

**Deloitte.**



## Nearshoring in Mexico

A rapidly emerging phenomenon | July 2023

Econosignal

# Highlights

## What are the benefits for Mexico?



# What is Nearshoring?

A wide-angle photograph of a container yard. In the foreground, a paved road with two yellow lines leads towards the stacks of containers. The containers are stacked in several rows, with colors ranging from red and orange to blue and teal. In the background, a large airplane is flying in a bright blue sky with scattered white clouds. The sun is visible, creating a lens flare effect.

When a company moves all or part of its production closer to the final consumer, reducing costs and avoiding logistical setbacks.

# Nearshoring Assessment in Mexico | Why is it happening?



## US-China tariffs

Tariffs imposed by the United States in 2018 have caused some businesses to look for alternative markets to reduce costs.



## NAFTA Vs USMCA (2020)

The USMCA increased regional value content requirements for products to be considered to be made in North America, giving producers an incentive to relocate their supply chain.



## COVID-19 Pandemic (2020)

The rapid spread of the pandemic led to closing of borders globally, which in turn impacted the availability of goods and delivery times during a time when the demand for various products increased.



## Logistic disruptions

The availability of containers and the increase in the cost of transport, especially maritime, have raised transportation costs by more than 500%.



## Russia-Ukraine war

The outbreak of the war in Ukraine limited the supply of raw materials, which forced businesses worldwide to look for alternative suppliers.



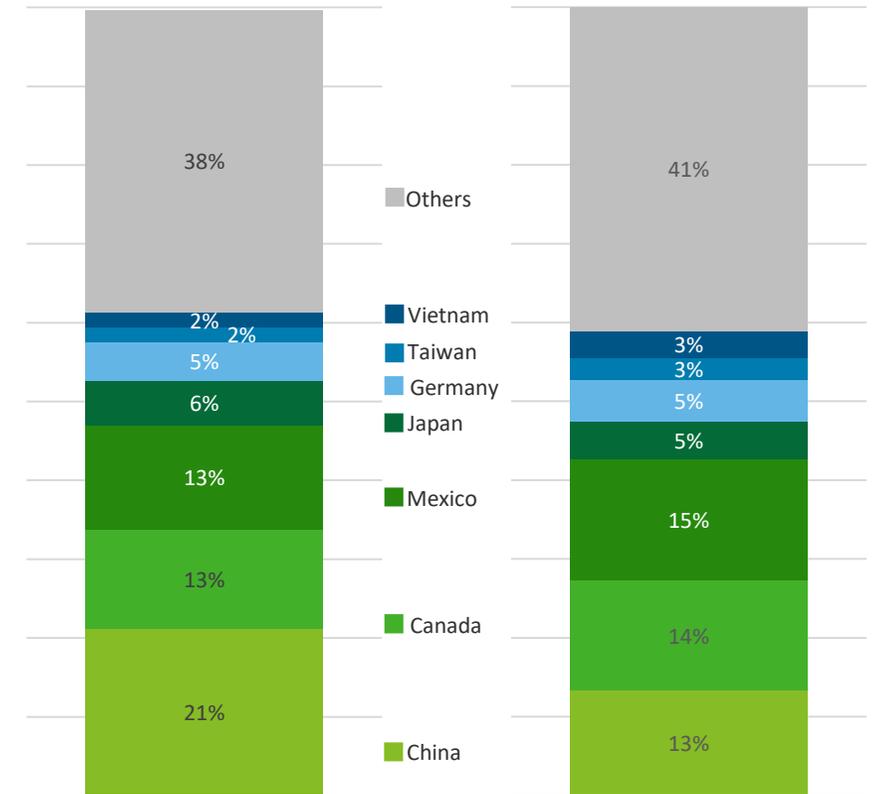
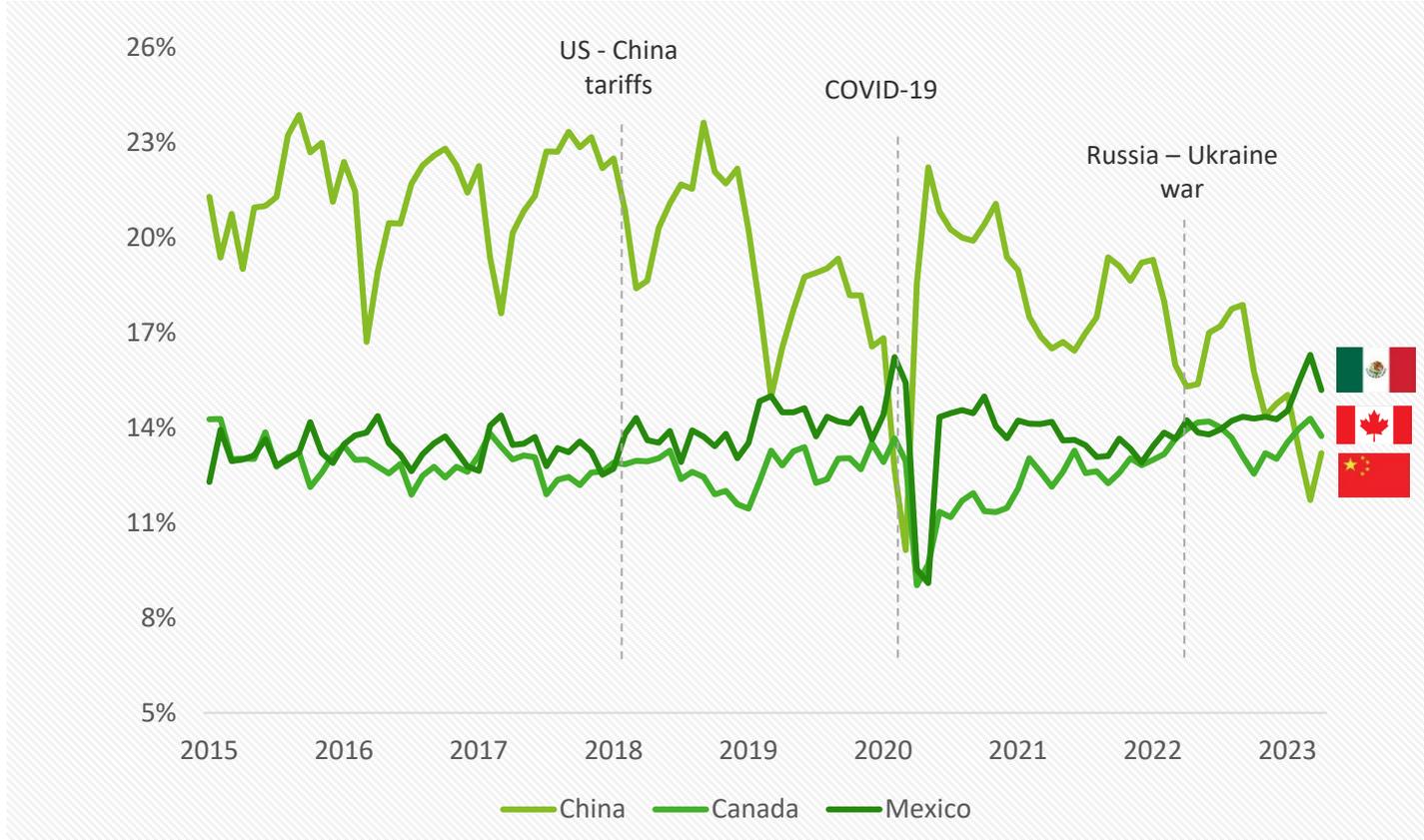
# A golden opportunity



Since trade tension with the United States worsened in 2018, China has lost more than eight percentage points of its share of US imports...

