

Manufacturing Migration Made Easy: A Seamless Transfer from China to Mexico

BONUS
Ready to Move? Your Must-Have Checklist

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Revolutionizing Contract Manufacturing: Your Comprehensive Guide to Transitioning from China to Mexico

Discover the proven strategies and expert insights to effortlessly transition your manufacturing operations from China to Mexico. This comprehensive e-book empowers businesses with the knowledge and tools necessary to navigate the complexities of nearshoring, overcome common challenges, and unlock the immense benefits of Mexico as an alternative manufacturing destination.

MEXICO MANUFACTURING OVERVIEW

Factors That are Driving Manufacturing out of China

As global manufacturing dynamics evolve, businesses are increasingly exploring alternative locations to China, driven by various compelling factors. In this section, we delve into the key reasons that have fuelled the exodus of manufacturing operations from China. From rising labor costs to regulatory complexities and geopolitical tensions, each factor plays a pivotal role in shaping companies' decisions to seek alternative manufacturing locations.

Let's explore the factors that are driving manufacturing out of China and why Mexico emerges as an enticing alternative for businesses looking to optimize their production strategies.

- **Steadily Increasing Labor Costs:** Over the past decade, China has witnessed a consistent rise in labor costs due to factors like increased competition for skilled workers and changes in labor regulations. This upward trend has impacted manufacturing expenses, prompting businesses to explore cost-effective alternatives.
- **Regulatory Complexity and Uncertainty:** China's regulatory landscape has become more intricate and unpredictable, with stricter environmental standards, product quality requirements, and intellectual property protections. These changes have added complexity and uncertainty for manufacturers, driving them to seek more stable environments.
- **Punitive U.S. Import Tariffs:** The ongoing trade tensions between the U.S. and China have resulted in significant import tariffs on Chinese goods, adding to manufacturing costs for businesses exporting to the U.S. market. Regardless of which party wins the 2024 presidential race in the US, tariffs will continue and likely increase. To mitigate these financial burdens, companies are exploring alternative production locations.
- **Deteriorating Geopolitical Situation:** The geopolitical rivalries and trade disputes between the U.S. and China have created an uncertain business climate. Businesses seeking stability and reduced risk are considering diversification away from China.
- **Unpredictable Freight Costs and Delays:** China's logistics infrastructure faces challenges, leading to uncertain shipping costs and delivery delays. This has prompted companies to explore locations with more stable and predictable logistics networks.
- **Over-Dependence on China:** The pandemic-induced disruptions and supply chain vulnerabilities highlighted the risks of relying heavily on China for manufacturing. As a result, businesses are looking to diversify their manufacturing base to enhance supply chain resilience.

What Makes Mexico a Good Alternative Location?

Mexico's manufacturing landscape is thriving, offering a glimpse of its current state and potential. With over \$100 billion in exports of cars and car parts annually, the automotive industry, established for over five decades, stands as a strong pillar of Mexico's manufacturing prowess. Additionally, the country exports approximately \$10 billion worth of electrical appliances and \$100 billion worth of electronics, including consumer products. Beyond automotive, Mexico's aerospace and processing equipment industries also display a robust presence. The country boasts a solid supply chain supported by thousands of suppliers for metals, plastics, PCBAs, wire harnesses, and assembly, providing a conducive environment for manufacturing operations. Geographically, certain areas in Mexico are concentrated around specific industries, offering both benefits and challenges for businesses aiming to establish their presence.

1. Availability of Raw Material in Mexico:

Raw material availability is a key factor for the development of various industries in Mexico, such as manufacturing, construction, and electronics. According to the National Institute of Statistics and Geography (INEGI), Mexico produces about 12.6 million tons of plastic per year, ranking as the second largest producer in Latin America. Mexico also has abundant reserves of metallic minerals, such as silver, gold, copper, and zinc, which account for 4% of the world's total production. Additionally, Mexico imports electronic components from countries like China, the United States, and Japan, to meet the demand of its domestic and export markets. These components are used for the assembly of products such as computers, smartphones, and televisions.

2. The Current State of Manufacturing in Mexico:

Mexico's manufacturing sector has witnessed rapid growth, with exports of cars, car parts, electrical appliances, and electronics exceeding billions of dollars annually. The presence strong industries in automotive, aerospace, and processing equipment, supported by a robust supply chain, adds to its allure.

