

# Nearshoring offering in Mexico

Amid disruptions to global supply chains, businesses across the globe are facing increasing costs and logistical challenges. To address existing obstacles and avoid future disruptions, many companies are seeking to relocate or diversify production capacity to locations closer to major target consumer markets.

While discussions of the nearshoring phenomenon often focus on U.S. companies, it is a global phenomenon. Companies such as Inditex, the parent company of Zara, Massimo Dutti, and Bershka, have diversified their production capacity from Asia to Morocco and Turkey to be closer to Europe. Samsung has opened new factories in Bangladesh and Vietnam to reach Asian markets. In Latin America, Mexico leads the pack.

## Where does Mexico stand?

In November 2022, Mexico's Secretariat of Economy announced that more than 400 companies had expressed interest in nearshoring to Mexico. In 2022 alone, Mexico registered more than 100 relocations, from U.S., Asian, and European companies. Between 2023 and 2025, BBVA Mexico and the Mexico Association of Private Industrial Parks estimate that more than 200 new companies will arrive to Mexican industrial parks annually. Mexico has many competitive advantages, including its trade agreements, location, workforce, demographics, and macroeconomic stability, that make it an increasingly attractive investment destination for companies.

Through the country's 15 free trade agreements with 51 countries, including the United States-Mexico-Canada Agreement (USMCA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and its Global Agreement with the European Union, businesses

in Mexico have unparalleled access to most of the world's largest markets. These benefits are amplified by Mexico's strategic geographic location, evidenced by the nearly USD 2 million of bilateral trade that takes place across the U.S.-Mexico border every minute. According to figures released by the U.S. Census Bureau on July 6, 2023, Mexico is now the U.S.'s number one trading partner, also accounting for 15.4 percent of its total imports between January and May of this year. Mexico has a skilled workforce, with major manufacturing hubs in the automotive, aerospace, electronics and medical devices sectors. GlobalData forecasts Mexico's working age population will increase to 88.7 million by 2025 - nearly 70 percent of the country's population. Wages remain highly competitive with the average manufacturing labor cost in Mexico at USD 4.80 per hour, compared to USD 6.50 per hour in China. Finally, Mexico's solid macroeconomic conditions have shielded the country from some of the high inflation peaks seen elsewhere in the world, with inflation rates consistently below global averages.

Mexico is in an ideal position to continue to benefit from nearshoring trends, although it needs to address significant challenges, including:



**Energy issues**, which are a real concern for companies wanting to start operations in the country as Mexico faces limitations in energy generation and transmission capacity. Per a study from the U.S. Department of Energy's National Renewable Energy Lab, policies prioritizing state-owned energy generation could increase the costs of energy as much as 65 percent.



**Water scarcity**, which is affecting communities near industrial hubs, which represents a challenge and obstacle to business development. Per the latest data from Mexico's National Water Commission 70.75 percent of the country was affected by droughts.



**Real estate availability**, with many industrial parks at capacity or with waiting lists as demand for real estate in Mexico has increased.



**Security**, which is also a challenge for companies due to the power exerted by criminal organizations in some areas of the country.

Companies that successfully navigate these opportunities and challenges are likely to see great returns. Per PwC estimates, U.S. manufacturers that move production from China to Mexico could cut costs by 23 percent. For Mexico, this could mean significant benefits for national development, including an estimated 3 percent increase in GDP for the next five years. In the first quarter of this year, Mexico received more than USD 18.6 billion in foreign direct investment (FDI) – an increase of 48 percent since the year prior according to the Ministry of Finance and Public Credit. If these trends continue, the Council of Global Businesses projects that Mexico's FDI could reach USD 30 to 50 billion annually by 2030.



# How can Dentons Global Advisors help clients who are interested in harnessing the advantages of nearshoring opportunities in Mexico?

Our experts in Mexico City and Washington, DC are well positioned to provide assistance in the following key areas:

- **Government Relations:** We understand the intricacies of the Mexican political landscape and have established relationships with key stakeholders. Our team can navigate government processes, facilitate dialogue with relevant authorities at the State and Federal levels, and advocate for clients' interests, ensuring a smooth transition and favorable outcomes.
- **Commercial Diplomacy:** Our experience in international trade and diplomacy allows us to provide strategic guidance on market entry, regulatory compliance and business expansion. We can help clients navigate the complexities of the Mexican business environment, identify potential partners and establish fruitful collaborations.
- **Corporate Strategy:** With our in-depth understanding of both global and local market dynamics, we can assist clients in developing a tailored corporate strategy aligned with the organization's nearshoring objectives. We analyze market trends, conduct feasibility studies and provide strategic recommendations to optimize your operations and maximize growth opportunities.
- **Sustainability Strategy:** As sustainability becomes an increasingly vital aspect of business practices, we can help clients integrate sustainable strategies into your operations. Our experts will assess clients' environmental, social, and governance (ESG) practices, identify areas for improvement, and develop a comprehensive sustainability strategy that aligns with business goals and meets international standards.
- **Strategic Communications:** Effective communication is essential for success in the nearshoring process. Our communications experts can develop a compelling narrative around clients' nearshoring initiatives, ensuring the message resonates with policymakers, investors and the public. We offer reputation management, media relations and stakeholder engagement services to enhance your brand and foster positive relationships.

## Our Experts



### Alvaro Vertiz

A Partner at Dentons Global Advisors and lead of its Mexico office, is a seasoned legal and business professional with extensive experience in Latin America. He served as a member of the board and COO, Head of Business Strategy, Strategic Partnerships for BlackRock Mexico. Before such positions, he served as General Counsel and Head of Compliance for the company. Prior to joining BlackRock, Alvaro was the VP General Counsel at Prudential Real Estate Investors Latin America, he also held senior legal positions at GE Capital Real Estate, GE Capital Solutions and Citibank.



### Ambassador Julián Ventura

Senior Advisor at Dentons Global Advisors, brings to our network over three decades of diplomatic experience, having served the Mexican government in Asia, Europe, South and North America, the United Nations, and the Organization of American States. As Mexico's Deputy Secretary of Foreign Affairs, he helped launch business and innovation dialogues with key partners including China, France, India, and the United Kingdom. He oversaw Mexico's diplomatic relationships with the European Commission, the African Union, and the G-20, among others. Earlier, Ambassador Ventura served as the Mexican Ambassador to the United Kingdom and to the People's Republic of China, as well as Undersecretary for North American Affairs and Deputy Chief of Mission at the Mexican Embassy to the United States. He has extensive experience in outreach to the private sector.

## DENTONS GLOBAL ADVISORS

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