



Nearshoring to Mexico:

Perspectives and opportunities for a
resilient supply chain

The expectation for the next five to ten years, is for massive change to impact all industries worldwide. What no one knows is the kind, nature or speed of the transformational processes, what the outcome will be, nor how global supply chains will be impacted.

The complexity and sophisticated dynamics of supply chains operating at multiple levels of the economy unveil a variety of risks. Overall, the interdependence among the different parts of a supply chain system can lead to critical difficulties. For instance, corporations typically work under complex systems, where each legal entity manages and sets the operations differently even within the same economic group, creating self-defeating lures. This often leads to conflicts between the supply chain actors. One solution to avoid these problems is to shorten supply chains. So-called “nearshoring” is a strategy in which companies move part of their production to another country, at some point similar to traditional outsourcing. The distinctive feature here is that it is a nearby location to the target market.

The implementation of a proper nearshoring strategy may create significant efficiencies and benefits for corporations, investors, and end users, including more rapid execution speed and reduced final costs.

Today’s world finds us operating under a post-Pandemic environment, where policymakers are lagging in supporting a fast and strong economic recovery. Supply Chains vulnerabilities are now materialized, and uneven global recovery increases the risk of negative spillovers from one area or industrial sector to another. Taken together, these setbacks are likely to add to hinder future growth. Moreover, tax crackdown policies, as well as higher energy, and transportation costs, have spurred the appetite of corporations to relocate closer to serving markets.

Against this backdrop, here’s where Mexico comes to the scene, with factories and warehouses springing up south of the US border to take advantage of the world’s largest consumer market proximity, reduce tariffs, and duty-free programs.

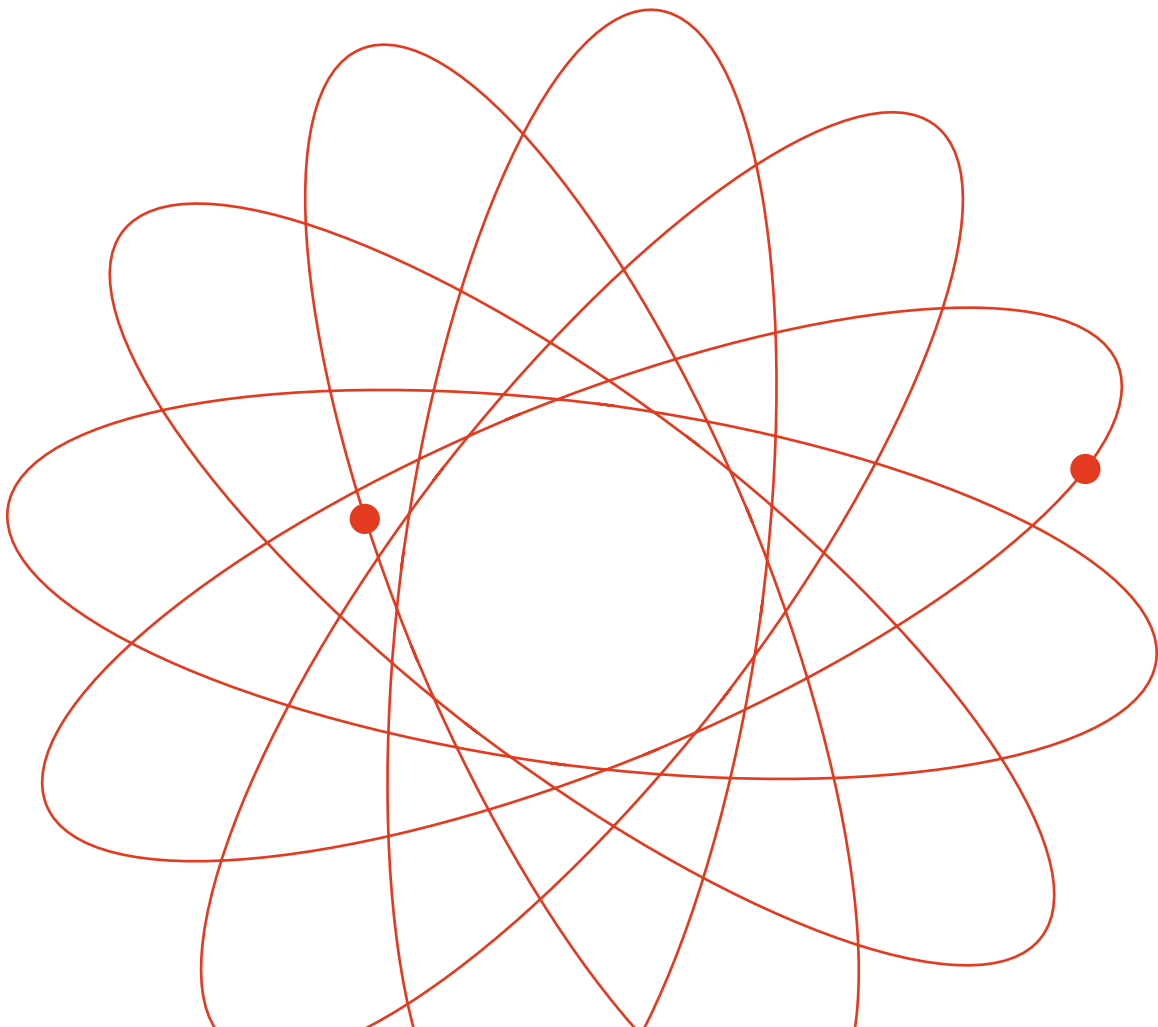
Since early 2022, Mexico has been in the spot of nearshoring, reaching a high level of specialization and productivity at the time of expanding the installed capacity. Large companies from a variety of – such as automotive, aerospace, electronics, chemical and medical devices – are settling new pathways to strengthen supply chains and increase business competitiveness.

