

TPM²⁴

by S&P Global

Nearshoring to Mexico: Sourcing, Logistics & USMCA Considerations

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Today's Agenda

- The move towards Nearshoring: A brief explanation
- Nearshoring from China to Mexico: A head-to-head comparison
- Product procurement in MX: Availability, quality, price & production capacity
- Geographic considerations and logistics infrastructure from MX to the US
- Border crossing considerations
- Country of origin qualification rules for products under USMCA
- Potential risks of producing or sourcing or sourcing goods in Mexico



A Quick Note on the Future of Product Sourcing in China

- Don't underestimate the commercial resiliency of China, but...
- Coastal China has become more costly
 - Industrial real estate, labor and raw materials
- Some industries moving westward
- Strategic shift to more advanced manufacturing industries
- Section 301 Tariffs have had an impact
- Uyghur Forced Labor Protection Act will continue to force sourcing in other countries (solar panels, cotton-based goods, palm oil, et al.)
 - Relevant for Chinese origin raw materials shipped to MX for incorporation into new products



Nearshoring from China to Mexico: A Head-to-Head Comparison

- **China** has a 30-year head start on MX in all things related to product design, engineering, production & shipping
- “The World’s Factory” can make anything at the specified quality, at scale and competitively priced
- Very well-developed Tier I, II & III supplier network
- A vast pool of ever-growing engineers of all types
- Plenty of room to expand west from coastal China
- Member of the WTO
- Getting priced out of certain industries
- **Mexico** has trade policies favorable to international trade
 - Has had an FTA with the U.S. since 1994 and with the EU since 2000
 - Expansion of IMMEX program has fostered growth
- Mexico is strong in specific sectors (agriculture, automotive, consumer electronics)
- Devalued MXP favors exports
- Geographic proximity is huge
- Solid logistics infrastructure
- Lacks depth in Tier I, II & III supplier networks (automotive is an exception)

Product Procurement in Mexico

- Mexico makes quality products, but its manufacturing isn't as diverse as CN
- So, Rule #1 is, don't assume you can just bail on China (or any other country) and get anything you want in Mexico
- News flash: Nearshoring to Mexico is not a new idea!!!
 - Production capacity is at a premium
- The cost structure in Mexico is different from China and unit prices of products could be higher in comparison
- Depending on the industry, raw materials are likely to come from abroad
- Don't make assumptions on products qualifying for USMCA



TPM²⁴ Product Procurement in Mexico: Geographic Considerations

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- In terms of land mass, Mexico is the 14th largest country in the world (10th in population with 129m)
- The most obvious geographic consideration is distance to the border (and destination in the U.S.)
- Another important factor is a supplier's proximity to highways, rail systems, port and airports
- Industrial clusters and workforce quality are also geography-centric