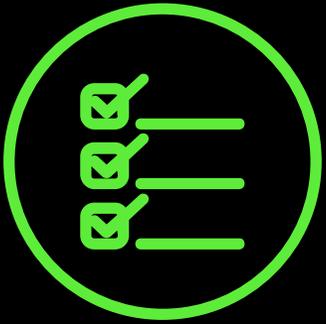
... But Mexico has grabbed only a part of it.

## Share of US imports by country of origin



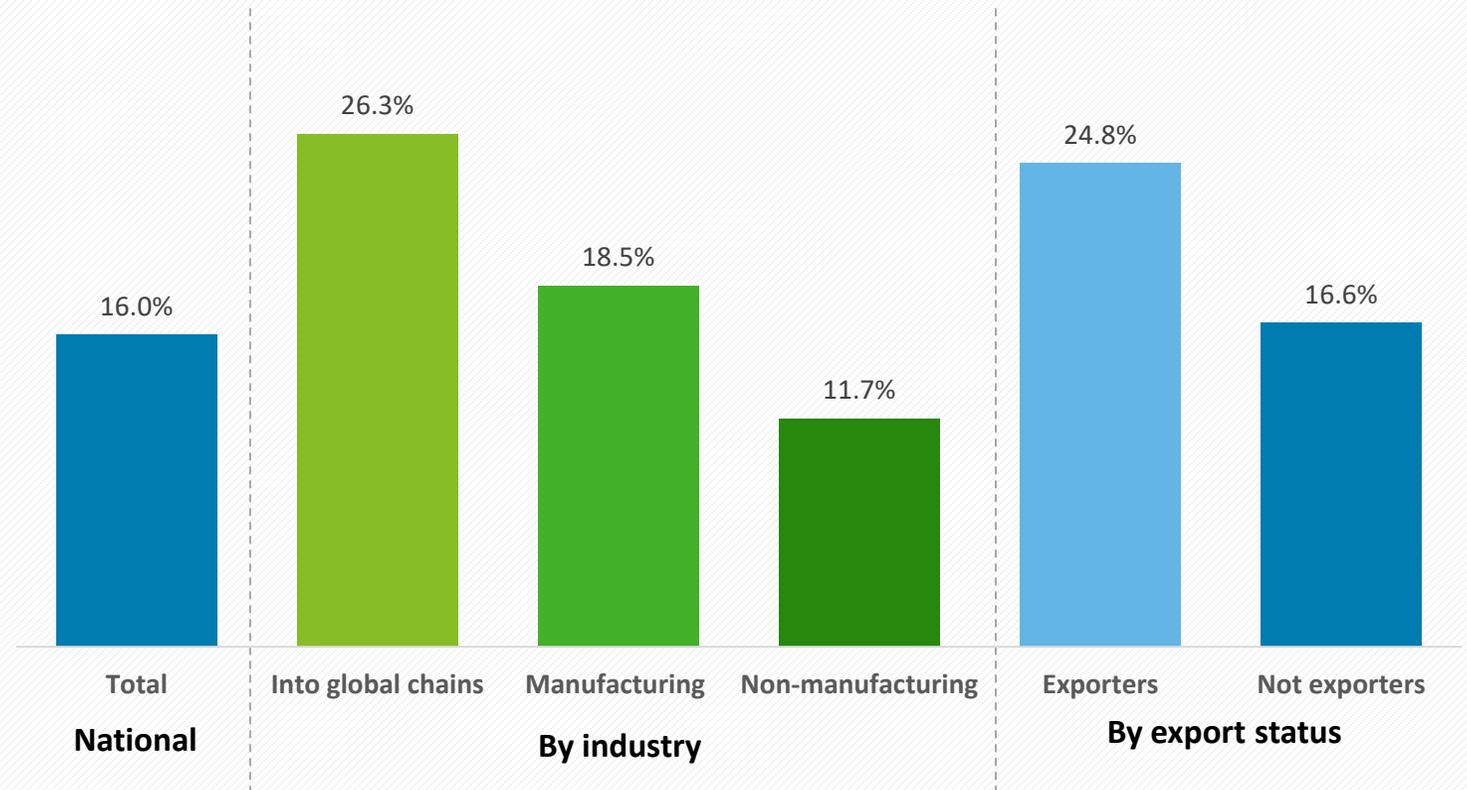
Source: CBRE. Seasonally unadjusted figures.

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According to a survey from Mexico's Central Bank, nearshoring is starting to materialize.