In the Americas, it was a widespread take-up that Asian countries used to offer the most important and rewarding offshoring combination. However, the pandemic suddenly changed the rules. The United States now highlights Mexico as an ideal location for opening more production facilities at the time of ensuring shorter delivery routes and competitive production costs. In addition, established businesses can operate under the USMCA free trade agreement (U.S., Canada and Mexico agreement) facilitating trade across the region. Although the labor cost in Mexico is not as cheap as in Asia, the cost savings from preventing supply chain disruptions and the significant shortening of supply routes prevails in managerial decisions. Likewise, transportation risks are mitigated, and communication problems minimized.

Why companies are making the switch to Mexico?

The trade war between the United States (US) and China, retaliatory tariffs, sanctions, inflation, political instability, Russian invasion of Ukraine, Brexit — all have implications on global trade phenomenon that is pushing global capitals into Mexico.

Moreover, in the Asia-Pacific region, China sits at the epicenter of global trade for thousands of companies worldwide, but trade with China is still fraught with complexities and nuances that businesses must navigate. COVID19-related lockdowns in Chinese factories have led to product delays and shortages. Increased scrutiny around forced labor have pushed supply-chain due diligence to the top of the list of concerns companies have when conducting trade in Asia, and with China in particular.





Infrastructure, a fundamental for nearshoring

With nearshoring, the ability to efficiently move products from destination A to destination B is vital. It's about having certainty on expected lead times, minimizing delays in customs and avoiding regulatory and compliance exposures. Of course, at the end of the road the overall competitiveness is a decisive indicator for choosing the right location.

Conveniently located right next to the largest importer/exporter market in the world, Mexico offers a unique and well-identified net of infrastructure, with roadways, seaports, airports, highways, and trade-oriented Customs Offices that streamline any commerce with US Customs and its framework.



When technology adoption means productivity

In just a few months, a wide disparity in technological adoption took place, outlying those companies who opted to stay competitive in this new business and economic environment. A common pattern is acknowledged across key players, and it is about playing the technological field as easy as possible for the supply chain partners to come in and provide information rather than forcing their hand.

