Trends and Developments

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Ritch Mueller

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Mexico 2025: Nearshoring, Tariffs, Uncertainty and Other Hurdles

Background

Prior to the 2024 United States elections and the Trump administration's inauguration in January 2025, due to its privileged economic and geographic position, Mexico was playing a leading role in nearshoring, a topic that had become increasingly popular in the international business scene.

Nearshoring is a strategy employed by companies to relocate production chains, processes and services to areas geographically close to major consumer markets, thereby reducing costs. Specifically, transportation of manufactured goods from the US–Mexico border to any point in the United States takes about 24 hours, which helps to decrease delivery times, risks and expenses.

In recent years, offshoring – a strategy that contrasts with nearshoring – has revealed its limitations, prompting companies to seek alternatives for cost reduction. For example, US and European companies that establish production chains in Asian countries encounter cultural and linguistic differences, which can increase production costs, as well as logistical and geopolitical challenges.

Altogether, while offshoring initially offered cost savings advantages in terms of labour and supply chain expenses, the drawbacks outlined above have prompted companies to reassess their over-reliance on specific global regions. In this context, nearshoring has become an attractive alternative for companies due to this strategy's relatively low production costs compared to those of the companies' country of origin, and geographic proximity reduces relocation and logistics costs.

In this context, Mexico has become one of the principal actors in the nearshoring scenario. In 2023, Mexico surpassed China as the United States' main trading partner, consolidating its position as a key destination for nearshoring.

Mexico has positioned itself as one of the main destinations among the countries offering nearshoring opportunities. This is due to the following, among other factors:

- the border with the United States, one of the largest consumer markets, along with the similarity between the time zones of both countries;
- the trade agreements that Mexico and the United States have entered into, such as the United States–Mexico–Canada Agreement (USMCA), which should provide certainty to producers and reduce export costs;
- the relatively low human capital costs and the high level of specialisation as a result of already established manufacturing industries, such as the automobile industry and the software industries;
- Mexico has a growing talent pool – it is home to over 560,000 software developers, and this number is set to grow as universities expand their technical curricula;
- the similarity between Mexican and US cultures, especially along the border;
- the proximity in both location and time zones means teams can work simultaneously, speeding up decision-making and minimising delays; and
- the competitive production process supply costs.

These and other factors have led to greater foreign direct investment in Mexico, led by companies seeking to benefit from nearshoring by establishing their production processes in Mexican industrial parks. For instance, at the beginning of 2025, Banco de México reported that foreign direct investment in Mexico increased by 1.1% in 2024 compared to 2023. Nevertheless, foreign direct investment from new investors decreased by 34% in 2023, and reinvestments increased by 7.8% in 2024. In 2024, the United States maintained its position as the leading source of foreign direct investment, accounting for 45% of all foreign direct investment, followed by Japan (12%), Germany (10%), Canada (9%) and the Netherlands (5%).

An analysis by the Inter-American Development Bank (IDB) recognises Mexico's advantageous position. The IDB estimates that nearshoring will increase global exports from Latin America by USD78 billion in the short and medium term, with 45% of this increase coming from Mexico.

In the private sector, BBVA Research, along with the Asociación Mexicana de Parques Industriales Privados, A.C. (AMPIP), conducted a survey to quantify and anticipate the effects of nearshoring in Mexico. According to that research, BBVA Research and AMPIP concluded, among other findings, that since the start of the US–China trade war in 2018, private industrial parks in Mexico have attracted approximately 830 new foreign tenants, 20% of which come from Asian countries. CBRE, a US company specialising in the real estate sector, reported that in Mexico, during 2024, demand for real estate resulting from relocation exceeded 2 million square metres, with the automotive industry accounting for 39% of this demand, followed by household appliances and electronic devices.

In the 2025 Pre-Criteria presented by the Ministry of Finance and Public Credit (SHCP), presented a year before publication of this guide (May 2025), the SHCP pointed out that the new global trends in technology and commercial exchange, together with new productive chains generated by the relocation of companies, would allow Mexico to position itself in the global supply chain, benefiting both sectors traditionally integrated with the US, as well as new sectors that develop under the new nearshoring paradigm.

By the end of 2024, once the possibility of a second presidency by Donald Trump in the United States had become a reality, foreign direct investment plummeted by 45.3% annually in the last quarter, according to data from the Ministry of Economy (*Secretaría de Economía*).

Alejandro Padilla, Chief Economist of Banorte, has established that 2025 is shaping up to be a year of uncertainty and economic opportunities, primarily driven by tariffs that could influence the sentiment of businesspeople, the performance of the economy, and the design of public policies. In the same vein, Katia Goya of Economía Internacional has stated that among the trade tensions that will intensify the economy are protectionist measures and the implementation of tariffs, which, if fully materialised, could lead to a scenario of lower global growth, higher unemployment, and inflationary pressures.

