's only synthetic cluster, where businesses produce everything from the thread to the finished product, giving it an advantage over other nations in the region. The vertical integration of the industry, which includes the production of fibers, the manufacturing and finishing of yarns and fabrics, the design, cutting, and production of clothing, as well as the logistics involved in the placement of goods, is another significant development. Through the free zone arrangement, it has an advantage over other Latin American nations in international markets (CNN, n.d.).

According to CAMTEX (2018), the vertical integration of the supply chain, the inclusion of the synthetic cluster, the specialization in the manufacture of garments, the increase in technology in the processes, and design services, among other factors, are some of the differentiating factors of the sector. These and other factors have led to the textile and apparel sector becoming one of the most significant in the nation's economy.

Along with developing a thriving industry, El Salvador has chosen to create a system of free zones that will improve its ability to compete internationally, attract foreign investment, open new export markets, produce direct, indirect, and permanent job opportunities, and bring in foreign exchange (CAMTEX, 2018).

It's important to note that El Salvador, in terms of labor costs in the industry, has a competitive salary advantage as of 2020 (Average Nominal Textile and apparel Salary per Month: $592.76) compared to other nations in the region (Guatemala and Nicaragua) and even against more developed economies like the United States. As an example, the preparation and spinning of textile fibers and the production of other textile goods, with average earnings of US$850.95 and US$602.67, respectively, stood out as the activities with the highest average wages in the industry. While Tapestry and Carpet Manufacturing, Textile Products Weaving, and Textile Products Manufacturing had the lowest average earnings in 2020, with wages of US$155.00 and US$292.44, respectively (ASI, 2021).

Large and medium-sized businesses dominate the business park that is a part of the sector, and generally speaking, the industry offers common features that make it attractive, including speed to market potential, geographic proximity, a country environment that is favorable for buyers, ans a developed manufacturing base (CAMTEX, destreza Salvadoreña, 2018).

6.2 Market Site Selection Matrix

The author has concentrated on an in-depth analysis of the priority order of countries where American companies dedicated to the textile and apparel industry should relocate their operations because studying the industry and its landscape in each of the four countries is insufficient. For this, the Market Site Selection Matrix methodology will be used.

The selection of the variables and their weighting were identified and measured according to the literature review, the most important characteristics of the nearshoring model and those that define the competitiveness of the textile and clothing industry. Designing and structuring a solid, objective scheme that included all the factors and dimensions that theoretically intervene in market selection—related to cultural, geographic, economic, cultural, political, and social factors generally—became necessary to illustrate the potential distance between a country and another (Martín & Drogendijk, 2014).

In this sense, five dimensions and 19 variables were selected to evaluate the attractiveness of the markets. Table 1 shows the variables with a description and indicators established for their respective measurements.

Table 1

Market potential assessment factors (dimensions, variables, descriptions, and indicators)

Dimension		
Country risk: Uncertainty associated with investing in a particular country, and more specifically, the degree to which that uncertainty could lead to losses for investors.		
Variables used	**Description**	**Indicators**
Business Risk Rating	The classification of risks and their effects on a company's operations in terms of reputational or financial harm to a company or industry	Business Risk Rating index (Credendo, 2022).
Country Risk Rating	Evaluates the risk of payment default by businesses in a specific nation. This risk arises from factors or occurrences that are beyond any company's control.	Country Risk Rating index (OECD, 2022).
Political Risk Rating	It is founded on examining how authority is transferred and concentrated, the efficiency with which policies are made, the independence of institutions,	Political Risk Rating index (Credendo, 2022).

	social cohesiveness, and international connections.	
General market traits: General market conditions that affect all firms within that market.		
Market size	Ability to sell products in the future.	Urban population (The World Bank, 2022b).
Market intensity	Ability to satisfy unfulfilled needs.	• GNI per Capita Estimates Using PPP (The World Bank, 2022c). • Private Consumption as a percentage of GDP (The World Bank, 2022d).
Market growth	Ability to sell products in the future.	Compound Annual Growth Rate (CAGR) of GDP (The World Bank, 2022b).
Market receptivity	Ability to export and import products/materials and semiproducts.	• Trade/% of GDP (The World Bank, 2022e). • Trade (exports) as a Percentage of GDP to USA (OEC, 2022).
Country-specific characteristics: Establishes the conditions for the operation in a selected market/country.		
Cultural distance	Are the cultural differences preventing the flow of information from and to the market.	Hofstede cultural dimensions (power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, long-term/short-term orientation, and indulgence/restraint). Cultural distance (index) (Hofstede Insights, 2022).
Geographic distance	Geographic distance with relation to the US	Geographic distance per kilometers (Distance, 2022).
Doing business	Business and investment climate in a selected country.	Doing business index (The World Bank, 2019a).
Intellectual property	Refers to the legal rights given to the inventor or creator to protect his invention or creation for a certain period.	Protection of Intellectual Property Rights index (Property Rights Alliance, 2021).
Flexibility in market access	Ability of a company or country to sell goods and services across borders. It also defines how easy is to get what USA firms needs for production or operation locally or by importing.	Market access conditions (ITC, 2022) and (Index of economic freedom, 2022).
Economic criteria: Economic factors or considerations influencing operation in a selected market/country.		
Economic freedom	Positive relationship between economic freedom and progress.	Economic freedom index (Index of economic freedom, 2022).

Political freedom	Positive relationship between political freedom and progress.	Political freedom index (Freedom House, 2022).
Competitiveness: Set of institutions, policies and factors that determine the level of productivity of a country		
Commercial infrastructure	Ability to organize production and distribution of products in a country.	• Transport infrastructure • Electricity infrastructure • Telephony infrastructure (World Economic Forum, 2019a) and (World Economic Forum, 2019b).
Value added	The sum of gross output minus the value of intermediate inputs used in production.	% Of value added in manufacturing of textile and apparel (The World Bank, 2020c).
Skilled Workforce	Workers with the necessary skills and experience that are necessary to perform adequately in the textile and apparel sector.	Increase or shortage of skilled labor in the textile and apparel sector (da Silva, 2016); (Textiles Panamericanos, 2020); (Agência Brasil, 2020); (ILO, 2014); (Sánchez, 2016); (Colombia. Departameto Administrativo Nacional de Estadística [DANE], 2021); (Valdelamar, 2018) and (Buesa, 2020).
Industry productivity	Productivity of the local firms.	Productivity of the local firms in the selected nation (Tex Brasil, 2019); (Gobierno de El Salvador, n.d.); (Bonilla & Molano, 2014).
Labor wages	It is the relationship between groups of employees and employers that covers the rights and responsibilities between them (salary).	Labor costs (Semana, 2019); (International Labour Organization [ILO], 2021).

Source: (Górecka & Szałucka, 2013); (GlbalEDGE, 2021); (World Economic Forum, 2016).

6.2.1 Analysis

6.2.1.1 Country risk

- **Business Risk Rating:**

Brazil is rated as having a high intensity of business environment risk, or category F, in Credendo's assessment of country risk on a scale from A to G. This suggests that the country's

higher default risks have an impact on the business environment, such as a sharp depreciation in its currency, high real interest rates, an economic downturn, or an environment of pervasive corruption. El Salvador falls into the same group as Brazil, indicating a significant risk for American businesses. Still, Colombia y Mexico falls into category E, indicating a slightly lower level of exposure to these hazards (Credendo, 2022).