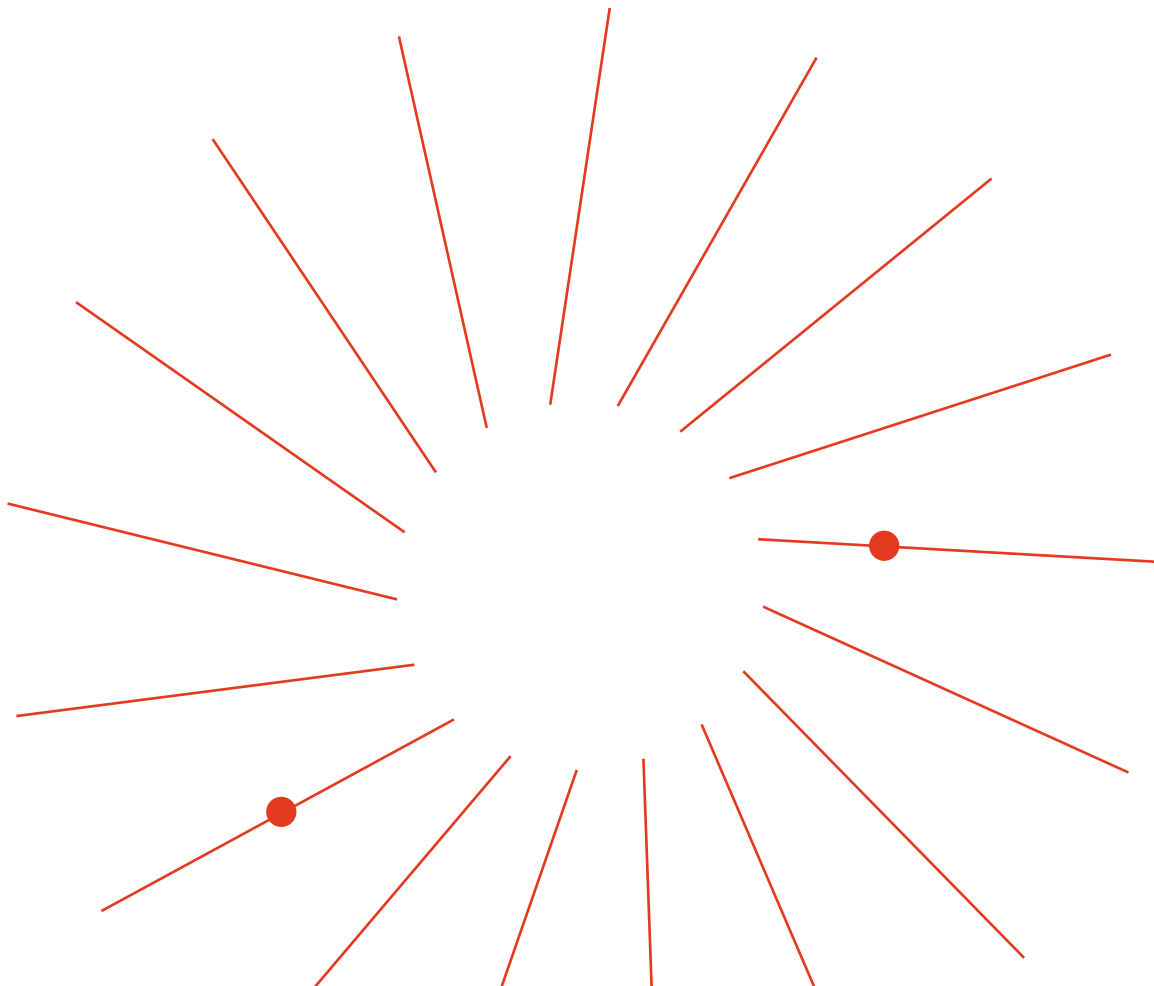
As stated by Gartner, the pace of change and disruptive events in global trade highlights the need for technology to increase resiliency, agility, and compliance in supply chain operations. Global Trade executives recognized that throughout a world of change, especially as tariffs and regulations evolve, an end-to-end global trade management solution is mandatory to support any competitive trade scenario. The main companies operating within North America outlines that trade automation is just the tip of the iceberg, where several factors converge triggering new efficiencies, reducing risks, optimizing duty spend, and ensuring compliance with new customs regulations procedures. It is fundamental to note that Special Regimes like Free Trade Zone (U.S.) or temporary importations program IMMEX (Mexico), offers a distinctive operational landscape when a company operates with accuracy and certainty. Another explanatory element of productivity relies on how technology can integrate with stakeholders like 3PLs and Custom Brokers. Having the ability of such integration correlates to short-term benefits.



Innovation and change management

Nowadays, executing a nearshoring strategy cannot be conceived without a top-notch global trade management technology. The goal of implementing technology not only relies on adopting best practices and automation but also adopting a change management process to enable short and middle term beneficial changes to be made with minimum disruption to business operations. Here is when ensuring the best possible levels of process quality and availability becomes the backbone of the initiative.

When designing an innovation strategy, specialized technology is the best ally to connect end-to-end dots. Typical challenges that are overcome with global trade software are a) guaranteeing the right information and communication is shared between functional teams, different departments, and even companies, b) staying compliant with the global and local regulations, c) gaining real-time visibility on every step of the operation and predominantly on KPIs and d) adopting a tax armor strategy at the time every Custom regulatory information is filed in time and precisely.