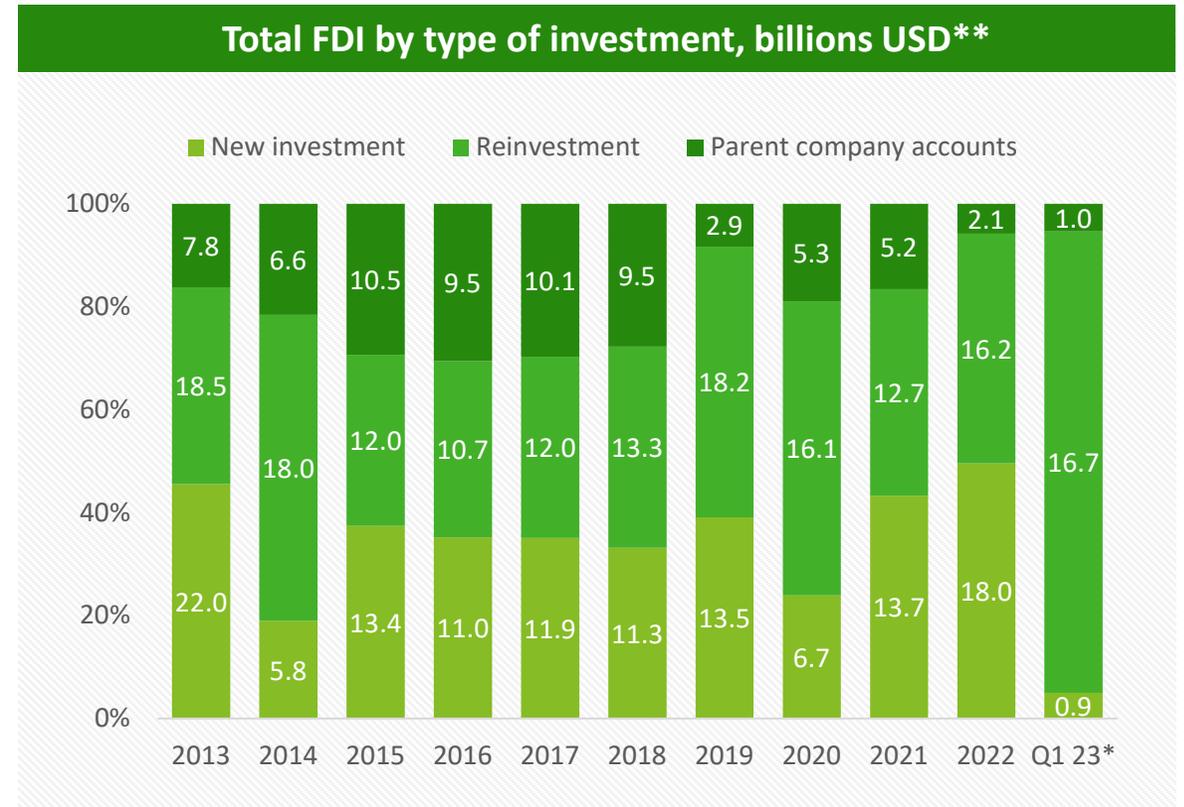
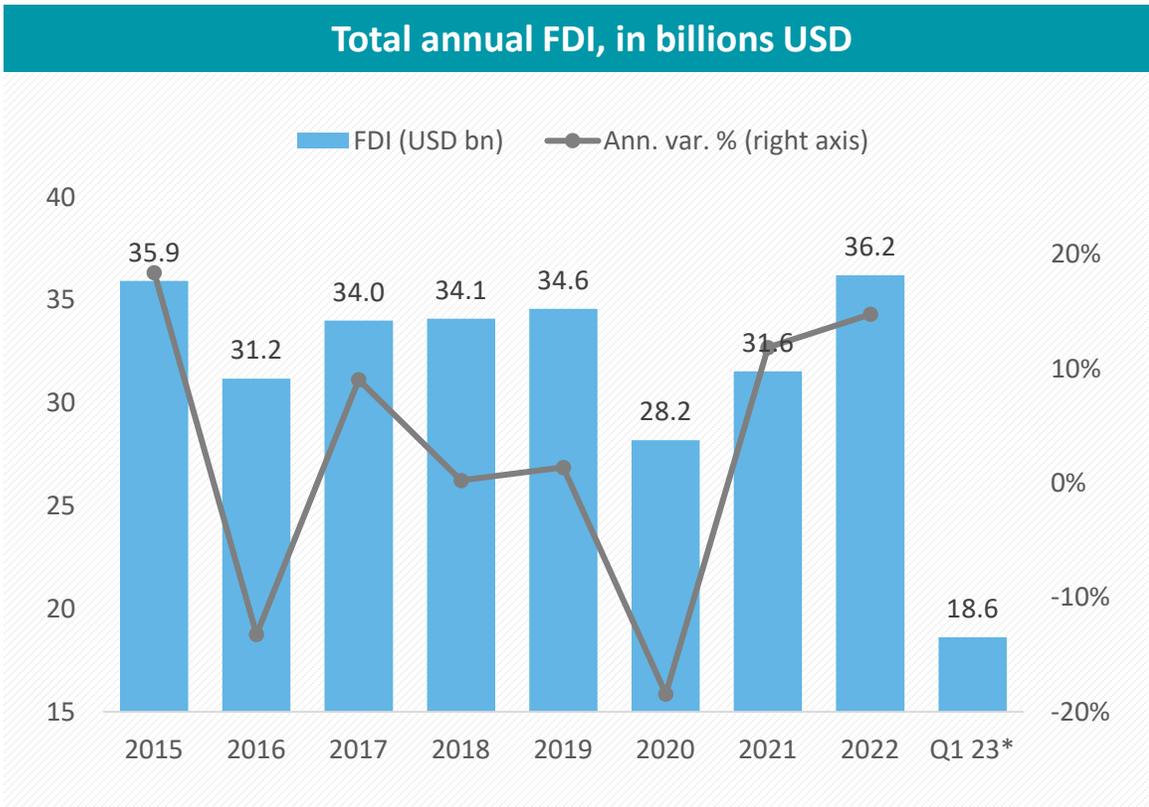
Percentage of companies that observed increases in the demand for their products or services or in their foreign direct investment as a result of nearshoring



**Source:** Interview program conducted by Banco de México between June 27 and July 21, 2022. Interview question: "During the last 12 months, indicate whether your company's production, sales or investment have increased as a result of nearshoring." The calculations are made using the information from the EMAER (Monthly Survey of Regional Economic Activity), which is representative of establishments with more than 100 workers in the manufacturing and non-manufacturing sectors and which represents around 62% of the total gross national product.

# Foreign direct investment (FDI) in Mexico

Nearshoring is yet to result in any significant increase in foreign direct investment (FDI) in Mexico, as evidenced in near similar FDI levels before and after the pandemic. However, there are some promising trends. In 2022, for example, new investments represented 48% of total FDI into Mexico, the highest since 2013.



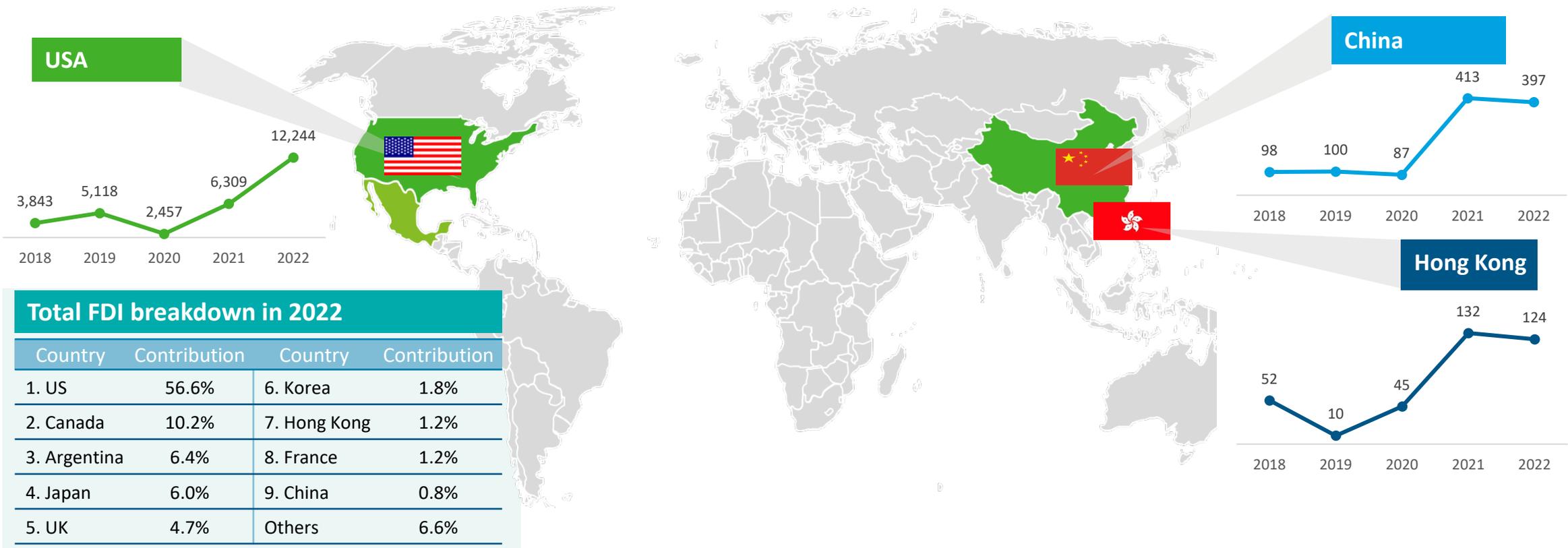
\*Preliminary information. \*\*The sum of the three items gives the total FDI (100%), which is why the vertical axis is presented as a percentage.

Source: Ministry of Economy of Mexico. The latest published data are used, but since this is a preliminary version, it is very likely that the figures will be adjusted.

# Where are these investments coming from?

There are mainly two types of groups that are reallocating in Mexico. The first group is integrated by American companies that already had operations in Mexico and now are expanding their capacity. The second group comprises Chinese companies that are seeking the benefit of producing in North America while avoiding the high costs of labor and reducing the risks of disruptions in the supply chain.