- **Country Risk Rating:**

The Participants in the Agreement on Officially Supported Export Credits are given a country risk assessment called the OECD premium rating (the "Agreement"). Ratings of country risk range from 1 to 7, with 1 representing the least risky and 7 the riskiest. The risk of a government imposing capital or exchange controls that prevent the exchange of local currency into foreign currency or transferring funds to overseas creditors, as well as cases of force majeure such as war, expropriation, revolution, civil disturbances, floods, or earthquakes (Velez-Calle et al., 2020) are analyzed in this category. Considering this, El Salvador has the greatest danger, scoring 6, followed by Brazil with 5, Colombia with 4, and Mexico a better situation with 3 points (OECD, 2022).

- **Political Risk Rating:**

The categories for political risk range from 1 to 7, reflecting the severity of potential outcomes that could result from political and related occurrences that would constitute a case of force majeure for the insured or the debtor. Examples include a lack of foreign currency, political unrest like war, revolution, riots, natural disasters, and capricious government action. Category 1 contains the nations for which the danger is deemed to be the lowest, and category 7 contains the nations for which the risk is most likely to be brought on by political and associated events. In this regard, the classification of medium- and long-term political risks has been considered with a risk horizon of more than one year, in which the economic situation (performance of the economic policy, a country's capacity for growth, and its exposure to external vulnerability) as well as the financial (external indebtedness) and political payment experience of each country are assessed (experience in new and existing commitments). Considering the aforementioned, Mexico and Brazil are categorized as having a moderate level of political risk (3 and 4, respectively), whereas

Colombia and El Salvador, which are positioned in category 5, have a higher potential for political risk sensitivity (Credendo, 2022).

6.2.1.2 General market traits

Since this matrix aims to identify the country that has the best characteristics as a destination and that best satisfies the production requirements of businesses in the American textile and apparel sector, without necessarily implying that they are the destinations for their commercialization, the general market traits variable is one of that has the lowest valuation compared to the others. Although it is not the primary goal, these countries might certainly serve as manufacturing and marketing hubs. Nevertheless, the following factors were considered in case a market potential existed:

- **Market size:**

Given that the textile and apparel industry creates goods that meet needs such as clothing, supporting social (employment) and economic development, the four countries might serve as both a marketing and production hub for American businesses. In this regard, Brazil, with a population of 212,559,409, is positioned as the best destination, also taking into account that due to its trajectory, the majority of products in the sector are sold in the local market; next, Mexico holds a significant position with a population of 128,932,753; Colombia comes in third with a population of 50,882,884 (it is the least optimistic scenario because the production of the sector has decreased in recent years); and El Salvador is in last place with a population of 6,486,201(Central American country with less population) (The World Bank, 2022b).

- **Market intensity:**

Mexico is in the lead with $8,480 per person, followed by Brazil with $7,850, Colombia with $5,790, and El Salvador in last place with $3,630 in terms of the markets with higher purchasing power and that could favorably influence the purchase of goods in the sector (The World Bank, 2022c). El Salvador, Colombia, Mexico, and Brazil had the largest final consumption expenditures of households (private consumption) reflected as a percentage of GDP by 2020, with respective percentages of 81 percent, 70 percent, 64 percent, and 63 percent (The World Bank, 2022d).

- **Market growth:**

As a result of the coronavirus pandemic, the yearly growth rate of GDP (production of final demand goods and services) for the four countries under study for the year 2020 had a negative return compared to the year prior. The least pessimistic predictions were held by Brazil and Colombia (4.1 percent and 6.8 percent), while Mexico and El Salvador performed the worst (8.3 percent and 8.6 percent) (The World Bank, 2022b). The deployment of structural reforms and sector-specific support, as in the textile and apparel sector case, tends to improve projections notwithstanding this situation. These measures enhance economic performance, the ability to create jobs, and investment capacity.

- **Market receptivity:**

As a percentage of GDP, trade, which is made up of all exports and imports of goods and services, places Mexico as the leader with a contribution of 75%, followed by El Salvador with a contribution of 69%, Colombia with a contribution of 34%, and Brazil with a contribution of 32% (The World Bank, 2022e). This statistic serves as both a gauge of the size and general health of the economies under study as well as a gauge of how open these nations are to international trade.

Similarly, since the US is a strategic partner for all of the countries considered, it is clear how the degree of globalization of those nations affects the proportion of goods traded (exports) to the US, with Mexico exporting 76.4 percent of its goods and services to the US, El Salvador 37.8 percent, Colombia 29.7 percent, and Brazil 10.2 percent (OEC, 2022). It is evident that high levels of trade happen in accordance with previously existing free trade agreements, where exclusions and benefits are established for the parties concerned, and they also happen because the countries are close to one another, and their products are compatible. In this regard, a summary of the commercial ties between the four nations and the US is given as an illustration of how trust has been built over time. However, this does not imply that American businesses that establish themselves in these countries export their goods to them; rather, they can take advantage of the various commercial agreements that these countries have to export their goods from the textile and apparel sector.

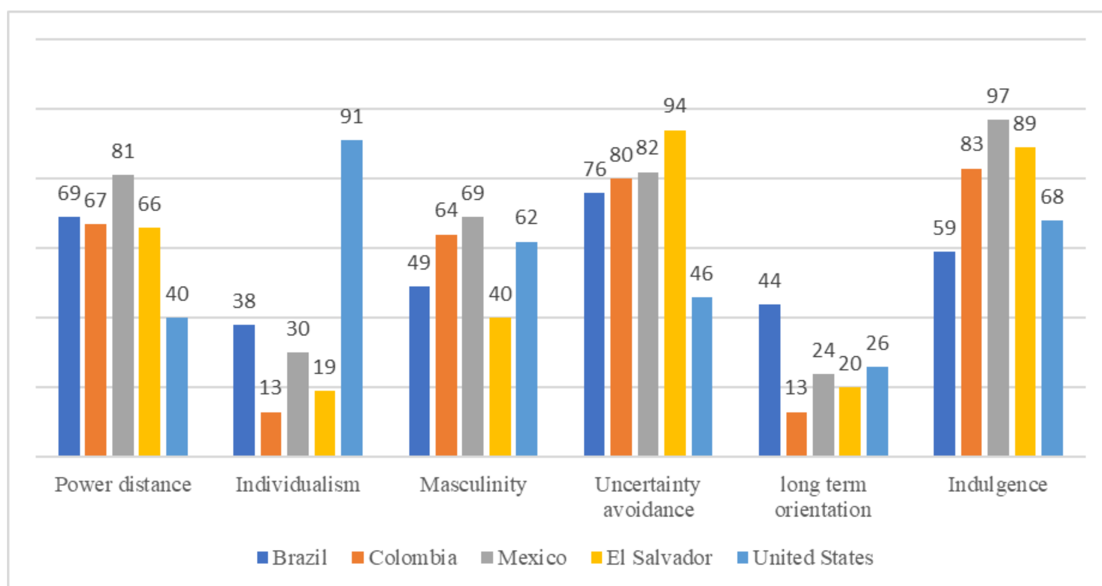
6.2.1.3 Country-specific characteristics

- **Cultural distance:**

Cultural distance is the extent to which two national cultures diverge on fundamental ideas, attitudes, and values (Górecka & Szałucka, 2013). Figure 4 illustrates that the American market on this topic differs significantly from those in Brazil, Colombia, Mexico, and El Salvador.

Figure 4

Hofstede's cultural dimensions of the United States, Brazil, Colombia, Mexico, and El Salvador.



Source: (Hofstede Insights, 2022)

Making alliances becomes a suitable choice to bridge the cultural divide because languages, business cultures, collective/individual work approaches, and other factors are fundamentally different across these countries. For American businesses, having someone familiar with these nations' cultures could be strategically advantageous.

- **Geographic distance:**

Mexico is geographically the closest country to the United States, with 1,678.44 km, followed by El Salvador (2,677.25 km), Colombia (4,333.67 km), and Brazil (6,739,70 km), which is the farthest (Distance, 2022).

