

# ENHANCING COMPETITIVENESS VIA NEARSHORING READINESS

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January 2026

## I. Overview: The New Geopolitics of Trade

The global trade landscape has undergone a paradigm shift from cost-centric offshoring to security-focused nearshoring and friendshoring. Driven by post-pandemic supply chain vulnerabilities and heightening U.S.-China trade tensions, global producers are increasingly prioritizing resilience and political alignment over the lowest possible production cost. While Latin American nations are naturally positioned to benefit from this shift due to their proximity to the U.S. market, geographical location alone is no longer a sufficient competitive advantage.

## II. The Readiness Dashboard (RD): A Strategic Diagnostic

To capture shifting global value chains (GVCs), nations must address structural gaps identified by the **Readiness Dashboard (RD)**, a tool developed in recent research by The Adam Smith Center for Economic Freedom at Florida International University. This multidimensional tool scores on a scale from 0 (weak) to 10 (strong), 124 countries across four critical pillars:

- Institutions: Assessing the legal and regulatory environment, including property rights, judicial independence, political stability and control of corruption.
- Infrastructure: Measuring the quality and connectivity of physical and digital networks, which are essential for timely, cost-effective product movement.
- Integration: Evaluating how well an economy is embedded in international trade through logistics performance, trade openness, and existing trade agreements.
- Inputs: Focusing on the availability of skilled human capital, talent readiness, and financial access for SMEs

### **III. Key Findings and Policy Challenges for LAC**

Research indicates a strong correlation between economic status and overall readiness. The "Inputs" dimension, specifically talent readiness and human capital, is the most significant challenge for all countries. Even high-income nations score their lowest in this category.

Currently, high-income nations lead significantly (6.74 score), while low-income nations (3.28 score) face severe hurdles, particularly in infrastructure. While the global average readiness score is 5.50, Latin America and the Caribbean (LAC) trails with an average of 4.91. In contrast, advanced economies lead with a score of 7.08, primarily due to superior infrastructure and institutional stability.

Within LAC, Chile (6.24), Uruguay (5.85), and Costa Rica (5.84) are the top performers. Uruguay is leading the region in institutional framework with a score of 7.15.

While top-tier performers have strong frameworks, other countries struggle. Venezuela remains a notable outlier at the bottom with a score of 2.80 due to institutional collapse. Major economies like Brazil and Mexico continue to struggle with high levels of bureaucratic burden.

The region is making strides in digital connectivity, with almost all nations scoring above 7.40 in ICT and Telecom. However, physical infrastructure, specifically Ground, Ports and Air Transport, remains a critical weakness for the entire group.

### **IV. Actionable Recommendations for Policymakers**

To attract and retain long-term investment, regional governments should prioritize take the following strategic actions:

- Modernize Regulatory Frameworks: Implement one-stop investment licensing and modernize customs regimes to reduce bureaucratic burden.
- Adopt targeted Fiscal Incentives: Utilize tax policies such as time-bound accelerated depreciation and predictable special regimes like Free Trade Zones (FTZs) to improve early cash flow for investors.
- Invest in "Inputs": Launch aggressive workforce development programs focused on upskilling and vocational training to align local talent with advanced manufacturing needs.
- Strengthen Digital Infrastructure: Prioritize digital development to ensure real-time supply chain visibility, which is critical for modern GVC management.
- Foster Innovation Clusters: Adopt cluster strategies to create regional dynamism and encourage technology transfer.
- Apply a niche perspective: Each country has its own unique characteristics, with productive activities that are already well-developed and have established export capabilities. Simultaneously, some sectors can

emerge as export niches and connect with regionalized global value chains, as part of a nearshoring strategy. Paying attention to the needs of these niches is crucial.

## **V. Conclusion**

The window for the Western Hemisphere to reconfigure itself as a resilient, inclusive economic powerhouse is open. However, this requires a relentless commitment to strengthening the four pillars of readiness. Being "ready" is now the only way forward in the new global economy.

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January 13, 2026

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