- **Geographical Consideration:** Certain regions and states in Mexico concentrate on specific industries, which may present benefits and challenges to manufacturers depending on their requirements and preferences. While central Mexico offers good infrastructure and efficient logistics, border towns and larger cities may have higher labor costs and turnover.
- **What is the Labor Situation?:** General labor costs in Mexico are typically lower than in China, with some benefits, particularly in direct labor. However, labor costs can vary based on location, and near-border or large cities may experience higher wages and more turnover. Understanding the labor dynamics and competition within the chosen region is vital for maintaining a stable workforce.

What are the Supply Chain Challenges?

While Mexico possesses an available supply chain, it can be challenging to engage with local suppliers for smaller volume, high mix, low volume products. The rapid growth in reshoring has led to a selective approach by suppliers, making it difficult for some manufacturers to establish localized supply chains initially. Maintaining an existing supply chain from China and gradually migrating to Mexican suppliers may be a prudent strategy.

1. What is the logistical situation?

Mexico's logistics infrastructure is generally good, with efficient transportation routes from central Mexico to border towns and major seaports on the Pacific and Gulf coasts. However, it's essential to comply with specific requirements from US carriers and be prepared for potential delays due to customs procedures.

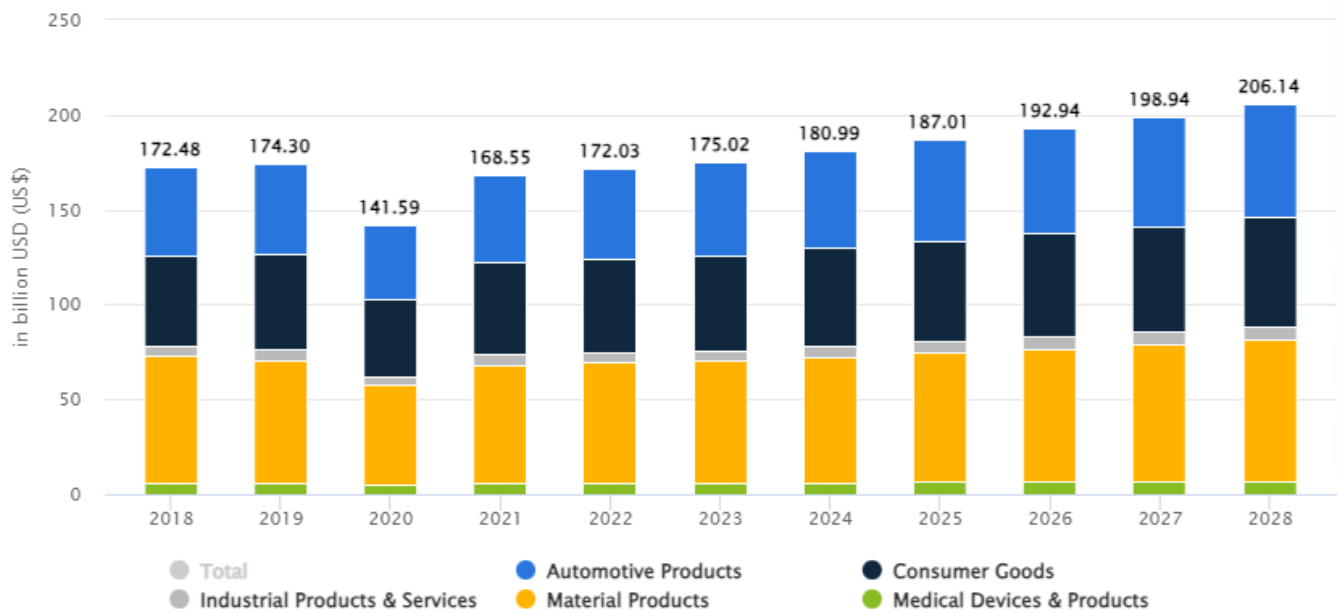
2. What are the Customs and Trade Issues Like?

Like China, Mexico emphasizes meticulous documentation and forms for imports. Importing new equipment typically goes smoothly, but challenges arise when dealing with used equipment, as specific restrictions may apply. Importing samples and prototypes may also require detailed documentation and understanding of the equipment's purpose. Tariff avoidance strategies, involving substantial transformation within Mexico, can help businesses avoid additional costs, but expert assistance is recommended.

Top Manufacturing Industries in Mexico

VALUE ADDED

VALUE ADDED GROWTH



Notes: Data shown is using current exchange rates. Data shown reflects market impacts of the Russia-Ukraine war.