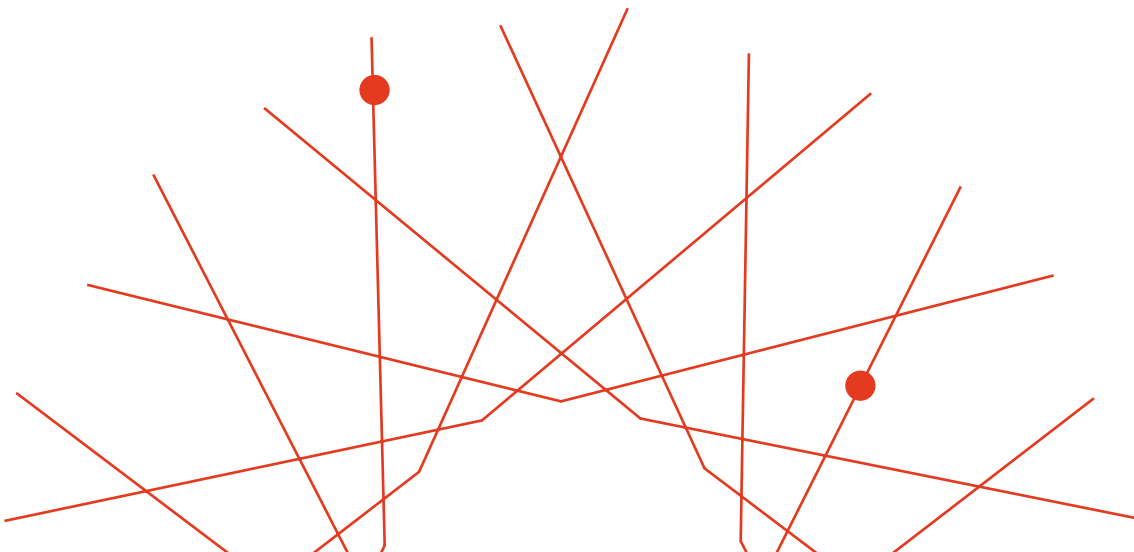




Costs & competitive advantages

Nearshoring to Mexico has become increasingly common over the past few years, growth is expected to continue. From last year, the Mexican I.T. industry was globally ranked at number 3 according to Gartner Inc. study; Taxes and duty rates are lower (0.04%) under USMCA partners, compared to China rates (up to 19%). Free trade in North America is guaranteed with the USMCA (NAFTA Update), with clear rules and a deeper integration among partners; US imports from Mexico grew 19.9% between January and July 2022 compared to the same period in 2021, Mexico ranked as its second-largest supplier with a share of 13.8% (\$261.871 billion). The main U.S. imports from Mexico by industry are Vehicles, Machinery & Equipment and Electronics. Besides USMCA, Mexico has 13 other Free Trade Agreements with 48 countries, which connect the Mexican economy to more than 1.3 billion consumers (60% of the world's GDP); as a result of these factors Mexico is a world leader in manufacturing sectors such as Automotive (4th global exporter), Aerospace (6th largest supplier of aircraft parts to the U.S.) and Medical Devices (8th largest exporter worldwide).

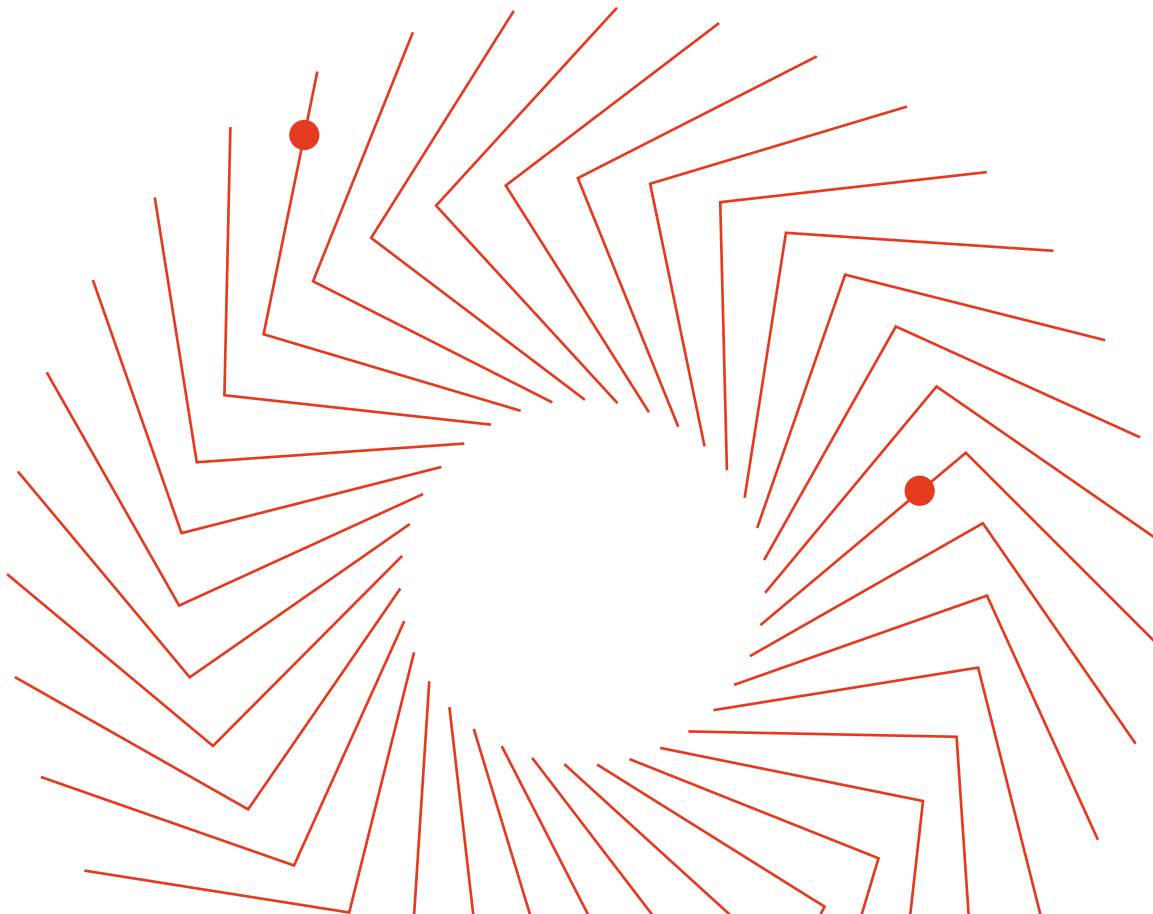
Mexican Manufacturing workforce is highly qualified, young, and competitive also labor costs are very attractive (US\$4.80 per hour, compared to US\$6.50 per hour in some regions of China as of March-22); shipping costs from Mexico to the US are 14x lower than from China, more than 50 entry ports between the U.S. and Mexico, will improve any logistics strategy, in comparison with high shipping costs between China and U.S. A typical truckload from Mexico City to Memphis costs US\$3,200 taking 4 days in transit, the same shipment coming from China would cost up to US\$ 6,453 taking about 31 days in transit, all this represents a return to "Just in time" scenarios. Rankings published by The Boston Consulting Group, PWC and Savills, tells us that Mexico has an advantageous position in competitiveness as a country with ease of doing business in; considering low input costs, quality infrastructure and reliable services. While more prominent locations such as China and India are still being utilized, Mexico is a cost-effective and strategic option for US customers.



