

North American Nearshoring Developments

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In response to a variety of global and more local factors including but not limited to geopolitical tensions, strains on international supply chains, and rising transportation costs, companies have embraced nearshoring, the practice whereby a company transfers part of its production process (typically to third parties) to a country that is located closer to its primary operations.

In particular, Mexico has benefitted from this trend, with many foreign investors looking to Mexico in order to leverage the geographical proximity to the United States and the advantages offered under the USMCA (previously known as the NAFTA). Mexico also offers a long history in export manufacturing and established regime for such manufacturing, competitive labor rates, shared time zones with the US, and a strong network of free trade network agreements around the world.

A Maquiladora operation is an instrument or authorization granted to Mexican entities to promote exports. The holder of the authorization under this program may temporarily import goods owned by a foreign entity that are then used in an industrial or service process without paying customs duties. A separate exemption is available for VAT.

In particular, certain foreign investors have looked to use a shelter program, one of the modalities offered under the maquiladora program, to enable foreign investors to operate in Mexico without having a subsidiary or branch formed in Mexico. Under the shelter regime, foreign investors may perform their activities through an unrelated third-party that provides its facilities, personnel, and understanding of the working of the maquiladora program (formally known as IMMEX). Foreign investors are finding this to be an attractive interim arrangement until they become more familiar with the maquiladora program and doing business in Mexico in general.

This nearshoring trend has resulted in many visible greenfield projects (a very noticeable one was Tesla's announcement of a large automotive facility in the Monterrey area), tight industrial real estate conditions in the major Mexican manufacturing areas in the north, and an active M&A market in North American manufacturing.

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