Product Procurement in Mexico: Geographic Considerations



Product Procurement in Mexico: Border Crossings



Product Procurement in Mexico: Highway System

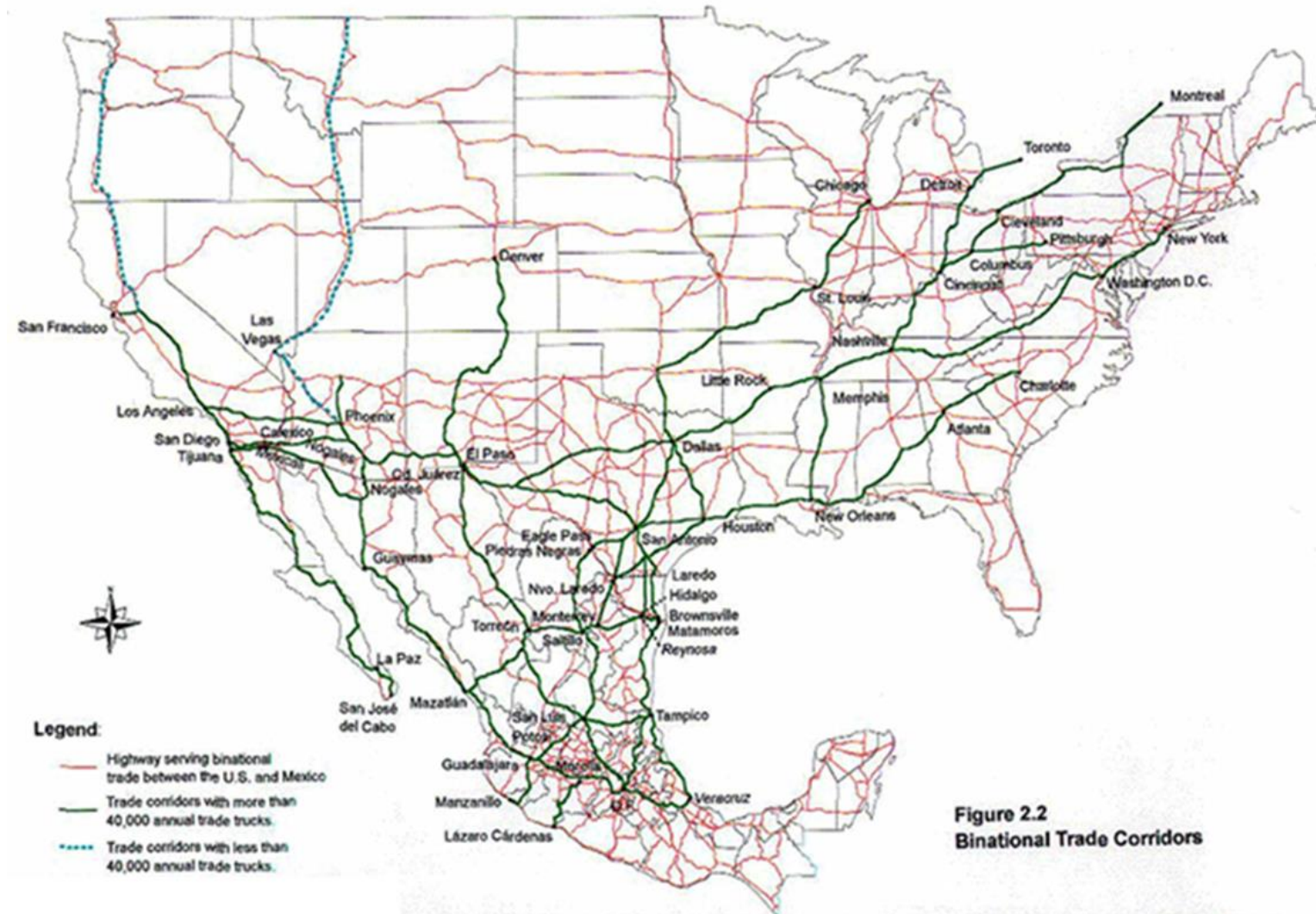


Figure 2.2
Binational Trade Corridors

Sistema Ferroviario de México



Product Procurement in Mexico: “Originating Goods” Under USMCA

- In order for products to enjoy duty free status in the USMCA region they must qualify as an, “originating good”
 - Having originated (in part or in whole) in the USMCA territory
- Determination of a product’s status as an originating good is based on the “Rules of Origin” criteria found in the USMCA text
- USMCA Rules of Origin are found in Chapter 4 of the Agreement
- Within Chapter 4, Article 4.2, there are a number of ways in which a good can qualify as originating

(c) Products Eligible for Special Tariff Treatment

(i) Programs under which special tariff treatment may be provided, and the corresponding symbols for such programs as they are indicated in the “Special” subcolumn, are as follows:

Generalized System of Preferences.....	A, A* or A+
United States-Australia Free Trade Agreement.....	AU
Automotive Products Trade Act.....	B
United States-Bahrain Free Trade Agreement Implementation Act.....	BH
Agreement on Trade in Civil Aircraft.....	C
United States-Chile Free Trade Agreement.....	CL
African Growth and Opportunity Act.....	D
Caribbean Basin Economic Recovery Act.....	E or E*
United States-Israel Free Trade Area.....	IL
United States-Jordan Free Trade Area Implementation Act.....	JO
Trade Agreement Between the United States and Japan	JP
Agreement on Trade in Pharmaceutical Products.....	K
Dominican Republic-Central America-United States Free Trade Agreement Implementation Act.....	P or P+
Uruguay Round Concessions on Intermediate Chemicals for Dyes.....	L
United States-Caribbean Basin Trade Partnership Act.....	R
United States-Morocco Free Trade Agreement Implementation Act.....	MA
United States-Singapore Free Trade Agreement.....	SG
United States-Oman Free Trade Agreement Implementation Act.....	OM
United States-Peru Trade Promotion Agreement Implementation Act.....	PE
United States-Korea Free Trade Agreement Implementation Act.....	KR
United States-Colombia Trade Promotion Agreement Implementation Act.....	CO
United States-Panama Trade Promotion Agreement Implementation Act.....	PA