How Thomson Reuters & Baker Tilly can support a nearshoring strategy

For the coming years, the only thing Foreign Trade professionals can be certain of is that the global industry will continue to be shaped by a wide variety of social, political, economic, and technical forces, all of which have their own momentum and consequences. Maintaining reliable supply chains in this environment is essential and represents a significant strategic advantage for those who do it well. The future of the industry is far too important to leave to chance. That is why Thomson Reuters and Baker Tilly are dedicated to making sure industry leaders have the information, knowledge and tools they need to remain competitive in the global marketplace.

According to a recent market research, 82% of companies are considering nearshoring or reshoring solutions to reduce duties and speed of delivery. To take full advantage of the nearshoring technique, companies must focus not only on simplifying the entire global trade management process but also on adopting world-class technology to automate the entire trade lifecycle process. Certainty, confidence, and visibility save time and drive true efficiency.

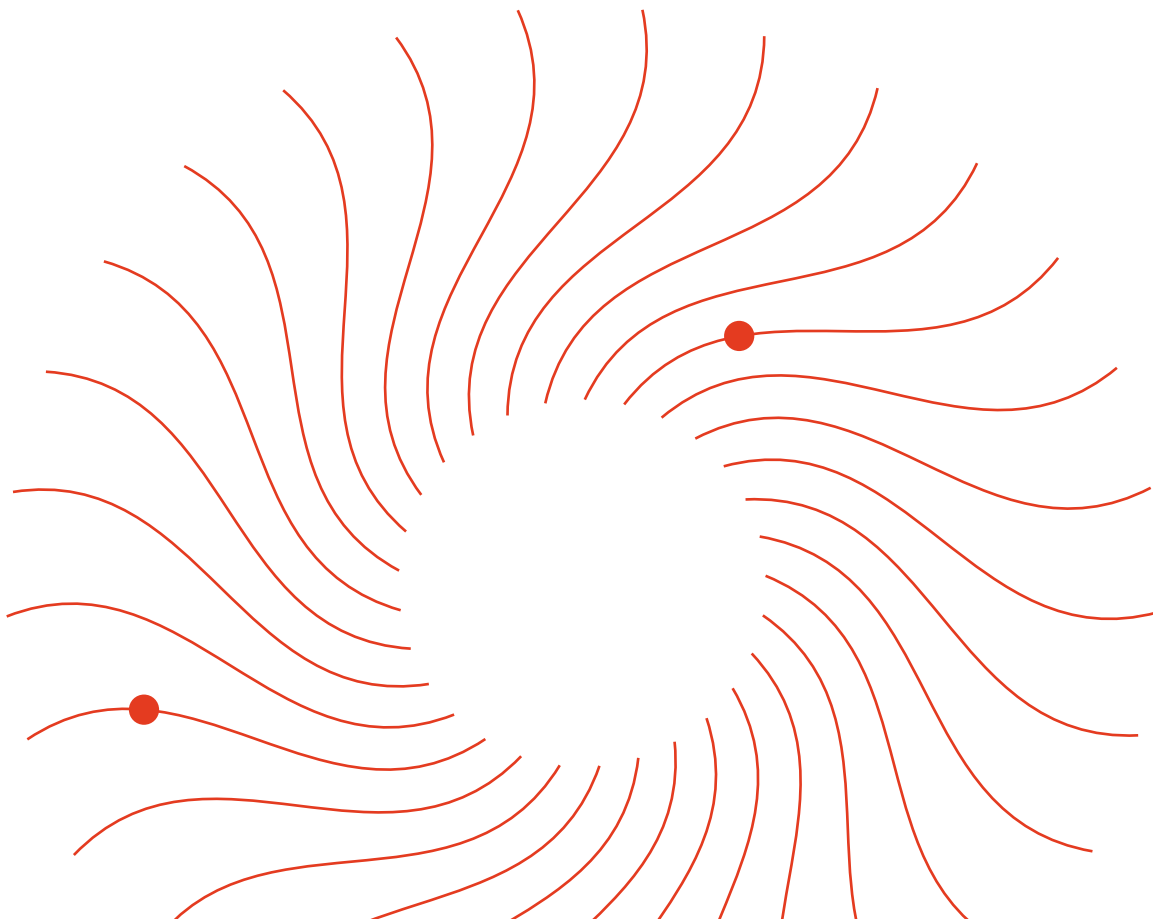


Baker Tilly and Thomson Reuters combine the expertise of a strong consultant with the reliability of a proven technology solution, to offer a comprehensive full fledged and turn-key project to optimize the organization's supply chain, creating value and competitive advantages.