- **Doing business:**

The latest Doing Business report of 2020 compares quantitative indicators on business regulations and the protection of property rights in 190 economies and where issues like starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, employing workers, and contracting with the government (The World Bank, 2019a). Mexico and Colombia are ranked 60 and 67, respectively as having better opportunities for foreign investors to conduct business, whereas doing business in El Salvador and Brazil is more challenging (positions 91 and 124).

This categorization highlights how Brazil sped up company registration, cut the price of the digital certificate, and improved the efficiency of the land administration system to make it easier to create businesses and register properties. For its part, Colombia facilitated cross-border trade by digitizing liability cards, one of its required export documents, facilitated insolvency resolution by increasing creditor participation in insolvency proceedings, and facilitated company formation by eliminating the requirement to open a bank account to obtain invoice authorization. On the other hand, Mexico increased the costs associated with obtaining a construction permit, making it harder to handle permits. In addition, El Salvador made it simpler to get electricity by accepting connection requests and electricity plans simultaneously (The World Bank, 2019a).

- **Intellectual property:**

In this category, it was found that for the year 2021, while the Intellectual Property Rights sub-index increased for Mexico, it decreased for Brazil, Colombia, and El Salvador. This was also true for perceptions of intellectual property protection, patent protection, and copyright protection. Intellectual property indices are an important factor for American businesses because they grant them the exclusive right of economic exploitation of their products in accordance with the laws of the countries (Property Rights Alliance, 2021).

- **Flexibility in market access:**

This variable aims to determine the complexity of American companies to sell goods and services across the borders of the countries analyzed, as well as to determine how easy it is to obtain

what they need to produce locally or by importing. It was found that the four countries have free trade agreements that would allow American companies to import products for their production from these markets and, in turn, be a commercial bridge that would allow them to trade with these markets. In response to this, it was found that Mexico, followed by El Salvador, Brazil, and Colombia, provides the best prospects for market access.

Mexico provides access to and from Israel & Palestine, Egypt, Japan, Korea, Turkey, and New Zealand, as well as Latin America, Japan, and other regions (ITC, 2022). There are now 251 non-tariff measures in the nation and 23 preferential trade agreements. It is emphasized that the investment regime lacks effectiveness and is hindered by inconsistency, which negatively affects foreign investment flows; that the financial sector has grown more competitive and open; and that the banking system still has a healthy level of capital (Index of economic freedom, 2022).

El Salvador also offers alternatives to the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), the United States Trade Representative (USTR), Latin America, the UK-Central America Association Agreement, Taiwan, Belarus, the Eurasian Economic Union, Canada, the European Union for GSP+ Countries, China, Japan, Kazakhstan, Kyrgyzstan, New Zealand, Norway, Russia, and Switzerland (ITC, 2022).There are now 13 active preferential trade agreements and 12 active non-tariff measures in the country. It is underlined that foreign-owned banks mostly dominate the financial industry, and that onerous bureaucracy and institutional flaws have a detrimental impact on foreign investment flows (Index of economic freedom, 2022).

Brazil offers choices as importers and exporters to and from nations in Latin America in general, including Egypt in Africa, Israel in Asia, and Brazil in the Global System of Trade Privileges (GSTP), where developing countries are awarded trade preferences as importers (ITC, 2022). Nine preferential trade agreements and 897 non-tariff measures are now in effect for the country. The foreign investment policy is reported to be restricted in some industries, such as mining and communications; the banking sector is said to be stable and competitive, with a growth in loans to the private sector; and the insurance sector is noted to have grown to be the largest in the area (Index of economic freedom, 2022).

Opportunities are available from and to Colombia for trade with Latin America, the Caribbean Community (CARICOM), Israel, Korea, the European Free Trade Association (EFTA), UK-Andean nations, Japan, and New Zealand (ITC, 2022). 15 preferential trade agreements and 153 non-tariff measures are currently in effect in the nation. In addition, the country's reforms

encourage the growth of capital markets by enhancing flexibility and competition. It is emphasized that government regulations don't considerably obstruct international investment and that the banking industry is still robust (Index of economic freedom, 2022).

6.2.1.4 Economic criteria:

- **Economic freedom:**

Colombia offers the most favorable conditions for economic freedom, followed by Mexico, El Salvador, and Brazil, which present the worst case (Index of economic freedom, 2022).

Colombia's economic freedom ranking is higher than the global and regional averages (60th freest in the 2022 Index). Although the country's growth was negative in 2020, the economy began to improve in 2021 because of the coronavirus crisis response. According to the average, the country is classified as "Moderately Free".

Mexico's economic freedom ranking is higher than the regional and global averages (67th freest in the 2022 Index). Despite the country's modest growth between 2017 and 2018, it saw negative growth in 2019 and 2020 before growing once again in 2021. According to the average, the country is classified as "Moderately unfree" This is because, although the rule of law has historically been relatively weak, the country's fiscal health, freedom of foreign trade, and investment freedom do not correlate to the region's second-largest economy.

El Salvador's economic freedom ranking is higher than the regional average but lower than the global average (90th freest in the 2022 Index). Despite the country's tremendous expansion up to 2019, economic growth worsened in 2020 before picking up again in 2021. The country is classified as "Moderately Free" to “Mostly unfree”. This is due to the dramatic declines in the rankings for international trade freedom and fiscal health. Despite a relatively strong tax burden and public spending results, government integrity is lacking.

Brazil's economic freedom index is below both regional and global averages (133rd freest in the 2022 Index). This can be attributed to the decreasing growth that started in 2019 and turned negative in 2020 before rebounding in 2021. The country continues to be included among the "Mostly unfree" countries at the bottom. Despite relatively robust monetary independence, financial health is among the poorest in the world, and the government's handling of the coronavirus

issue, which resulted in the GDP contracting by 4.1 percent in 2020, ranks 97th out of the countries in this Index in terms of rigor.

- **Political freedom:**

Brazil offers the most favorable conditions for political freedom, followed by Mexico, and El Salvador, which present the worst case.

Brazil had a score of 74/100, making it a free economy in the freedom in the world 2022 report (Freedom House, 2022), which assesses political rights and civil liberties around the globe. Regarding the political environment, Brazil is a democracy that conducts fair elections, and although being polarized politically, it is distinguished by active public discourse. Despite this, there are still significant levels of corruption, excessive violence, and economic isolation of minorities.

Compared to their equivalents in Latin American nations, union parties and labor organizations tend to be more politically connected and less subject to political party domination.

Finally, while the criteria to launch a new business are typically onerous, the government has taken some steps to make the process easier. The licensing and inspection requirements for small enterprises were simplified by legislation that was passed in 2019. Organized crime and corruption can be barriers to the operation of private businesses.

For its part, Colombia received a score of 64/100, making it a partially free economy. Regarding the political climate, Colombia is distinguished by having one of the region's oldest democracies and a history of major human rights violations and pervasive violence. Although the Revolutionary Armed Forces of Colombia (FARC), the main leftist guerrilla group in the nation, signed a peace agreement in 2016, public institutions still hold executive power, and the country still faces significant difficulties in establishing and maintaining peace, securing political rights and civil liberties in rural areas, attracting investment, and mobilizing political will.

Property rights and the capacity to start businesses are threatened in some places by violence and instability. Criminal gangs, guerrillas, and paramilitary successor organizations frequently demand money from company owners. Corruption can obstruct lawful corporate activities and excessively pressure prosecutors and judges.

Workers can create and join unions, engage in collective bargaining, and participate in labor organizations; yet these groupings are frequently more exposed to violent crimes.