## New investments in Mexico per year\*, in millions USD



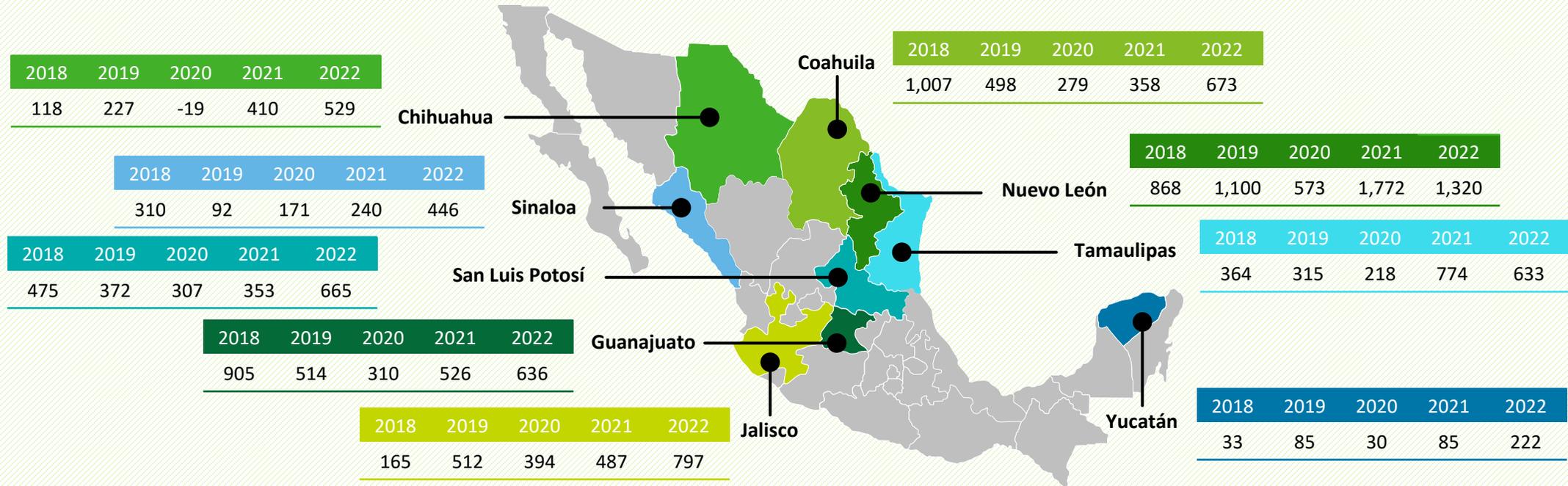
\*The total FDI is compounded by new investments, reinvestment, and parent company accounts.

Source: Ministry of Economy of Mexico.

# Foreign investment by State

To take advantage of the geographical position, new investments are arriving mainly in the northern states, but also in those whose main activity is manufacturing. In the following figure, it is clearly seen how new investments rebounded between 2021 and 2022.

## Arrival of new investments by state, in millions USD



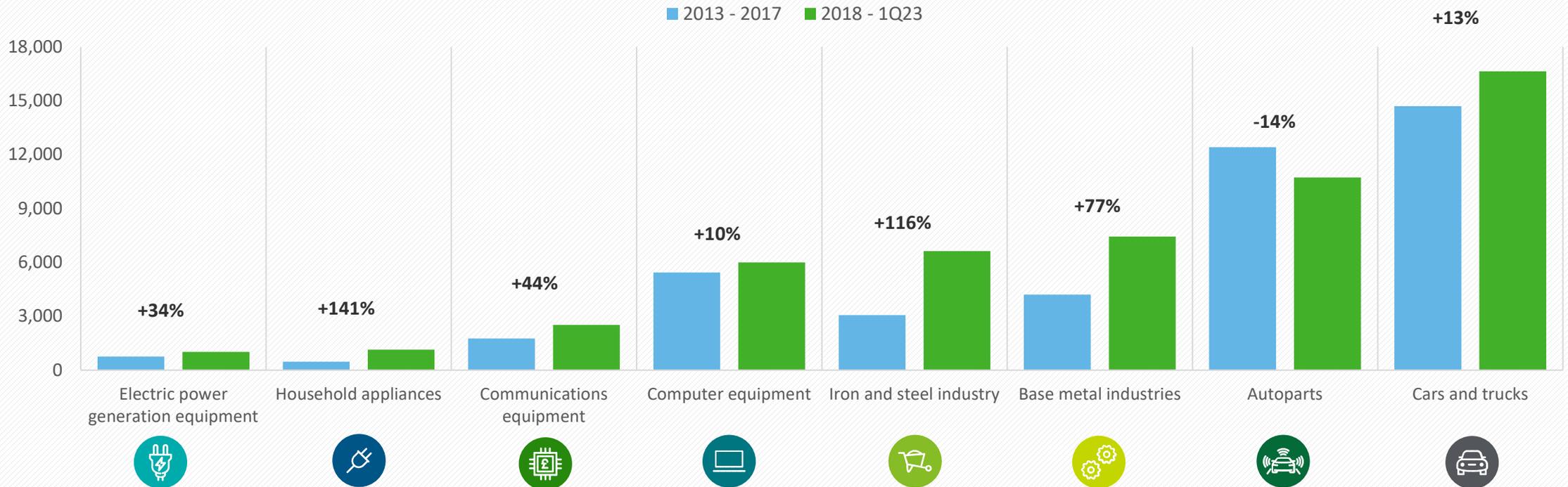
\*The total FDI is compounded by new investments, reinvestment, and parent company accounts.

Source: Ministry of Economy of Mexico.

## Sectors that are beginning to attract FDI in Mexico

Although it's transportation equipment that has attracted the bulk of manufacturing FDI, in recent years, other sectors have grabbed investors' attention, such as electrical accessories and appliances, and communications and computer equipment. Considering many of these sectors suffered logistic problems during the pandemic, the increase in FDI may likely be capital that is being relocated.

**Manufacturing FDI. Cumulative figures between 2013-2017 and 2018- Q1 2023, in millions USD.**



**Note:** Only the sectors that most increased their flows between 2018 and 2023 and that also exceed \$100 million dollars are included, and auto parts manufacturing due to its relevance.

**Source:** Ministry of Economy of Mexico.

# Mexico's manufacturing boom



Higher demand from the global market has caused an acceleration of manufacturing production in Mexico. In 2022, it grew 5.2% annually, significantly higher than the previous 10-year average (+2.3%).

## Manufacturing as % of the GDP



Source: INEGI.

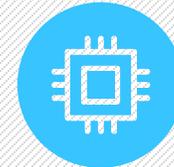


Some of the manufacturing industries that have performed the best have also been among those that have attracted the most FDI in recent years.