Regarding the increase in demand from Asian countries for profitable spaces to establish production chains in Mexico, in late 2023, AMPIP officials reported that just over 40% of the demand increase from 2022 to 2023 came from Chinese companies. Overall, AMPIP reported that the total number of private industrial park tenants increased by 52% from 2019 to 2022. As AMPIP points out, many companies opting for nearshoring strategies are looking to establish themselves in new industrial parks. To meet the demand for new parks, several market players have indicated that new industrial projects are already underway.

Nearshoring 2025: tariffs and uncertainty

Following the Trump administration's inauguration in January 2025, the United States underwent a significant shift in its perspective on international trade. On 2 April 2025, or, as the Trump administration has named it, *"Liberation Day"* altered all the paradigms on which international trade has been based since the Second World War.

President Donald Trump announced sweeping new tariffs under the International Economic Emergency Powers Act (IEEPA). This includes a baseline 10% tariff on all imported goods, effective 5th April, and higher, retaliatory targeted reciprocal tariffs (ranging from 10% to 49%) on approximately 60 countries, starting 9th April. The new measures aim to combat what Trump described as decades of unfair trade practices, marking a significant escalation in US protectionist policy with global implications.

Canada and Mexico were exempted from the baseline 10% tariffs for USMCA-compliant goods but remain subject to 25% tariffs under existing fentanyl and migration IEEPA orders. Non-USMCA-compliant goods will be taxed at 25%, and certain non-USMCA-compliant energy and potash exports will be subject to a 10% tariff. In the event the existing fentanyl/migration IEEPA orders are terminated, USMCA-compliant goods would continue to receive preferential treatment, while non-USMCA-compliant goods would be subject to a 12% reciprocal tariff. Tariffs on automobiles and automobile parts, steel and aluminium, announced before Liberation Day, remain in place for all countries.

A 10% global tariff on 2025 goods imports, estimated at approximately USD3.3 trillion, translates to a USD330 billion tax hike on US consumers and businesses.

Although Trump seeks to encourage reshoring, experts note that this strategy faces several obstacles. Labour costs in Mexico remain significantly lower than in the United States, and the country boasts a consolidated industrial infrastructure, thanks to the *maquiladora* system. Tariff threats are therefore unlikely to succeed in massively repatriating US production; however, they could slow down the growth of nearshoring in Mexico.

On the other hand, although trade tensions between the United States and China have led Chinese companies to establish operations in Mexico to take advantage of the benefits of the USMCA, this has raised concerns about a possible trade triangulation. That is, Chinese products could enter the US market under Mexican preferential rules, which could trigger even more tariff restrictions by the US.

Nearshoring disappeared from the SHCP's panorama, according to the Pre-Criteria for 2026, presented on 1 April 2025. The promise of a massive influx of investment to Mexico, resulting from the relocation of global supply chains and expected to boost growth, is no longer part of the scenarios foreseen by the SHCP for the Mexican economy. The turnaround implied by President Donald Trump's foreign policy, which in his second term has made tariffs a pressure mechanism for other issues, has rendered the promise of relocation obsolete in the SHCP's landscape, and the term has effectively disappeared from the 2026 Pre-Criteria delivered to Congress in April 2025. Apart from stating that foreign direct investment last year reached an all-time high of USD36,872 million, partly reflecting the confidence of foreign investors in Mexico in the context of company relocation, nearshoring is no longer considered a key driver of the country's economic growth.

Infrastructure and other hurdles

As discussed above, to capitalise on the opportunity offered by nearshoring and overcome the identified obstacles, both the Mexican government and the private sector must focus their efforts on addressing the deficiencies that potential investors identify as hindrances to locating their production chains in Mexico. As part of the survey mentioned above, BBVA Research and AMPIP asked industrial parks to identify the main obstacles that could limit foreign investment. Of the parks surveyed, 91% reported issues with electricity supply, and 63% reported problems with water availability.

Fitch Ratings' analysis aligns with AMPIP's finding that the primary hurdle Mexico faces regarding the nearshoring boom is a lack of access to electricity. Changes in legislation and public policy related to the electricity market during the current presidential term have limited the industry's growth by restricting the entry of private capital.

The projected demand growth for the 2024–30 period is expected to reach up to 17,000 MW of installed capacity, driven by the need to meet future energy requirements for the addition of new industrial parks and expanded square footage.

With regard to water, officials from the National Water Commission (*Comisión Nacional del Agua*) have stated that the imbalance in the distribution of rainfall, combined with the lack of hydraulic plans at the state level that are properly integrated at the federal level, have led to water shortages in different regions of the country. Shortages have occurred, particularly in the northern region, which is of greatest interest to new investors due to its proximity to the United States.

The other issue that developers and investors in the GRI Club conferences have identified as a barrier to nearshoring is the lack of clarity regarding local, state and federal processes and costs associated with obtaining permits and licences required for developing infrastructure and industrial parks. Regulatory and bureaucratic barriers related to certain permits and licences in some municipalities, states, and especially at the federal level, create significant uncertainty about the time required to obtain such permits and licences. Regarding the costs associated with the necessary infrastructure, the lack of support and compliance from authorities at the three levels of government, as well as the ever-increasing requirements, increase the cost of projects in ways that are often unexpected and cannot be budgeted for in advance.