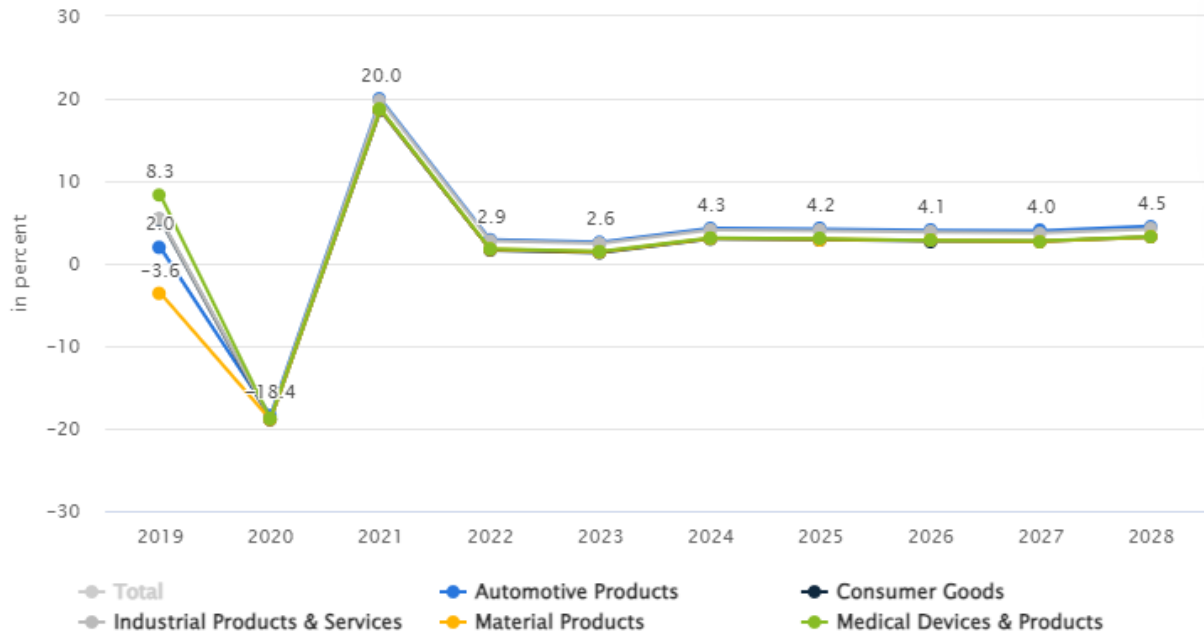
Most recent update: May 2023

Source: Statista Market Insights

The aerospace industry has a strong presence with 300 manufacturing companies, including OEMs and various suppliers. Automotive manufacturing has a long-standing history, with companies producing automotives, subassemblies, and parts for over 50 years. Mexico is also a significant exporter of medical devices, amounting to approximately \$8 billion in exports. The electronic industry thrives, contributing to high-tech electronic subassemblies, computer parts, appliances, home goods, and medical products. Additionally, the appliance industry has been well-established in Mexico for many years, making it the fifth-largest exporter of appliances worldwide. The light blue zones on the map highlight concentrated manufacturing clusters in specific regions, representing hotspots of industrial activity.

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Most recent update: May 2023

Source: Statista Market Insights

Trends & Developments

Manufacturing in Mexico has been growing steadily in recent years, thanks to its competitive advantages such as skilled engineers, proximity to the US market, and free trade agreements with many countries. Some of the main trends and developments in this sector include:

- The expansion of the automotive industry, which is the largest manufacturing subsector in Mexico and accounts for about 20% of its exports. Mexico is the sixth-largest producer and fourth-largest exporter of vehicles in the world, and has attracted major investments from global automakers such as Toyota, BMW, and Ford. These companies have established production plants, research and development centers, and supply chains in Mexico, creating thousands of jobs and boosting the local economy.
- The diversification of the aerospace industry, which is one of the fastest-growing manufacturing subsectors in Mexico and has more than 300 companies operating in the country. Mexico is the 12th-largest exporter of aerospace products in the world, and has developed capabilities in areas such as design, engineering, maintenance, and assembly.

The industry has also benefited from the collaboration between the public and private sectors, as well as the academic and scientific institutions, which have supported the training of skilled workers and the development of new technologies.