It's disruptive global trade rules and everyday changing environment that make the use of information technologies for customs activities a must. Thomson Reuters **ONESOURCE Global Trade** is a unique solution that combines:

- **A strong technological platform connecting end-to-end operations, including USMCA Special Regimes**
- **Reliable implementation processes**
- **Up-to-date content**
- **Full customs compliance vision**
- **Focus on accuracy and value-adding activities**

Built with world-class technology and backed by leading industry experts, **ONESOURCE Global Trade** simplifies the entire global trade management process by automating routine tasks and creating the opportunity for global trade professionals to focus on value-adding activities.



Thomson Reuters **ONESOURCE Global Trade** offers a comprehensive set of software solutions for operating, controlling and maximizing foreign trade steps when designing a nearshoring strategy:



Trade analysis:

Assess product assortments to understand ability to leverage reduced-duty shipments from free trade agreements. Also compares your sourcing or sales lanes to global trends to plan and implement new import/export strategies by considering part-level actual landed costs with an automated cost rules engine.



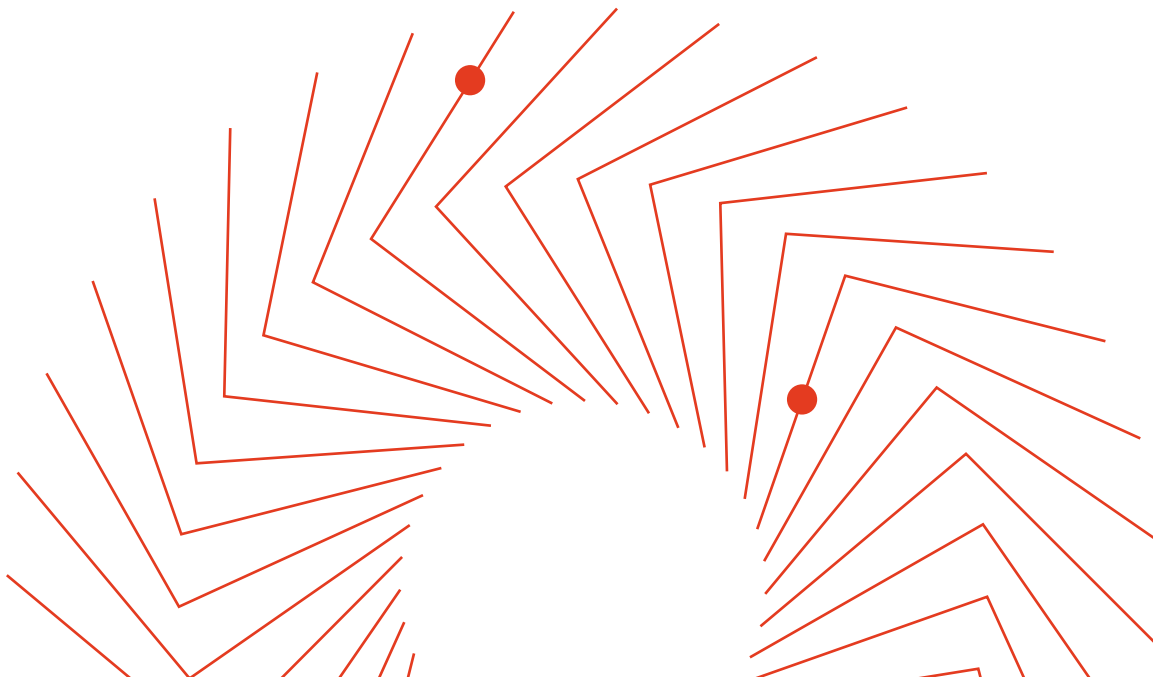
Third party screening:

Apply a KYC validation to any customer and mitigate the hidden risks of business relationships. For enhanced due diligence, the software also offers Sanctions Ownership Research data, Adverse Media Screening, and screening for Politically Exposed Person worldwide from Dow Jones Risk & Compliance.