Mexico came in third with a score of 60/100, making it a somewhat free economy. Mexico's political system is characterized by an electoral democracy where different political parties alternate control. However, due to organized crime violence, official corruption, human rights violations by state and non-state actors, and widespread impunity, Mexico faces significant rule of law challenges that restrict citizens' ability to exercise their political rights and civil liberties fully.

The security of property for many people and businesses is compromised by the poor judicial system, the frequent requests for bribes by bureaucrats and officials, and the high prevalence of criminal extortion. A contemporary legal system safeguards property rights in Mexico. It is emphasized that the current president's government has raised the minimum wage in Mexico significantly over the past several years and expanded some types of redistributive spending.

In the last place is El Salvador, which received a score of 59/100, making it a mostly free economy. Concerns in the political context include the pervasive erosion of the rule of law and democracy as well as a lack of physical protection. Strong criminal groups in the nation have been the target of the government's severe and aggressive response, leading to extrajudicial killings and other crimes. Additionally, there is a vibrant press and a vibrant section of civil society, including journalists who run the danger of harassment and violence when reporting on organized crime or corruption.

Union parties and labor groups have long faced barriers to participation in a judicial system that supports business interests, particularly by lightly punishing employers who interfere with strikes. Strikes are prohibited by law, albeit the definition of "important" is ambiguous.

In El Salvador, civilians are susceptible to forced disappearances. Families of the missing frequently worry about retaliation if they publicly discuss their situations. The rights to own property and to establish and operate a business are protected by law and regulations. Extortion is frequently used against businesses and people, mostly by gangs. The fact that El Salvador has one of the highest rates of femicide in Latin America is addressed last.

6.2.1.5 Competitiveness

- **Commercial infrastructure:**

Mexico is the country examined that has the most competitive infrastructure, followed by Brazil, El Salvador, and Colombia (World Economic Forum, 2019a).

Although Mexico outperforms other nations in terms of road connectivity, quality of road infrastructure, railroad density, efficiency of train services, airport connectivity, efficiency of seaport services, access to electricity as a percentage of the population, and exposure to unsafe drinking water as a percentage of the population, it still needs to work on improving the transportation infrastructure and needs to make more of an effort to increase the country's competitiveness near the border and to that extent (World Economic Forum, 2019b).

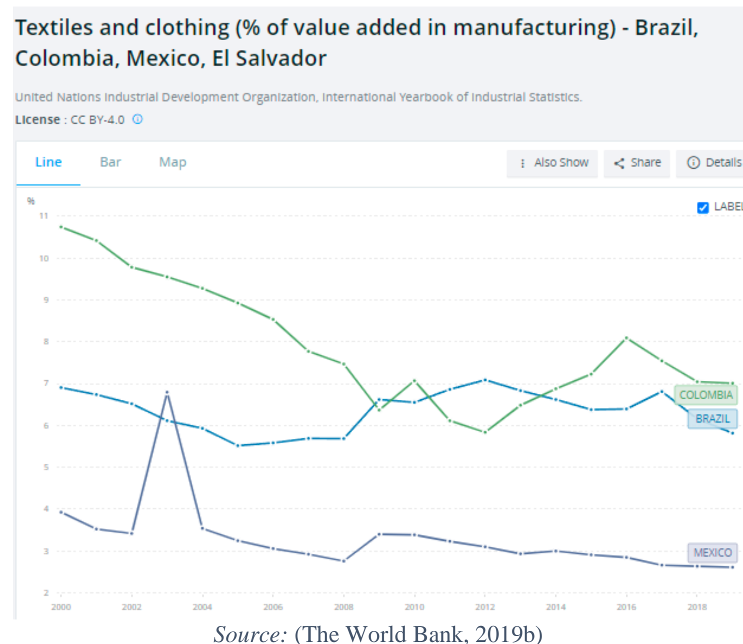
For its part, Brazil needs to improve the quality of road infrastructure, the effectiveness of air transportation services, the effectiveness of port services, and the quality of electricity supply as a percentage of production, while Colombia needs to improve road connectivity, rail density, and the effectiveness of rail services, and El Salvador faces greater challenges concerning maritime connectivity, airport connectivity, and population access to electricity and unsafe drinking water.

- **Value added:**

Value added in manufacturing is defined by (The World Bank, 2020c) as the total of gross output less the cost of intermediate inputs utilized in production for industries falling under ISIC major division D. ISIC categories 17–19 correspond to textiles and apparel.

El Salvador and Colombia have the largest share of added value in the sector, whereas Brazil and Mexico have a smaller percentage, as shown in figure 5. This information is helpful for potential American investors in the sector since, after all costs and taxes owed by the companies have been paid, the first two countries listed would, numerically, represent the largest earnings for the companies and their shareholders. In a similar vein, this data may aid in determining whether this is a company worth investing in or whether, on the contrary, there are better prospects taking into account the other factors that have been and will be evaluated in this article.

Figure 5
% of value added in the textile and clothing sector.



Source: (The World Bank, 2019b)

- **Skilled Workforce**

According to the research, Colombia and Mexico have the worst prospects for developing a skilled labor force, while Brazil and El Salvador have the highest prospects.

In Brazil the incentives are insufficient even though Brazil's textile and apparel industries are growing to be among the biggest in the world, ranking fifth in the textile industry and fourth in the clothing sector, respectively (da Silva, 2016) and as a result, the nation has lost 100,000 jobs since the coronavirus pandemic began, despite the fact that there is a high need for labor (more than 1.5 million people) (Textiles Panamericanos, 2020). The industry also has trouble finding qualified workers, which negatively impacts it by 60% (Agência Brasil, 2020). Finally, the country needs structural reforms that the central government must implement to change the sector's landscape and lessen Brazilian companies' ability to compete internationally (da Silva, 2016).

Despite the fact that El Salvador is heavily dependent on the textile and apparel sector (36 percent) (ILO, 2014) and that it is one of the most lucrative industries with a high demand for skilled labor and a plentiful labor supply, the country provides workers in the sector with appalling working conditions, including long hours, monotonous and repetitive tasks, and low wages (Sánchez, 2016). Since the textile and apparel business is known for having low-skilled labor and low pay, it might be challenging for a country with a middle-income level like El Salvador to

compete. There are always other nations with lower costs that can draw in investment in the industry (Sánchez, 2016).

Between 2019 and 2020, Colombia's textile and apparel sector lost a significant number of jobs, falling from 549 thousand to 465 thousand (Colombia. Departameto Administrativo Nacional de Estadística [DANE], 2021). Additionally, the sector's lack of trained people This is one of the lowest paid jobs in the country because 94 percent of companies in the nation are small and medium-sized firms (SMEs), and their preferred method of hiring is temporary contracts, which discourage job security and health insurance (Gonzalez, 2015).

Colombia and Mexico face a workforce deficit in the industry (Valdelamar, 2018). Additionally, it is crucial to note that labor costs in Mexico are greater than those in countries like China, India, Honduras, and even Brazil. As a result, only a small number of domestic enterprises can provide full-service production, and Mexican textile output is insufficient (Buesa, 2020).

- **Industry productivity:**

According to a review of the productivity of the textile and apparel industries in the four nations, Brazil and El Salvador provide the best working conditions, while Colombia and Mexico are less competitive in this field:

Brazil stands out for having a highly competitive sector due to technological advancements in machinery for faster production processes in cutting and sewing, automation, design, and equipment with low energy consumption. Brazil is one of the major producers in the world, with more than 33,000 companies from various segments in the textile-apparel industry (Tex Brasil, 2019). The Brazilian Association of the Machinery and Equipment Industry (ABIMAQ), which works to strengthen the national industry, mobilize the sector, carry out actions in conjunction with political and economic instances, stimulate trade and international cooperation, and help to prioritize its performance in terms of technology, human resource development, and managerial modernization, was established to maintain the sector's competitiveness. A lot of work is being done amongst many organizations that make the country maintain this position worldwide to protect the size of its textile park, which is the fifth largest textile industry in the world, the fourth largest in apparel, and the second largest manufacturer of denim. The Brazilian Textile and Fashion Industry Internationalization Program (Texbrasil) works with businesses in the textile and clothing sector to develop strategies to dominate the global market, and the Brazilian Trade and Investment

Promotion Agency (Apex-Brazil), which acts to promote trade and investment, stand out among these organizations as the productive force of 30,000 companies installed throughout Brazil.