Nepal Preference Program	NP
United States-Mexico-Canada Agreement.....	S or S+

Rules of Origin Under USMCA: Primary Resource USTR.gov



The screenshot shows the USTR.gov website with the URL ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between. The page title is "Agreement between the United States of America, the United Mexican States, and Canada 7/1/20 Text". The left sidebar contains a list of links under the heading "United States-Mexico-Canada Agreement", including "Protocol of Amendment to the United States-Mexico-Canada Agreement", "Advisory Committee Reports", "Agreement between the United States of America, the United Mexican States, and Canada Text", "Alternative Staging", "Draft SAA Letter", "Fact Sheets", "Free Trade Commission Decisions", "U.S. Automotive Sector Impact Analysis", "What They Are Saying", and "Benefits for the Environment in the United States-Mexico-Canada Agreement". The main content area displays a "Table of Contents" with the following items: "A. United States-Mexico-Canada Agreement Text – Chapters", "USMCA Protocol", "0. Preamble", "1. Initial Provisions and General Definitions", "2. National Treatment and Market Access for Goods", "3. Agriculture", "4. Rules of Origin", and "5. Origin Procedures". A red arrow points to the "Rules of Origin" link.

United States-Mexico-Canada Agreement

- Protocol of Amendment to the United States-Mexico-Canada Agreement
- Advisory Committee Reports
- [Agreement between the United States of America, the United Mexican States, and Canada Text](#)
- Alternative Staging
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Agreement between the United States of America, the United Mexican States, and Canada 7/1/20 Text

Table of Contents

- A. United States-Mexico-Canada Agreement Text – Chapters
- USMCA Protocol
- 0. Preamble
- 1. Initial Provisions and General Definitions
- 2. National Treatment and Market Access for Goods
 - US Tariff Schedule
 - US Tariff Schedule Appendix 1
 - MX Tariff Schedule
 - MX Tariff Schedule Appendix 1
 - CA Tariff Schedule
 - CA Tariff Schedule Appendix 1
- 3. Agriculture
- 4. Rules of Origin
- 5. Origin Procedures

Product Procurement in Mexico: Originating Goods Under USMCA

- Chapter 4, Article 4.2 of the USMCA text provides for specific scenarios under which a good can be qualified as originating (Cont.):
 - Goods produced entirely in the territory of one or more of the Parties using non-originating materials
 - The good must satisfy all applicable requirements of Annex 4-B Product-Specific Rules of Origin



USMCA Qualification Example: 8501.10.2000 Electric Motors

Harmonized Tariff Schedule of the United States Revision 1 (2024)
 Annotated for Statistical Reporting Purposes

XVI 85-8						
Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty		2
				1		
				General	Special	
8501		Electric motors and generators (excluding generating sets):				
8501.10		Motors of an output not exceeding 37.5 W:				
		Of under 18.65 W:				
8501.10.20	00	Synchronous, valued not over \$4 each.....	No.....	6.7% ^{1/}	Free (A, AU, B, BH, CL, CO, D, E, IL, JO, KR, MA, OM, P, PA, PE, S, SG)	90%
8501.10.40		Other.....	4.4% ^{2/}	Free (A, AU, B, BH, CL, CO, D, E, IL, JO, KR, MA, OM, P, PA, PE, S, SG)	35%

Chapter 85 Electrical Machinery and Equipment and Parts Thereof; Sound Recorders
and Reproducers, Television Image and Sound Recorders and
Reproducers, and Parts and Accessories of Such Articles

85.01³² A change to heading 85.01 from any other heading, except from tariff item
 8503.00.aa; or

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 8503.00.aa; or

Product Procurement in Mexico: Potential Risks & Pitfalls

- Pay special attention to product availability, quality, production capacity and unit price
- Determine if your vendor(s) operate under the IMMEX program (it can save you money if they do)
- Make sure you know if your product(s) qualify for USMCA ahead of time
 - Check the provenance of raw materials in advance
- The border-crossing process is nuanced (e.g., change of equipment requirement)
- There are legitimate security concerns when working in MX (product & people)
- Immigration and illicit drug concerns impact us all (socially & commercially)
- Mexico is an awesome country and is deserving of a serious look for Nearshoring!!!!



Thank You and Enjoy the Balance of TPM 2024!!!

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