Import/export classification:

Determine and maintain an automated product classification process leveraged by artificial intelligence and machine learning to save time and improve accuracy. Rely on accurate HS codes to move products through customs.





Free Trade Agreements (FTA) management:

Take advantage of the world's FTAs by identifying opportunities to qualify goods under FTA-specific rules of origin. This streamlines logistical processes and cuts down manual work, complying with FTA guidelines and reducing or eliminating duties.



Special programs:

Leverage a network of duty suspension programs to achieve cost savings and generate ROI. Thomson Reuters' Duty management software supports various savings opportunities worldwide – including free trade agreements, US drawback, US foreign-trade zones, IMMEX (Mexican Program to promote the Manufacturing, Maquila and Export Service Industry), Automotive Fiscal Deposit, EU customs regimes, and China processing trade regimes.



Import/export management:

Keeps the import and export process running smoothly, eradicating risks of noncompliance and overpaying duties. Documents are controlled at every stage and information remains consistent, secure, and linked all along the process. Plus, it automatically calculates costs and expenses, which ease better planning and identifying savings opportunities. Additionally, live monitoring for import/export activities is tracked and registered in trial audits.



Supply chain compliance:

Communicate, manage, and track worldwide business partners within the global supply chain to identify and mitigate risks to remain compliant. Programs such as CTPAT and AEO, ES&G require due diligence and information to remain compliant.

About Thomson Reuters

Thomson Reuters is the world's leading source of news and information for professional markets. Our customers rely on us to make confident decisions and run better businesses. The business has operated in more than 70 countries for more than 100 years. Thomson Reuters shares are listed on the Toronto and New York Stock Exchanges (symbol: TRI).

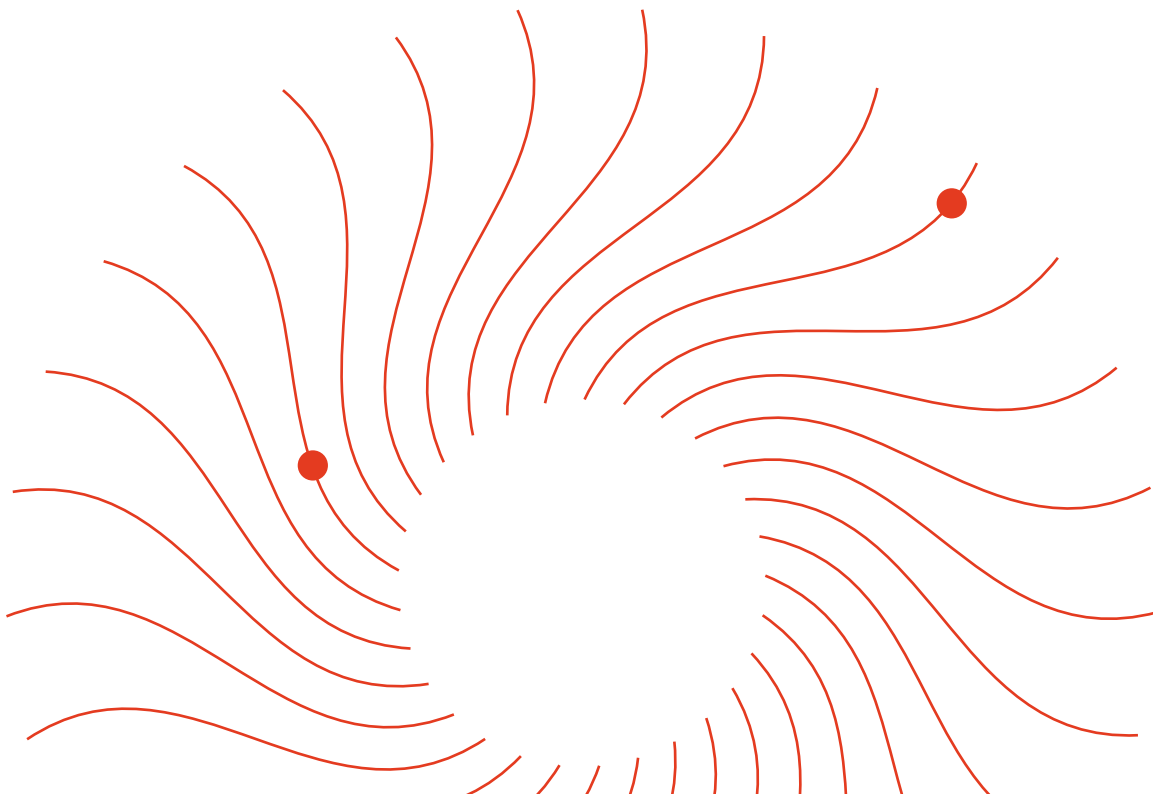
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About Thomson Reuters ONESOURCE

As a trade professional, it is not news to you that complying with international trade regulations continues to increase in complexity. As a trusted provider of tax, accounting, and legal solutions for corporations, Thomson Reuters ONESOURCE offers a global standard in global trade management software that will increase efficiency, improve visibility, and reduce risks associated with your global trade operations.