As previously said, El Salvador's textile and apparel industry is one of the key drivers of its development, with a value chain that has been integrating and consolidating in favor of greater value-added goods (Gobierno de El Salvador, n.d.). The value chain is characterized by being highly profitable and productive because it has been able to include all the productive activities of the textile-clothing chain, including the production of fibers, the manufacturing and finishing of yarns and fabrics, the design, the cutting, the making of garments, and the associated logistics. This offers efficient infrastructure, logistics, and quick responses to international markets. El Salvador currently hosts more than 260 businesses, including well-known international brands. These businesses have created a fully functional synthetic cluster, making the nation the only one in Central America to do so.

Given that SMEs make up a sizable portion of the textile and apparel industry in Colombia, the country is at a severe disadvantage when compared to major competitors like China because 80% of the companies there have administrative weaknesses, low levels of human resource training, little to no investment in R&D, and the nascent development of clusters that make individual proposals more competitive on the international market. The industry has also struggled to establish a high-productivity production model that creates added value and has competitive costs and prices that are also environmentally and economically viable (Bonilla & Molano, 2014).

Finally, due to external factors like fierce international competition, dependence on the US economy, the drawback of being a major importer of apparel, the decline in attracting foreign investment, new competition schemes, and others, Mexico has productivity issues, which harm its economic performance in the textile and apparel sector. Internally, it is blamed on the dearth of design innovation, the technological sluggishness of manufacturing, design, and marketing, the high cost of production, the lack of significant bargaining power, etc.

- **Labor wages**

To aid American businesses in the textile and apparel sector in making judgments in the event of a potential move, the last variable under analysis aims to find the country that offers the most competitive labor costs. In this regard, it was found that despite being the second-lowest paying country in the area, Brazil tops the list due to the sector's favorable global positioning and

high workforce. Colombia, on the other hand, is in second place because, while having the lowest salaries in the region, it has a workforce shortage that could lead to production issues in the future. El Salvador ranks third among the Latin American nations surveyed, despite having one of the most competitive labor costs in Central America, along with worker benefits and a high standard of labor in the region. Last but not least, it has already been established that Mexico has high production costs, and labor costs are no exception because the pay for workers in the sector triples compared to the minimum wage in this nation, which puts it in a disadvantageous situation (Semana, 2019) and (International Labour Organization [ILO], 2021).

7 Results

The market site selection matrix outcomes are summarized in Table 2 and in annexes 1 to 5. To facilitate understanding of the table and annexes, the market selection analysis is based on a quantitative scheme where each variable has been given a percentage weighting "variable score," which represents the importance of the variable for market selection. Each country identified on the shortlist has received "country grade" scores ranging from 1-4 on each of the nineteen defined variables. The highest possible score is 4, which suggests that the market is very attractive, while 1 on the other hand, constitutes a very unattractive market for American firms.

Table 2 provides a summary of the results obtained for the established variables. This also shows the best countries considering its attractiveness as a diversification target for American companies in the textile and apparel sector located in China.

Table 2
Potential market assessment summary.

Macro variables	Importance	Variables	Variable score	Brazil	Colombia	Mexico	El Salvador
Country risk			**10%**	0,23	0,28	0,36	0,13
	10	Business Risk Rating	4%	0,08	0,16	0,12	0,04
	15	Country Risk Rating	3%	0,06	0,09	0,12	0,03
	16	Political Risk Rating	3%	0,09	0,03	0,12	0,06
General market traits			**10%**	0,21	0,23	0,33	0,23
	19	Market size (2020)	1%	0,04	0,02	0,03	0,01
	18	Market intensity 2020: GNI per capita / Private Consumption as a percentage of GDP	1%	0,03	0,02	0,04	0,01
			1%	0,01	0,03	0,02	0,04
	17	Market growth (2020)	2%	0,08	0,06	0,04	0,02
	11	Market receptivity (2020): Trade/% of GDP/ Trade (exports) as a Percentage of GDP to USA	2%	0,02	0,04	0,08	0,06
			3%	0,03	0,06	0,12	0,09
Country specific characteristics			**25%**	0,48	0,5	0,94	0,58
	14	Cultural distance	3%	0,12	0,09	0,06	0,03
	8	Geographic distance	6%	0,06	0,12	0,24	0,18
	9	Doing Business (2020)	5%	0,05	0,15	0,2	0,1
	13	Intellectual property (2021)	3%	0,09	0,06	0,12	0,03
	5	Flexibility in market access	8%	0,16	0,08	0,32	0,24
Economic criteria			**15%**	0,33	0,54	0,39	0,24
	3	Economic freedom	9%	0,09	0,36	0,27	0,18
	7	Political freedom (2022)	6%	0,24	0,18	0,12	0,06
Competitiveness			**40%**	1,32	0,89	0,64	1,15
	4	Commercial infraestructure (2017-2018)	8%	0,24	0,08	0,32	0,16
	2	Value added (2019)	10%	0,2	0,3	0,1	0,4
	12	Skilled Workforce	3%	0,12	0,06	0,03	0,09
	1	Industry productivity	12%	0,48	0,24	0,12	0,36
	6	Labor wages (2019)	7%	0,28	0,21	0,07	0,14
Total			**100%**	**2,57**	**2,44**	2,66	2,33

The main results found during the study are summarized below:

- **Brazil:**

Brazil is the 14th largest export market for the US and accounts for about 3% of imports. Nearshoring with the US is made possible by the IT and manufacturing sectors, time zones, and geographic proximity that shorten delivery and travel times. The country benefits from things like the Brasil Maior program, which gives tax cuts to regional manufacturers to boost its competitiveness. It is found that the manufacturing sector lacks a functioning program that aids in promoting effective investment and that the political, legal, and regulatory environments are also deficient. The country puts obstacles to conducting business, including high tariffs, a convoluted customs system, and an overburdened court system. To address this issue, a bilateral protocol of the Agreement on Trade and Economic Cooperation (ATEC) has been negotiated with US since 2020. This protocol has commitments in three areas: trade facilitation, sound regulatory standards, and anti-corruption.

Conversely, Brazil has the fourth-largest textile sector and ranks as the seventh-largest producer of apparel globally. It is unique because it produces all its own cotton, making it a prospective partner for the US. Given that it provides 17.2% and 4.1 percent of the nation's total GNP, this industry is crucial to the Brazilian economy and has a significant social impact. It is currently the 26th largest exporter and the 34th largest importer in the world. This industry stands out for its high levels of technological complexity and for being an industrial sector that uses capital and raw materials intensively.

Brazil presents advantages for American businesses in terms of the textile and apparel market conditions because it may be one of the markets where a significant portion of the industry's output can be sold. This is because Brazil has a large population that can consume the industry's output, which implies lower supply chain costs. Brazil stands out among the studied nations for having seen the most upbeat economic growth, providing the finest prospects for market access, and providing the most favorable conditions for political freedom. It has the second most competitive infrastructure among the examined countries. Brazil has the greatest working conditions, the most competitive labor costs, and the highest prospects for a skilled labor force.