## Manufacturing activity by sector Cumulative progress from 1Q 2018 to 1Q 2023

Electronic components

+37%



IT equipment

+32%



Electrical accessories and equipment

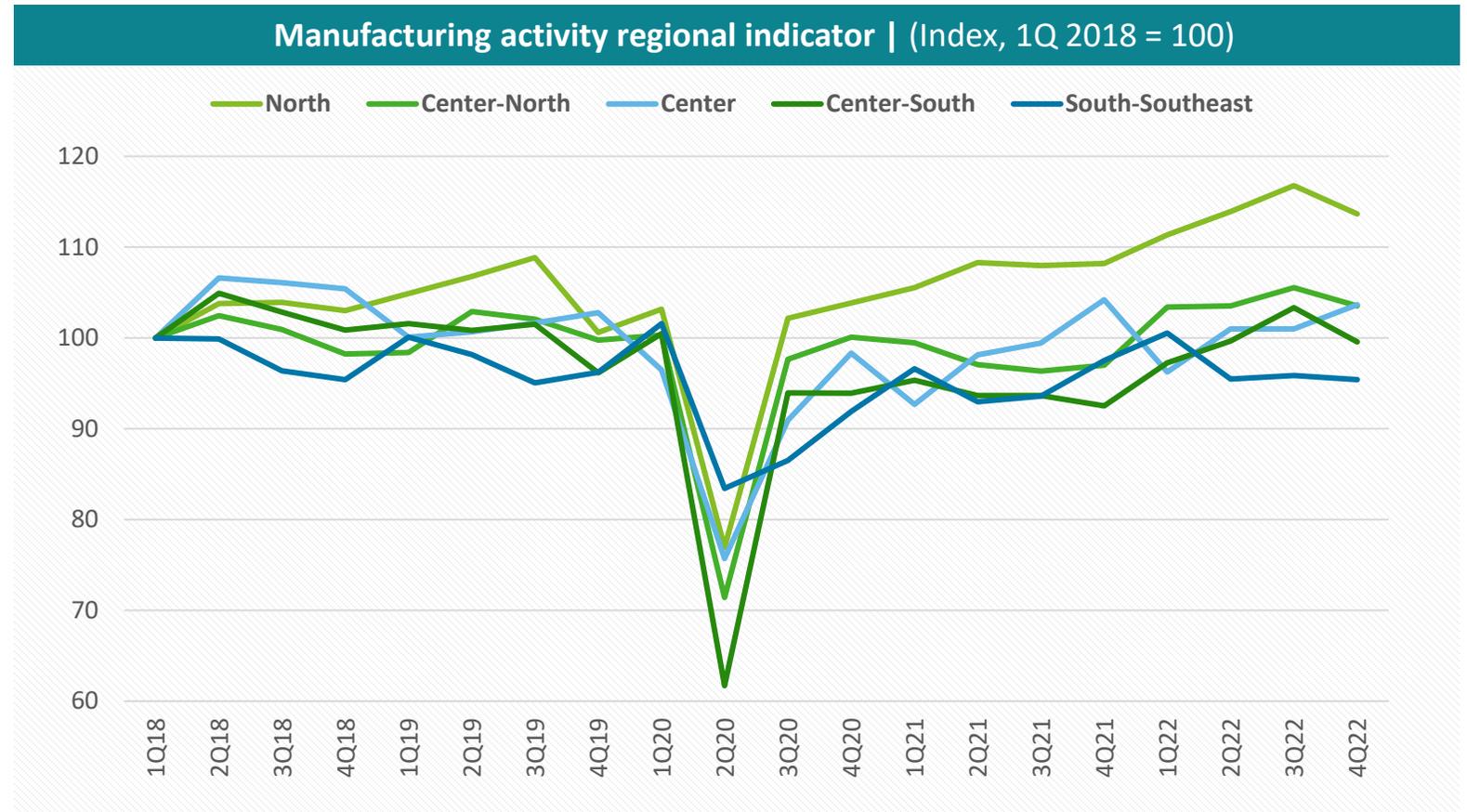
+24%



# Higher manufacturing production in the North

Manufacturing activity in the North and Center of the country is recovering more rapidly. This could prove that production is increasing faster in cities close to the U.S. border or in states that specialize in manufacturing activities.

80% of Mexican exports go to the United States.



**North:** BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | **Source:** INEGI.

# Employment and wages

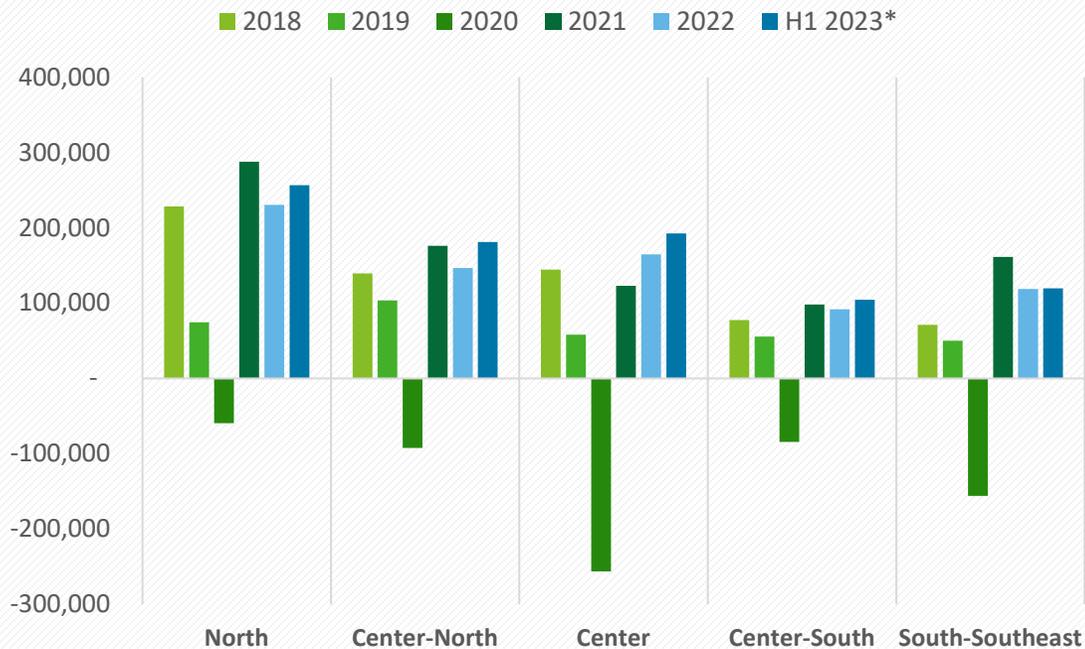


Additionally, employment is increasing more in the North of the country than in any other region.

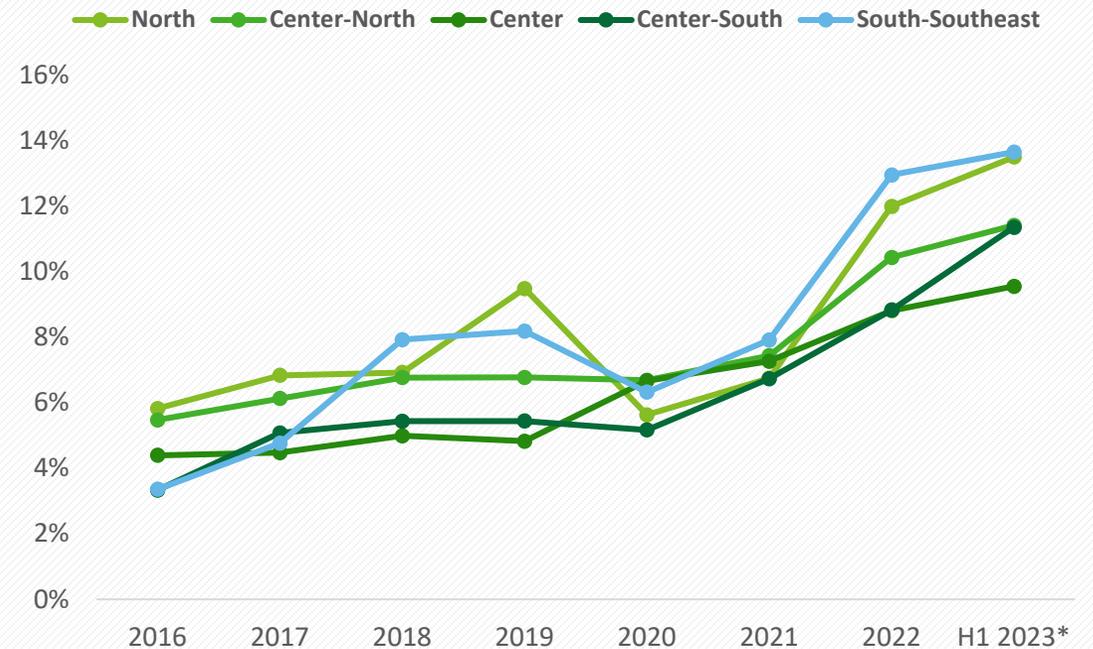


Although manufacturing wages have performed better in the South, the North part of the country is reaching out.

