



PRIVATE EQUITY PERFORMANCE IMPROVEMENT

# Nearshoring Manufacturing and De-Risking Global Supply Chains

## Part 3: Comparing Mexico and China for Locating Manufacturing Operations

The best choice for locating your supply chain depends on your specific industry, risk tolerance and priorities. If geographical proximity to the U.S., simplified communication due to time zone and shorter travel, and reduced exposure to potential tariff increases are top concerns, Mexico may be a better option. China's strength lies in the country's robust existing manufacturing ecosystem, but the increasingly fraught relationship between the U.S. and China might lead to the outbreak of new trade wars, tariff increases and tit-for-tat actions.

Here is a comparison of Mexico and China for manufacturing, focusing on factors most relevant relative to economics and risks:



### Labor

Although labor costs vary based on several factors such as location and labor type, Mexico generally has lower total labor costs (base and benefits) than China. Compared to China's aging, but still partially untapped, workforce, Mexico's workforce is growing, younger (average age: Mexico: 29 vs. China: 39) and is becoming more skilled. The incoming Mexican government, however, has signaled the intention of continuing to push for minimum wage increases and has committed to improve workers' rights and working conditions.



### Infrastructure

China offers a well-established manufacturing infrastructure with broad capabilities, available local suppliers, good road and train infrastructure, and a large skilled workforce. Currently, Mexico is less developed than China but is steadily improving. Electricity supply reliability and availability of water are an issue in many regions of Mexico although the development of world-class industrial parks has somewhat shielded many industrial operators from these problems. In addition, Mexican real estate occupancy rates are high, adding costs and lengthening start-up lead times. Both utility and lease costs vary depending upon geography, with the border area as much as twice as expensive as inland locations.



### Political Stability and International Relations

From today's perspective, China seems more susceptible to trade tensions and government interventions. No matter the outcome of the 2024 U.S. presidential election, political tensions, and trade barriers between the two major powers are likely to increase. The political environment in Mexico is relatively stable, but there remain questions around the country's ability to fight crime and reduce corruption. On top of this, the general political climate in Mexico has become less private-enterprise friendly. On the other side, the new government is highly likely to continue to support Mexican export-oriented industrial policy. Finally, as Mexico is a signatory to the USMCA, there is a commitment and framework to facilitate North American free trade.



### Supply Chain Disruption and Costs

Mexico has much shorter delivery lead time and lower shipment costs due to proximity to the U.S. China is very susceptible to global trade disruptions as it imports most raw materials and energy fuels and depends on ocean shipping to transport final products to pertinent end markets.

***Mexico's supply chain features lower lead times and shipping costs, while China is very susceptible to trade disruptions.***



### Intellectual Property Protection

Whenever manufacturing of high-tech products is moved abroad, the question of how to protect IP is of major importance. Different legal systems and varying degrees of local enforcement are challenging. While China has made progress around IP protection, questions remain regarding how reliable the provided protection really is. In addition, China's evolving cybersecurity regulatory landscape is a source of concern, with policies mandating that companies store data locally on approved Chinese servers as well as granting government agencies expansive access privileges. Mexico also has had its challenges with intellectual property. Although Mexican IP laws have strengthened in recent years, enforcement remains inconsistent. Foreign companies must remain vigilant and take precautions to protect their IP assets.



### Safety

Violent crime is a problem along Mexico's north border. In addition, theft and hijacking of goods in transit are emerging challenges. While some locations inside the country have crime rates comparable to major U.S. cities, others are under duress due to the presence of the drug cartels and criminal gangs. In contrast, violent crime and theft are typically not a significant issue in China.

***While Mexico is politically stable, violent crime is a problem along the U.S. border. Crime and theft are usually not issues in China.***



### Communication and Travel

Communication with Mexico is much easier due to minimal time zone differences (up to four vs. 12+ hours for Asian countries) and the prevalence of bilingual speakers. Travel to Mexico from the U.S. is much quicker and more convenient with many Mexican airports being directly serviced from the U.S. Unlike China, Mexico does not require visas for business travel.





In addition, there are a few additional factors to consider such as:



### **Industry**

Some industries, with significant supplier bases, are more established in one country compared to the other. Moving a plant without considering critical suppliers can diminish potential benefits.



### **Manufacturing Process and Product Complexity**

China may have an advantage for complex products due to its extensive manufacturing experience gained over the past several decades. Starting-up a Mexican plant can require significant training to build required expertise.



### **Expected Production Volume**

China may offer better economies of scale than Mexico for high-volume production, typically houses workers on-site (for quick ramp-up), and still has a practically inexhaustible labor pool.

While at a high-level Mexico seems an attractive location for manufacturing activities, it is essential to understand your company's specific situation and needs to identify and evaluate the risks and economics of manufacturing in Mexico versus China. As stated previously, no region or country is entirely immune to unforeseen political or economic disruptions. Long-term view and flexibility are critical to developing manufacturing and supply chain strategies.



At Alvarez & Marsal, our professionals have extensive experience in evaluating global supply chains, identifying risks and alternatives, quantifying costs and benefits, and implementing solutions.

Contact us to find out how we can assist you.



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