- **Colombia:**

Colombia is a key strategic commercial partner and one of the United States' closest allies in the Western Hemisphere. The FTA between the two countries has made it easier and more stable

for US investors to choose Colombia as their investment destination. However, the current administration and the leftist policies of the recently elected president Gustavo Petro, could threaten the relationship between the two countries. Colombia has been implementing nearshoring with American businesses for some time; in fact, the US has made direct investments in Colombia since 2010.

Due to its manufacturing capability, supply chain advantages, comparable time zone, and already-existing FTA, the Valle del Cauca region is strategically important for facilitating nearshoring with the US. Procolombia has the advantage of significantly assisting Colombian business owners in their connections with business owners from other nations to implement nearshoring strategies. The most significant barrier is that Colombian businesses frequently fail to meet the certificates and specifications to demonstrate high quality standards. The country must also work to speed up economic growth, improve competitiveness, generate more formal jobs, and have a more sustainable and stable economy because of its high debt levels, which could cause financial and economic problems in the future.

Providing employment for more than 600,000 people (about 2,000 in the textile industry and 80% in the apparel sector) and accounting for more than 5% of all exports, the textile industry is one of the most significant in the country. It contributes 9.4% of the industrial GDP. Thanks to its geographic location, the country could meet global demand, which gives it access to 680 ports globally and more than 1.5 billion consumers through 4,500 marine routes. The country frequently has a trade deficit because it imports more products from the industry than it exports. The struggle against smuggling, a lack of skilled labor, shady business practices, technical modernization, the creation of added value, and the usage of trade agreements are just a few of the challenges this industry faces.

Political and commercial risks are both moderately high in terms of country risk. Colombia has had the most hopeful economic development among the examined countries. It is also the second nation that provides the finest business prospects for international investors and the country with the best circumstances for economic freedom. One of the countries with the highest manufacturing value-added participation rates is Colombia. Despite having the second-lowest labor expenses in the world, Colombia stands out in the textile and apparel industry due to a lack of trained workers who are qualified for other sectors that pay more and need more education.

- **Mexico:**

In 2019, Mexico was the primary trading partner for US goods. The country has some competitive advantages over other countries, like the T-MEC agreement and the other 12 Free Trade Agreements (FTAs) with 48 countries, which give Mexico access to more than 1,300 million consumers. With 60% of the global GDP, the country also offers a solid infrastructure and logistics network, affordable shipping costs to the United States, and an advantageous geographic location. There are concerns about how Mexico is fulfilling its obligations under the T-MEC or T-MEC agreement, which could cause disputes between the parties despite the two countries' robust commercial links.

Despite having a trade deficit for Mexico (textiles make up the deficit while apparel-related products have a surplus), the textile and apparel industry is essential to the country's economy since it generates about 20% of all manufacturing jobs. The textile and apparel sector, which ranked tenth among the most significant manufacturing economic activities in Mexico in 2019, contributed 3.2 percent of the country's manufacturing GDP.

In terms of the political landscape, there is worry due to the president's reform proposals, including the electrical one, which intends to raise power rates and delay plans for the transition to greener energies. As a result of illicit imports from countries with which Mexico does not have trade agreements, unfair competition, and the entry of garments of questionable origin into the national market, the industry has also lost protection during numerous administrations.

Since Mexico is the second-largest country analyzed in terms of population and so gives a market opportunity for American businesses, it has one of the marketplaces with the highest purchasing power that could positively influence the purchase of goods in the industry. One of the countries having the greatest trade openness is Mexico. Additionally, it is the country that provides the best economic prospects for foreign investors and is also the one that is geographically the first closest to the United States. It also gives foreign businesses stability in terms of protecting their intellectual property. In terms of FTA, it is also the country that provides the most freedom and opportunity for market access.

The most competitive infrastructure, as evidenced by road connectivity, quality of road infrastructure, rail density, efficiency of rail services, airport connectivity, efficiency of port services, and access to electricity, is found in Mexico, which also is ranked second in terms of political and economic freedom. Mexico and Colombia experience a labor shortage in the sector,

and it's important to consider that labor expenses are greater than in nations like China, India, Honduras, and even Brazil. Mexico faces issues because of external causes, including intense global competition, dependency on the US economy, the inconvenience of being a major apparel importer, the decline in the appeal of foreign investment, and new competition schemes, among others.

- **El Salvador:**

El Salvador and the United States have a free trade agreement (FTA); however, it is not one of the primary commercial partners of the US. One of the key benefits of being a nearshoring location is its interesting position, which serves as a bridge for businesses looking for quick solutions and addressing the requirements of their customers in North and South America, tax incentives, service parks, and free zones. The necessity to advance with improvements for fiscal sustainability that help prevent over-indebtedness is one of El Salvador's biggest challenges. For its part, the country experiences crime and violence, threatening social advancement and economic growth. Also, due to the country's considerable vulnerability to natural disasters, it is highly susceptible to the effects of climate change.

Due to its position as the major exporter, accounting for 46% of all exports, and as one of the primary sources of income and employment, El Salvador's textile and apparel industry has been one of the most significant in the manufacturing sector. One of the major issues facing the sector is a lack of suppliers of raw materials, which is why some businesses have been developed to produce them locally rather than relying on imports. Some of the distinguishing characteristics of the industry are the vertical integration of the supply chain, the inclusion of the synthetic cluster, the specialization in the manufacture of clothing, the rise in technology in the processes, and design services, among other things.

El Salvador is the second closest country geographically to the United States, has the second-highest level of openness to international trade, and provides the second-highest level of freedom and access to the market regarding free trade agreements. El Salvador faces significant difficulties regarding airport and sea connectivity, as well as with regard to people's access to energy and hazardous drinking water. Most of the manufacturing industry's value is produced in El Salvador. It is the second country evaluated that offers the finest working conditions in the textile and clothing industry, as well as the second with the best prospects for a skilled labor force.

The information analyzed in the many variables in the Site Selection Matrix gives all the nations analyzed a quite similar rating, as shown in Table 2. However, it is clear that Mexico and Brazil are the best options to consider as locations for American businesses in the textile and clothing industry. The suggestion is to consider the industry's potential and level of development as a differentiating factor. As a result, Brazil may present more prospects. Additionally, the country must concentrate on issues like infrastructure development and changes to its economic, political, and social policies to prevent obstacles from being created in the relocation procedures of American companies.

8 Conclusions

Globalization is currently contracting because of disparities caused by the coronavirus pandemic, supply chain disruptions, the US-China-Ukraine-Russia trade war, financial crises, and economic downturns, among other things. These phenomena pressure companies to implement regionalization strategies such as nearshoring, which allows production close to home with benefits in terms of culture, administration, and geography, while reducing supply scarcity.

Latin America has been considered a potential alternative for American manufacturers with factories in China that want to move their operations and lessen the risks associated with production, supply, and dependence on China.

The effectiveness of businesses in satisfying consumer demand while keeping low overall costs are essential in the textile and apparel sector. While the US is the greatest producer and exporter of raw cotton and the largest buyer of raw textiles and clothing, China is one of the world's top textile exporters.

Due to this dependency and the aforementioned problems, American companies have decided to concentrate their operations by adopting the nearshoring strategy. To determine if these businesses can operate in Latin America, four countries that seem to be the best target markets have been studied: Brazil, Colombia, Mexico, and El Salvador.

Latin America could replace Asian nations as the primary supplier of goods and services to the United States because of the region's strengthened diplomatic connections with countries like China and India. In this sense, Latin America could be considered a potential home for American businesses in China looking to leave this market due to advantages as a nearshoring destination such as proximity, productive sector, time zone, and connection in terms of infrastructure such as ports, borders, among others. Another reason is that the region's textile and apparel sector produces goods that do not require much specialization and are cost and price competitive. Additionally, these countries have FTAs that offer relatively low entry barriers to foreign markets. Due to their proximity to the US, productive and administrative operations management is more straightforward.