UBS bank officials have noted that the development of industrial infrastructure is one of the key indicators that determine the impact of nearshoring during this initial phase. Considering the discussion in the previous paragraphs, the lack of infrastructure is one of the primary obstacles identified by key market players. In this regard, UBS officials agreed that Mexico has not experienced a significant increase in industrial infrastructure development.

Actions taken by the Mexican government to overcome existing hurdles and uncertainty

In this scenario, local governments and the federal government have sought to design strategies to attract as much foreign investment as possible. However, in most cases, there has been no effective co-ordination, resulting in delays and increased time and costs for investors and developers. For its part, the Mexican federal government, led by President Claudia Sheinbaum, has presented *"Plan Mexico"*, a strategy aimed at attracting investments of up to MXN277 billion between 2025 and 2030. This plan prioritises reducing Asian imports, promoting national production and creating jobs, with the goal of positioning Mexico among the world's ten largest economies.

Specifically, with respect to nearshoring, Plan Mexico acknowledges that Mexico faces significant challenges in fully capitalising on the opportunities offered by nearshoring, in addition to the challenges posed by the Trump administration's policies and tariffs, as well as the ensuing uncertainty. The following are among the most pressing challenges:

- to enhance infrastructure in the northern part of the country, where industrial investment is concentrated;
- to ensure energy supply and water availability in key industrial areas; and
- to address security issues and implement structural reforms that improve the business climate.

Plan Mexico includes a series of specific actions:

- tax incentives and financing to attract foreign companies, promoting relocation (nearshoring) to Mexican territory;
- development of key infrastructure, including strategic projects in transportation, logistics and energy, to enhance industrial competitiveness;
- industrial policies focused on sectors such as automotive, semiconductors, renewable energy and aerospace;
- strengthening customs supervision, aligning with the trade policies of the partners in the USMCA; and
- promoting private investment through alliances with key entrepreneurs and industrial groups in the country.

Plan Mexico emerges at a pivotal moment for the national economy amid ongoing trade tensions between China, the United States and Canada. Mexico seeks to reduce its trade deficit with China, which reached USD105 billion in 2023, while aligning its policies with the USMCA to ensure fair trade with its northern neighbours.

Regarding the hurdles in electricity, the National Electric Sector Strategy (*Estrategia Nacional del Sector Eléctrico*), enacted by the Federal government, estimates an investment of up to USD23.4 billion between 2024 and 2030 in generation, transmission and distribution infrastructure to ensure a reliable energy supply. Derived from the legal amendments enacted as part of the National Electric Sector Strategy, private participation in energy generation will be expanded to up to 46%, addressing the demand for energy required by new investments and nearshoring opportunities at competitive prices. The new threshold for distributed generation enables up to 18% of industrial rooftops in existing and new parks to be utilised, potentially adding 3,000 MW of installed capacity. New schemes for self-generation under simplified regulatory frameworks, covering capacities ranging from 0.7 MW to 20 MW, present a critical avenue for meeting the energy needs of new industrial parks while ensuring a reliable supply. The new regulatory framework facilitates the adoption of energy storage systems, enhancing reliability, optimising renewable energy usage and strengthening the resilience of industrial parks. The federal government's energy management model prioritises strategic zones to ensure a reliable energy supply for both existing operations and future developments in industrial parks.

Conclusion

In the end, the tariffs announced on *"Liberation Day"* cause many of Mexico's competitors, such as Vietnam, China and Taiwan, to lose competitiveness in the US market and reinforce the incentive to import more from countries, such as Mexico or Canada, that do not have tariffs or have lower tariffs, and therefore give Mexico a competitive advantage over such countries.

Regarding the tariffs imposed on automobiles and automobile parts, the negative impact is exacerbated by the complexity of the supply chains between the two countries. Many industries, such as the automotive sector, rely on components that cross borders multiple times during their production. The imposition of tariffs increases operating costs and could lead companies to reconsider their operations in Mexico or even consolidate them within the United States to avoid additional costs.

The uncertainty generated by these policies is also discouraging foreign direct investment in Mexico. Investors perceive elevated risks in an environment where trading rules can change abruptly. In addition, these tensions have led to a significant depreciation of the Mexican peso – up to 23% in 2024 – which, while it may partially offset higher labour costs, also generates economic volatility.

The tariffs imposed and the new tariff threats promoted by Trump represent a significant obstacle to the development of nearshoring in Mexico. Although the country has clear competitive advantages, such as those stated above, and benefits from its geographic proximity and low labour costs, the uncertainty generated by possible changes in trade rules deters key investments and puts the potential benefits of the USMCA at risk.

The commitment to nearshoring and the possibility of consolidating greater integration in supply chains represent key elements to counteract the negative effects of the United States' aggressive trade policy.

Nearshoring offers Mexico a unique opportunity to mitigate the economic slowdown projected for 2025. However, to capitalise on this phenomenon, it will be essential to address the aforementioned challenges, invest in infrastructure, improve security and ensure fiscal stability. In this way, Mexico will be able to strengthen its business ecosystem and attract high-value investments.