## New formal job positions, annual difference



## Nominal annual % change in manufacturing wages



\*First half of 2023. Data available from January to May 2023.

Source: IMSS (Mexican Social Security Administration). The IMSS defines the manufacturing industry as a transformation industry.

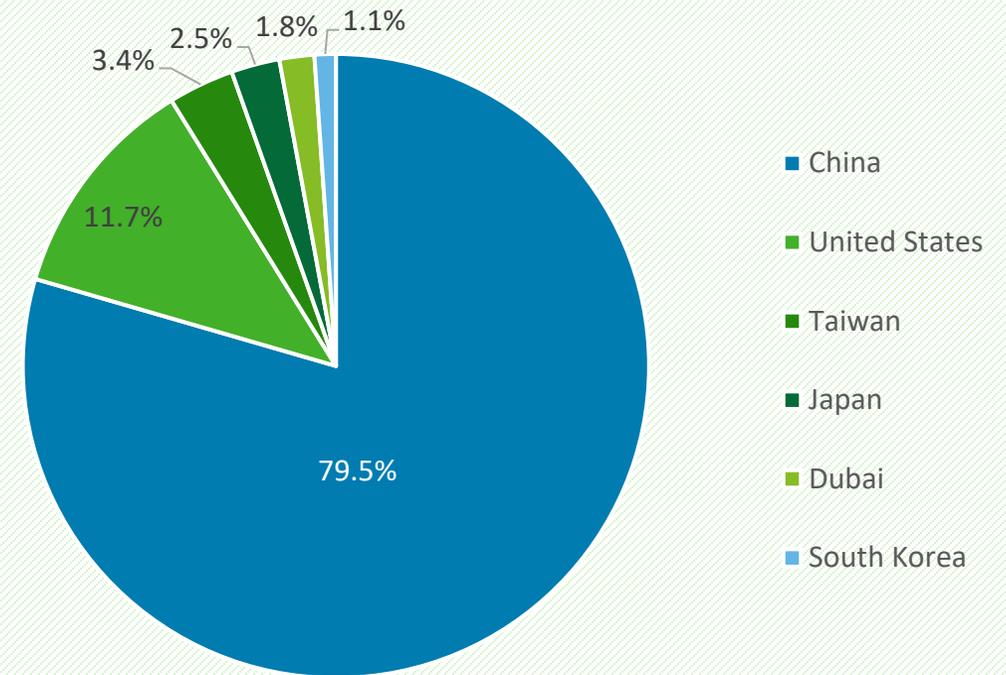
## Occupancy of industrial facilities

According to a Market Analysis report, occupancy of industrial parks in Mexico due to nearshoring is growing. This data matches with the AMPIP\*, which indicates that the national average occupancy rate of industrial parks was 97% in 2022.

**The occupancy of industrial parks is growing**  
(Million m<sup>2</sup>)

	2019	2020	2021	2022
Occupied industrial space	72.8	74.9	78.4	82.7
New occupied space	2.0	2.1	3.5	4.3
New occupied space for nearshoring	0.3	0.4	0.7	2.2

**Absorption of industrial parks by country of origin**  
(Companies that settled in Mexico because of nearshoring, 2022)



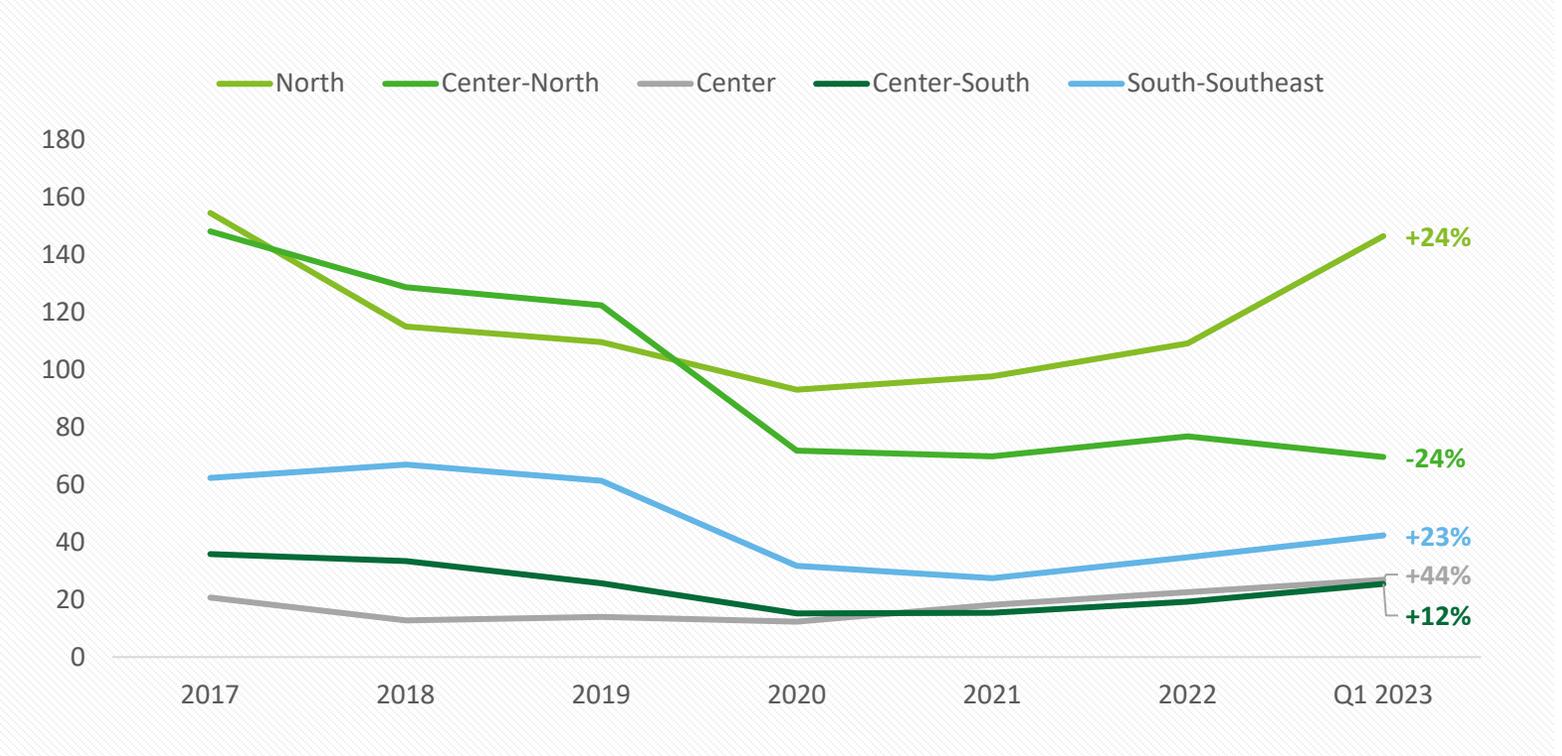
\*Mexican Association of Industrial Parks (*Asociación Mexicana de Parques Industriales*).  
Source: Market Analysis and AMPIP.