Furthermore, trade relations between the US and Brazil, Colombia, Mexico, and El Salvador play a significant role since there is an ongoing relationship that promotes trade, lowers technical trade barriers, and provides American firms access to fiscal and tax benefits that could

make them globally competitive. Moreover, each country offers several nearshoring advantages for the United States. For instance, Brazil is characterized by the competitiveness and specialization of manufacturing production, Colombia by the connection to ports that facilitate supply chains, Mexico by proximity, and El Salvador by specialization of the textile and apparel sector.

Additionally, a common factor among all of these countries found in the study is that each country possesses, to varying degrees, a risk for the practice of nearshoring. For instance, supply chains are highly susceptible to the risks of global trade, and there are additional social, economic, and political factors that endanger the stability of American businesses, such as illegal immigration, poverty and inequality, public safety, the illicit drug trade, and a lack of political stability.

Given the data, this study highlights the difficulty in identifying a single nation that offers American businesses in the textile and apparel sector the most significant advantages because the findings of the study show that all the countries examined have a point of comparison that is relatively similar; as a result, any of them could be taken into consideration by American businesses depending on their specific characteristics and interests, for instance, those that need immediate products with little added value may opt for Mexico. For their part, those looking for goods in small quantities with higher added value and low production costs may choose Colombia. Brazil is an option for those who want results focused on the standardization of products, economies of scale, and production efficiency, with qualified labor and a specialized industry with lower production costs but longer shipping times. Finally, El Salvador is a viable option for businesses that demand highly specialized products and a qualified workforce.

It is apparent that Mexico and Brazil are the best options for US businesses in the textile and apparel sector to explore as destinations. However, it is advised to consider the potential and state of the textile and apparel industry as a differentiating factor. In this regard, Brazil may represent the best opportunity; however, it is crucial to emphasize that the country must make significant progress in developing its infrastructure and modifying its economic and social policies to prevent obstacles from arising during the relocation processes of US companies.

The evaluation of the economic progress of the American countries, the identification of the effects that the post-pandemic context has on nearshoring, and methods for tackling the global market interdependence are unquestionably the study's primary contributions. The research also examines the many alterations and stances China adopts because of changes in global commerce.

Finally, the researcher suggests that future research on this topic could focus on analyzing the practical requirements for the execution phase, that is, finding out what technical requirements exist for US companies to relocate to the countries studied.

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Annexes

Annex 1. *Summary of variables analyzed by potential countries.*

Importance	Variables	Variable score	Brazil	Colombia	Mexico	El Salvador
		10%				
10	Business Risk Rating	4%	F	E	E	F
15	Country Risk Rating	3%	5	4	3	6
16	Political Risk Rating	3%	4	5	3	5
		10%				
19	Market size (2020)	1%	212,559,409	50,882,884	128,932,753	6,486,201
18	Market intensity 2020: GNI per capita / Private Consumption as a percentage of GDP	1%	$ 7.850	$ 5.790	$ 8.480	$ 3.630
		1%	63%	70%	64%	81%
17	Market growth (2020)	2%	-4,10%	-6,80%	-8,30%	-8,60%
11	Market receptivity (2020): Trade/% of GDP/ Trade (exports) as a Percentage of	2%	32%	34%	78%	69%
		3%	10.2%	29.7%	76,4%	37,8%
		25%				
14	Cultural distance	3%	Powe distance: 69/40(USA) Individualism: 38/91 Masculinity: 49/62 Uncertainty avoidance: 76/46 Long term orientation: 44/26 Indulgence: 59/68	Powe distance: 67/40(USA) Individualism: 13/91 Masculinity: 64/62 Uncertainty avoidance: 80/46 Long term orientation: 13/26 Indulgence: 83/68	Powe distance: 81/40(USA) Individualism: 30/91 Masculinity: 69/62 Uncertainty avoidance: 82/46 Long term orientation: 24/26 Indulgence: 97/68	Powe distance: 66/40(USA) Individualism: 19/91 Masculinity: 40/62 Uncertainty avoidance: 94/46 Long term orientation: 20/26 Indulgence: 89/68
8	Geographic distance	6%	6739,70 km long	4333.67 km long	1678.44 km long	2677.25 km long
9	Doing Business (2020)	5%	score is 59,1. Position 124/190	score is 70,1. Position 67/190	score is 72,4. Position 60/190	score is 65,3. Position 91/190
13	Intellectual property (2021)	3%	Global Rank: 74/129 Regional Rank: 8/21 Score: 5.214	Global Rank: 75/129 Regional Rank: 9/21 Score: 5.204	Global Rank: 73/129 Regional Rank: 7/21 Score: 5.265	Global Rank: 99/129 Regional Rank: 16/21 Score: 4.656
5	Flexibility in market access	8%	31 trade agreements as an exporter / 27 trade agreements as an importer	28 trade agreements as an exporter / 28 trade agreements as an importer	29 trade agreements as an exporter / 27 trade agreements as an importer	29 trade agreements as an exporter / 27 trade agreements as an importer
		15%				
3	Economic freedom	9%	**"Mostly Unfree"**score is 53.3 / ranked 26th among 32 LA countries	**"Moderately Free"**score is 65.1 / ranked 12th among 32 LA countries	**"Moderately Unfree"**score is 63.7 / ranked 14th among 32 LA countries	**"Mostly Unfree"**score is 59.6 / ranked 18th among 32 LA countries
7	Political freedom (2022)	6%	73/100 Free	64/100 Partly Free	60/100 Partly Free	59/100 Partly Free
		40%				
4	Commercial infraestructure (2017-2018)	8%	Score is 4,1. Position 73/137	Score is 3,8. Position 87/137	Score is 4,3. Position 62/137	Score is 4,0. Position 77/137
2	Value added (2019)	10%	6	7	3	Not available. Last indicator was 28 in 1998. Recognized as a leader in the development, production and export of high value-added textile products
12	Skilled Workforce	3%	Low-skilled workforce. Abundant labor supply.	Low-skilled workforce. Low labor supply.	Low-skilled workforce. Low labor supply.	low-skilled labor and low wages. Abundant labor supply.
1	Industry productivity	12%	Technological developments in machinery for faster production processes in cutting and sewing, automation, design and equipment with low energy consumption.	It does not have a consolidated high-productivity production model that generates added value, with a cost and price structure that is competitive, environmentally and economically sustainable. Low levels of training of its human resources, no investment in R&D	Lack of design innovation, technological backwardness in production, design and marketing, high production costs, little bargaining power, etc. Added to piracy, along with illegal production and marketing, and smuggling, they influence productivity.	Integrated value chain and cost-competitive and highly productive human capital. This provides good logistics and infrastructure and speed of response.
6	Labor wages	7%	Ranks second to last in the region in paying low wages	Pays the lowest wages in the region	The average remuneration of a textile worker triples the minimum wage	It is in line with the minimum wage set by their respective governments. The industry pays according to the level of specialization.
		100%				