With **ONESOURCE™ Global Trade** Management solutions, your organization can achieve a new level of accuracy, compliance and efficiency that saves you considerable time and money.

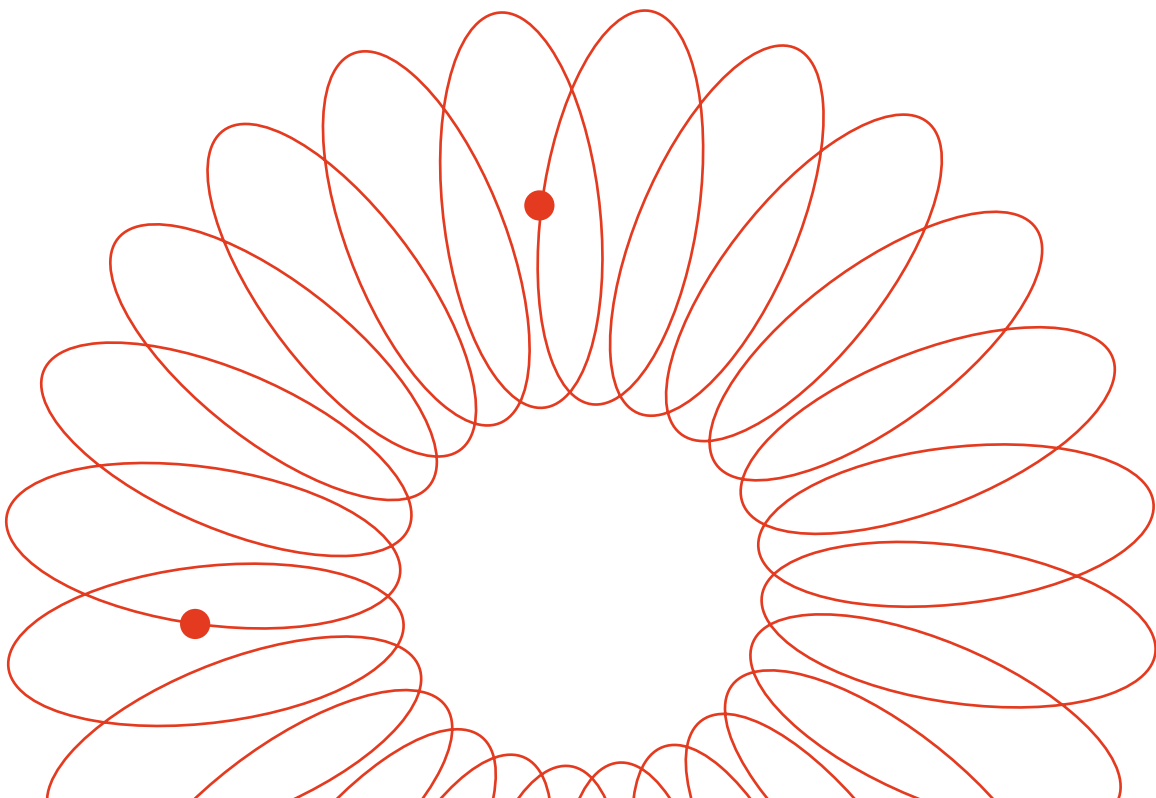
Ask us how we can provide a greater impact to your P&L today.



About Baker Tilly Mexico

Baker Tilly is a full-service accounting and advisory firm that offers industry specialized services in assurance, tax and advisory. Since 2007, we are an independent member of Baker Tilly International, one of the ten largest accountancy firms worldwide. Every day, more than 600 professionals located in 19 offices throughout Mexico share their expertise to accelerate your growth.

With a focus on serving Automotive, Banking & Capital Markets, Consumer Markets, Construction, Energy, Financial Services, Packaging, Government, Healthcare, Hospitality, Manufacturing, Pharmaceuticals, Technology, Telecommunications, Transportation & Logistics and Wealth Management, we help our clients optimize their tax burdens worldwide. The Baker Tilly network holds a global community of independent accounting and business advisory firms that share their dedication to exceptional client service. With over 37,000 experts located on 148 territories around the globe.



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