# And the construction of new industrial facilities is also growing

The construction of new industrial facilities is growing more rapidly in the north and center of the country. While in other regions, the construction of those is lagging behind. This could imply that the demand for industrial space is still being covered by the existing offering.

## The northern region is on track to exceed 2017 levels

Construction of industrial, commercial, and service buildings. Million of US dollars



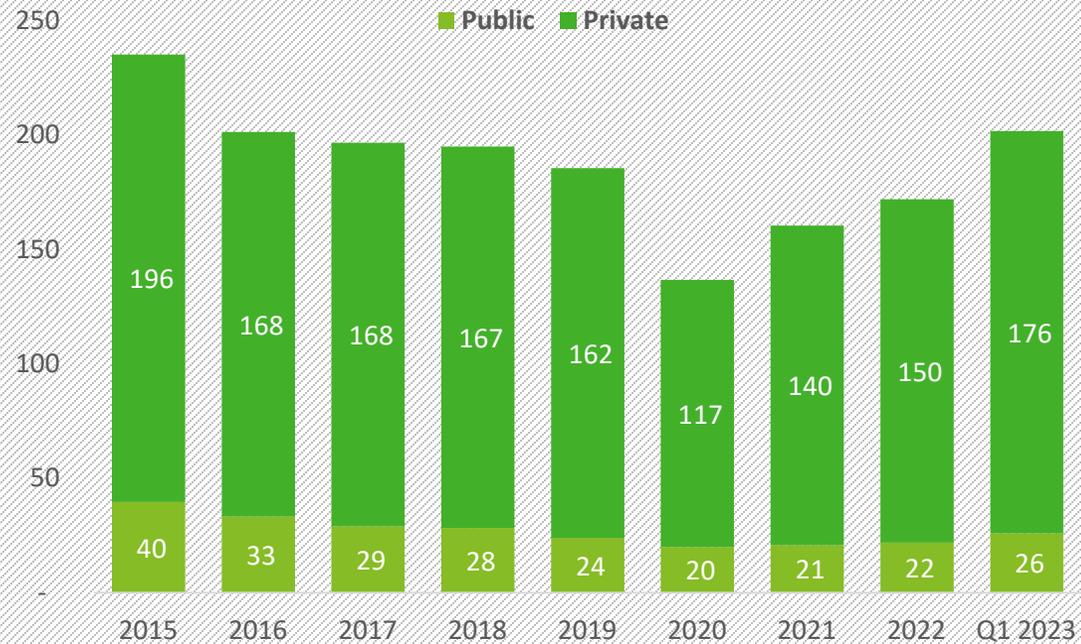
**North:** BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | Source: INEGI.

# Would this opportunity be lost?



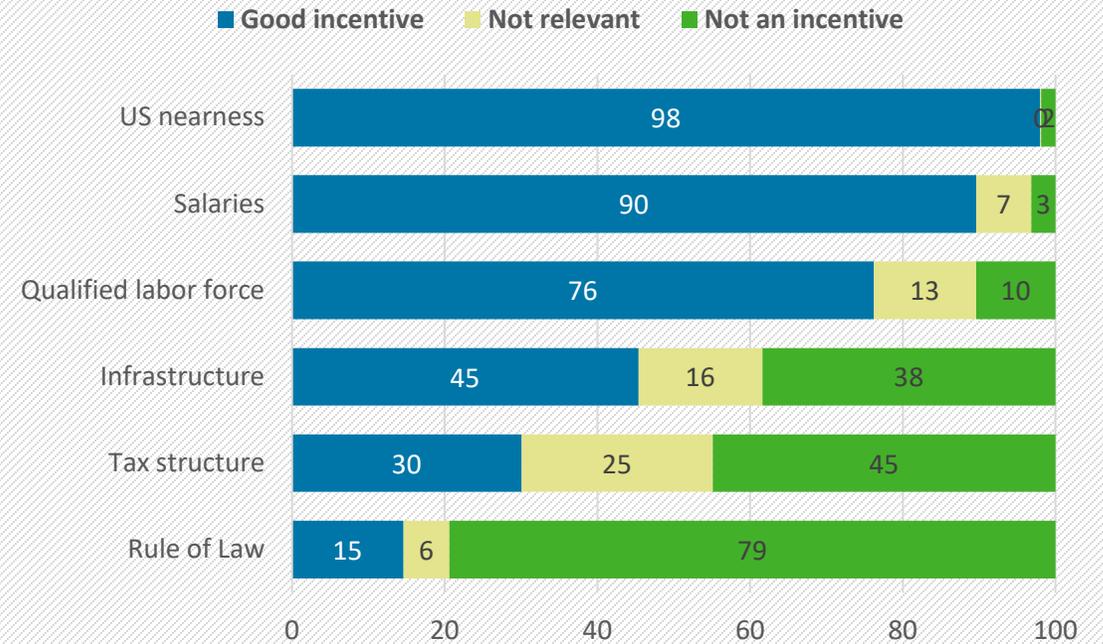
Private investment has just surpassed pre pandemic levels—an indication that nearshoring is in its early stages in Mexico...

Fixed Investment, million US dollars



...however, one of the factors that could hinder the attraction of new investment is related to the Rule of Law.

Why Mexico is attractive as an investment destination?, % of companies\*



\* Interview program conducted by Mexico's Central Bank. The question was: "In your opinion, how would you rate the importance of the following factors in Mexico in making it a more competitive destination for international companies?" | Source: INEGI and The Bank of Mexico.

# Investment Monitor

Based on a Deloitte study, most of the nearshoring activity in Mexico is related to the auto sector and concentrated in the center, west and north regions



Projects with the highest amounts.

The complete list is available in [appendix 1](#).

Company	Amount of investment (mm USD)	Country	Sector	State
Ternium	1,940	Argentina	Steel	Nuevo León
Tarafert	1,500	Germany	Fertilizers	Durango
BMW	865	Germany	Automotive	San Luis
Others	9,350			
<b>Total</b>	<b>13,655</b>			



The total amount presented in the table is equivalent to 16% of total FDI received from 2021 to the Q1 2023

Main sectors of investment, % of the total



Automotive

22%



Autoparts

18%



Steel

14%

\*Tesla will arrive in Mexico, but its investment is not included in the table as it is an expansion of the company, not a relocation of its activities. | **Source:** Econosignal. We conducted a follow-up at Econosignal on companies that have announced that they will expand their activities or that have arrived for the first time in the country exclusively for nearshoring purposes from the beginning of 2021 to May 2023. As this is a manual process, we have not necessarily counted all the projects announced through nearshoring during the study period.

## A long-term commitment



Nearshoring in Mexico is a rapidly emerging phenomenon that could consolidate the country as an international logistics hub.



Considering the process of enabling manufacturing plants can be extremely slow, disbursements are progressive and many of these projects may take a long time to show results.



To take advantage of this opportunity, it is necessary for Mexico to improve its business environment, solve electricity and water supply issues, increase investment in infrastructure, and generate incentives for investment.



If the opportunity is seized:

- FDI could add another 0.5 percentage point to Mexico's GDP<sup>1</sup>
- Manufacturing output could add an extra 2.4 percentage points to GDP<sup>1</sup>
- An additional 1.1 million jobs could be created<sup>1</sup>

1. notes on page 22.