Annex 2. *Country evaluation – Brazil.*

Macro variables	Importance	Variables	Variable score	Country grade	Country score
Country risk			**10%**		**0,23**
	10	Business Risk Rating	4%	2	0,08
	15	Country Risk Rating	3%	2	0,06
	16	Political Risk Rating	3%	3	0,09
General market traits			**10%**		**0,21**
	19	Market size (2020)	1%	4	0,04
	18	Market intensity 2020: GNI per capita / Private	1%	3	0,03
			1%	1	0,01
	17	Market growth (2020)	2%	4	0,08
	11	Market receptivity (2020): Trade/%	2%	1	0,02
			3%	1	0,03
Country specific characteristics			**25%**		**0,48**
	14	Cultural distance	3%	4	0,12
	8	Geographic distance	6%	1	0,06
	9	Doing Business (2020)	5%	1	0,05
	13	Intellectual property (2021)	3%	3	0,09
	5	Flexibility in market access	8%	2	0,16
Economic criteria			**15%**		**0,33**
	3	Economic freedom	9%	1	0,09
	7	Political freedom	6%	4	0,24
Competitiveness			**40%**		**1,32**
	4	Commercial infraestructure (2017-2018)	8%	3	0,24
	2	Value added (2019)	10%	2	0,2
	12	Skilled Workforce	3%	4	0,12
	1	Industry productivity	12%	4	0,48
	6	Labor wages	7%	4	0,28
Total			**100%**		**2,57**

Annex 3. *Country evaluation – Colombia.*

Macro variables	Importance	Variables	Variable score	Country grade	Country score
Country risk			**10%**		**0,28**
	10	Business Risk Rating	4%	4	0,16
	15	Country Risk Rating	3%	3	0,09
	16	Political Risk Rating	3%	1	0,03
General market traits			**10%**		**0,23**
	19	Market size (2020)	1%	2	0,02
	18	Market intensity 2020: GNI per capita / Private	1%	2	0,02
			1%	3	0,03
	17	Market growth (2020)	2%	3	0,06
	11	Market receptivity (2020): Trade/%	2%	2	0,04
			3%	2	0,06
Country specific characteristics			**25%**		**0,5**
	14	Cultural distance	3%	3	0,09
	8	Geographic distance	6%	2	0,12
	9	Doing Business (2020)	5%	3	0,15
	13	Intellectual property (2021)	3%	2	0,06
	5	Flexibility in market access	8%	1	0,08
Economic criteria			**15%**		**0,54**
	3	Economic freedom	9%	4	0,36
	7	Political freedom	6%	3	0,18
Competitiveness			**40%**		**0,89**
	4	Commercial infraestructure (2017-2018)	8%	1	0,08
	2	Value added (2019)	10%	3	0,3
	12	Skilled Workforce	3%	2	0,06
	1	Industry productivity	12%	2	0,24
	6	Labor wages	7%	3	0,21
Total			**100%**		**2,44**

Annex 4. *Country evaluation – Mexico.*

Macro variables	Importance	Variables	Variable score	Country grade	Country score
Country risk			**10%**		**0,36**
	10	Business Risk Rating	4%	3	0,12
	15	Country Risk Rating	3%	4	0,12
	16	Political Risk Rating	3%	4	0,12
General market traits			**10%**		**0,33**
	19	Market size (2020)	1%	3	0,03
	18	Market intensity 2020: GNI per capita / Private	1%	4	0,04
			1%	2	0,02
	17	Market growth (2020)	2%	2	0,04
	11	Market receptivity (2020): Trade/%	2%	4	0,08
			3%	4	0,12
Country specific characteristics			**25%**		**0,94**
	14	Cultural distance	3%	2	0,06
	8	Geographic distance	6%	4	0,24
	9	Doing Business (2020)	5%	4	0,2
	13	Intellectual property (2021)	3%	4	0,12
	5	Flexibility in market access	8%	4	0,32
Economic criteria			**15%**		**0,39**
	3	Economic freedom	9%	3	0,27
	7	Political freedom	6%	2	0,12
Competitiveness			**40%**		**0,64**
	4	Commercial infraestructure (2017-2018)	8%	4	0,32
	2	Value added (2019)	10%	1	0,1
	12	Skilled Workforce	3%	1	0,03
	1	Industry productivity	12%	1	0,12
	6	Labor wages	7%	1	0,07
Total			**100%**		**2,66**

Annex 5. *Country evaluation – El Salvador.*

Macro variables	Importance	Variables	Variable score	Country grade	Country score
Country risk			**10%**		**0,13**
	10	Business Risk Rating	4%	1	0,04
	15	Country Risk Rating	3%	1	0,03
	16	Political Risk Rating	3%	2	0,06
General market traits			**10%**		**0,23**
	19	Market size (2020)	1%	1	0,01
	18	Market intensity 2020: GNI per capita / Private	1%	1	0,01
			1%	4	0,04
	17	Market growth (2020)	2%	1	0,02
	11	Market receptivity (2020): Trade/%	2%	3	0,06
			3%	3	0,09
Country specific characteristics			**25%**		**0,58**
	14	Cultural distance	3%	1	0,03
	8	Geographic distance	6%	3	0,18
	9	Doing Business (2020)	5%	2	0,1
	13	Intellectual property (2021)	3%	1	0,03
	5	Flexibility in market access	8%	3	0,24
Economic criteria			**15%**		**0,24**
	3	Economic freedom	9%	2	0,18
	7	Political freedom	6%	1	0,06
Competitiveness			**40%**		**1,15**
	4	Commercial infraestructure (2017-2018)	8%	2	0,16
	2	Value added (2019)	10%	4	0,4
	12	Skilled Workforce	3%	3	0,09
	1	Industry productivity	12%	3	0,36
	6	Labor wages	7%	2	0,14
Total			**100%**		**2,33**

Annex 6. *Experts' opinions.*

Question: What do you think of an eventual return of some textile and apparel production to Latin America because of the problems that have arisen due to the pandemic and the tensions between the US and China?

Answers:

Francisco Javier Rios Castaño
MIB professor at Universidad EAFIT
CEO INDURTEX SAS

The relocation of companies is an issue that is already being reflected in Latin America. Many big brands are looking for producers to migrate production to Latin America due to the crisis in China and the loss of labor competitiveness (producing in China is not so cheap anymore). I recommend studying what is happening in Venezuela, there the phenomenon of reactivation is impressive, and the textile sector is one of those that is projected to have the greatest reactivation, not so much in the manufacture of garments, but in the production of threads and subsequent weaving. Labor in Venezuela is shown as one of the cheapest in the region and although it may take several years to show representative figures, the political conditions point to that. Mexico has been greatly affected by the AMLO government, many sectors have slowed down and this has also caused the production that was once made in Mexico to migrate to some countries in Central and South America. Brazil is one of the countries that has been most invigorated by this phenomenon and has a lot to offer and good infrastructure to assume production volumes. I do not see Chile as an interesting market for production to migrate since it has not had a textile vocation. Everything that entered there came from China already finished and with the new political approach that they chose, I doubt very much that investment in that sense will be attracted to the country. Colombia has a lot of potential, but everything will also depend on the upcoming electoral results. If I can verify that there are many American companies, above all, looking for producers in Colombia of all kinds of garments, but we are dependent on imported supplies from China, Pakistan, India, Turkey, South Korea and some of the USA. The Colombian textile sector was reduced to

manufacturing and maquila, but we are not producers of fibers, threads, and fabrics, all of that comes from outside and I have not seen announcements of large investments in that sense, that is where the large volumes of capital are from investment, fiber, yarn and fabric production plants. For maquila and full package services, investment is low in infrastructure, but intensive in labor and Colombia has a big problem in that sense, there is a labor shortage for the textile sector and the new generations do not want to learn these tasks because there are more attractive sectors.

Juan Santiago
Entrepreneur

I certainly believe that it is a quite viable option, if there are already production facilities, regardless of the efficiency of the process, that would be adjusted gradually. The costs and assembly times of new plants would be very high, and perhaps the crisis will have already been resolved by the time the plant is ready for production.

Unfortunately for no one it is a mystery that most companies will seek to maximize profits, and therefore will withdraw when it is no longer economically profitable, only a few companies would remain looking for added value.