# Appendix 1.

Companies that have announced investments in Mexico specifically attracted by nearshoring. From January 2021 to May 2023.

CompanyD	Amount (USD bn)	Country	Sector	Stage	State
Kurabe	35	Japan	Automotive	Construction	Aguascalientes
Capgemini	UA	France	IT	Announced	Aguascalientes
Xinquan Mexico	30	China	Automotive	Operation	Aguascalientes
Eson Multiwin	UA	Taiwan	Plastics	Announced	Baja California
BEO Vizion Technology	UA	China	Electrical equipment	Operation	Baja California
Schneider Electric	73	France	Green energy	Construction	CDMX
Wistron	40	Taiwan	Electronics	Construction	Chihuahua
ZF Electronic System	UA	Germany	Automotive	Announced	Chihuahua
BRP	165	Canada	Transportation	Announced	Chihuahua
Pegatron	200	Taiwan	Electronics	Construction	Chihuahua
Eaton	100	USA	Energy	Construction	Chihuahua
WBTL	450	China	Autoparts	Announced	Coahuila
Xusheng	350	China	Autoparts	Announced	Coahuila
LG Magna	300	Canada	Autoparts	Construction	Coahuila
Hisun	152	China	Automotive	Operation	Coahuila
Whirlpool	113	USA	Domestic electrical equipment	Announced	Coahuila
FYMSA	4	Japan	Aluminum components	Operation	Coahuila
Yinlun	38	China	Automotive	Announced	Coahuila
NYX plastics	25	USA	Electrical auto parts	Operation	Coahuila
BTL	48	China	Automotive	Construction	Coahuila
Longda Plastics	10	China	Plastics	Announced	Coahuila
Citic Dicastal	550	China	Auto parts	Construction	Coahuila

Company	Amount (USD bn)	Country	Sector	Stage	State
CVG	57	USA	Automotive	Announced	Coahuila
SkyJack	80	Canada	Machinery	Operation	Coahuila
Tupy	36.8	Brazil	Metallurgical	Announced	Coahuila
Daimay	32	China	Auto parts	Operation	Coahuila
Milba	25	Austria	Manufacture	Announced	Coahuila
Leadgo	5	China	Energy	Operation	Coahuila
Tarafert	1500	Germany	Fertilizers	Announced	Durango
Proma	7.3	Italy	Automotive	Announced	Guanajuato
Le Bélier	100	France	Automotive	Operation	Guanajuato
ZKW	102	Austria	Automotive	Announced	Guanajuato
Kohler	181.2	USA	Home appliances	Announced	Guanajuato
Pirelli	114	Italy	Automotive	Construction	Guanajuato
ITT Motion	40	Italy	Automotive	Announced	Guanajuato
Denso	10	Japan	Automotive	Announced	Guanajuato
Waldaschaff Automotive	20	Germany	Auto parts	Construction	Guanajuato
Bosh	225	Germany	Automotive	Announced	Guanajuato
Metso Outotec	39.9	Finland	Manufacture	Construction	Guanajuato
Zoltek	130	USA	Carbon fiber	Construction	Jalisco
Molex	130	USA	Automotive	Construction	Jalisco
Haitian International	20	China	Machinery	Operation	Jalisco
Unilever	247	UK	Consumer goods	Announced	México
Nidec	715	Japan	Electrical auto parts	Announced	UA

UA. Unavailable.

**Note:** As this is a manual process, we have not necessarily counted all the projects announced through nearshoring during the study period.

**Source:** Deloitte analysis based on data from various news providers.

## Appendix 1 (continued)

Company	Amount (mm USD)	Country	Sector	Stage	State
Mattel	47	USA	Toys	Operation	Nuevo León
Ternium	1940	Argentina	Steel	Announced	Nuevo León
ZF Group	300	Germany	Automotive	Construction	Nuevo León
Daye Garden	120	China	Electric	Announced	Nuevo León
Lingong	140	China	Electric	Construction	Nuevo León
Siemens	53	Germany	Electric	Construction	Nuevo León
Lakeland	5	USA	Clothing	Construction	Nuevo León
LGMG	140	China	Construction	Construction	Nuevo León
Quanta Computer	500	Taiwan	Electronics	Construction	Nuevo León
Hisense	260	China	Domestic electrical equipment	Construction	Nuevo León
Hengli	UA	China	Metalmechanics	Announced	Nuevo León
Lizhong	UA	China	Automotive	Announced	Nuevo León
Lenovo	20	China	IT equipment	Operation	Nuevo León
Kawasaki	265	Japan	Automotive	Construction	Nuevo León
BCM	20	China	Construction	Construction	Nuevo León
American Woodmark	45	USA	Furniture	Construction	Nuevo León
Ollin Plastics	10	China	Domestic electrical equipment	Announced	Nuevo León
Man Wah	300	Hong Kong	Furniture	Construction	Nuevo León
Kuka Home	200	China	Furniture	Operation	Nuevo León
Sunon	50	China	Furniture	Construction	Nuevo León
Zoy Living	UA	China	Furniture	Operation	Nuevo León

UA. Unavailable.

**Note:** As this is a manual process, we have not necessarily counted all the projects announced through nearshoring during the study period.

**Source:** Deloitte analysis based on data from various news providers.

Company	Amount (mm USD)	Country	Sector	Stage	State
Lego	507	Denmark	Toys	Operation	Nuevo León
Brembo	207	Italy	Auto parts	Operation	Nuevo León
Faurecia	147	France	Auto parts	Operation	Nuevo León
Festo	100	Germany	IT	Construction	Nuevo León
Honeywell	60	USA	Manufacture	Announced	Nuevo León
Black & Decker	40	USA	Electric	Operation	Nuevo León
Yanfeng Seating	23	China	Auto parts	Operation	Nuevo León
Holley Techn	10	China	Electronics	Operation	Nuevo León
Georg Fisher	9	Switzerland	Plastics	Operation	Nuevo León
Avery Dennison	100	Netherlands	Electric	Construction	Querétaro
BMW	865	Germany	Automotive	Announced	SLP
Daikin	300	Japan	Electrical appliances	Construction	SLP
Sun Metals	20	China	Auto parts	Operation	SLP
Woodgenix	15	China	Furniture	Construction	Yucatán

# About calculations

In order to prepare the calculations presented in sheets 2 and 19, several assumptions were used:

- For the case of Foreign Direct Investment (FDI), a 10% annual growth rate is assumed for the next 5 years (during 2021 and 2022 it grew 12% annually). Under this assumption, FDI would reach around \$60 billion dollars by 2027.
- In the case of exports, a 10% annual growth rate is assumed for the next 5 years (in 2021 it rose 19% and in 2022, 17%). With that, between 50 and 60 billion would be added to exports each year.
- In the case of manufacturing production, it was considered that it would maintain a 5% annual growth rate over the next 5 years (from 2023 to 2027). In 2022 it grew 5.2% annually.
- Finally, for the calculation of employment, it was considered that FDI would contribute 0.5 percentage points (pp) to GDP and manufacturing production another 2.4 pp over a 5-year period. This would translate into 2.9pp more to economic growth. Considering an employment multiplier of 2.1 (which is an average of all sectors of the economy, using the 2013 base Input-Output matrix), this would result in 1,169,000 additional jobs.

Note: The forecasts given are based on growth rates already observed in 2021 and/or 2022. However, they are optimistic assumptions that assume that the nearshoring opportunity would be exploited to its fullest capacity.



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