- The adoption of Industry 4.0 technologies, which are transforming the manufacturing processes and increasing the productivity, quality, and efficiency of the sector. Mexico is implementing initiatives such as the National Digital Strategy, the National Industry 4.0 Program, and the Advanced Manufacturing Center to promote the digitalization and innovation of its manufacturing industry. These initiatives aim to foster the integration of technologies such as artificial intelligence, robotics, the Internet of Things, cloud computing, and big data analytics into manufacturing operations.

TOP COMPANY REVENUES (WORLDWIDE & CONSOLIDATED)

in billion USD (US\$)

	2018	2019	2020	2021	2022
Apple	260.20	274.50	229.20	394.30	
Basf	92.85	67.42	67.68	70.00	
General Electric Co	121.60	90.22	75.83	74.20	76.56
General Motors	147.00	137.20	122.50	127.00	156.70
Hon Hai Precision Ind	175.90	173.00	181.40	214.10	240.00
Mercedes-Benz Group	197.70	193.40	138.90	158.40	167.80
Samsung Electronics	221.60	197.70	200.70	244.40	251.80
Siemens Ag	98.10	97.23	63.04	73.68	80.51
Toyota Motor	273.70	274.60	254.90	285.90	
Volkswagen	278.60	282.80	254.30	296.10	312.30

Most recent update: Jul 2023

Source: [Statista Company Insights](#)

MAP OF THE TOP MANUFACTURING LOCATIONS IN MEXICO



- Per the map, Mexico’s manufacturing industry is concentrated within the “light blue zone”
- Availability of investment incentives managed at the state level, with competition between states
- Clustering of manufacturing is driven by the individual needs and specializations of the varying manufacturing industries
- Clustering also ensures the needed labor skills & labor supply in each industry cluster region

EVALUATING YOUR CHINA PROGRAM FOR NEAR-SHORING

- **Factors Driving the Transfer:** Consider the driving forces behind the move, such as tariff avoidance, supply chain continuity, or corporate risk aversion policies, as they may influence the overall timeline and approach.
- **Current Supplier Relationship:** Assess your existing relationship with the China supplier. A collaborative transfer with transparency can be smoother and faster, but confidentiality may require a more discreet approach.
- **Intellectual Property (IP) Considerations:** Ensure you have a good grip on your product's documentation and IP rights to avoid potential complications during the transfer
- **Capital and Equipment Requirements:** Evaluate the capital needed for establishing the manufacturing facility, including equipment, fixtures, and QA/testing tools.
- **Specialized Components and Supply Chain:** Determine if any specialized components or supply chain elements are exclusive to the China supplier, as replicating them in Mexico might be challenging.
- **Transfer Schedule and Inventory Planning:** Plan for a bank build and consider expedited freight or duplicating fixtures if there are shortages of components.
- **Tariff Avoidance and Certifications:** Understand the requirements for substantial transformation or qualifying for USMCA benefits to avoid punitive tariffs.
- **Cost Modeling and Analysis:** Calculate work unit costs and weigh all factors, including tariffs, risk, and inventory carrying costs, to make informed decisions.
- **Data and Documentation Preparation:** Prepare all specifications, drawings, BOMs, tooling design files, and other necessary data for the successful transfer.
- **Product Variation and Tribal Knowledge:** Be prepared for process changes and uncovering tribal knowledge during the transfer, which may require additional time and effort.

ABOUT EASTEK

Eastek International Corporation is a US-owned electronics contract manufacturer with headquarters in Vernon Hills, Illinois (Chicago suburb). Eastek has stood out for over 30 years as a trusted and efficient partner for businesses of all sizes. From smaller companies to Fortune 500 companies, we understand the unique challenges of bringing a product to market, and we're dedicated to making the process as seamless as possible for our customers.

We offer a wide range of services including Design Support, PCB Assembly, Injection Molding, and complete Box Build Assembly including Battery Packs and Chargers. Over the past several years Eastek has invested in new manufacturing plants, high-speed production equipment, and our staff to ensure that we can deliver the highest quality products, on time and on budget.

With facilities in Asia and Mexico, we're able to offer local expertise and resources in key regions while also leveraging our global sourcing reach to meet the needs of our Healthcare, Industrial, Transportation, and Energy customers around the world. Whether you need support with product design, electromechanical sub-assemblies, or complex custom products, we're here to help. Let's build what matters to you!

TRANSFER CHECKLIST (BONUS)

Questions to evaluate before you begin your transfer:

- Why do you want to move your program out of China?
- What is your current relationship with your China supplier?
- Do you have control of your Intellectual Property?
 - Product Drawings
 - Bills of Materials and Specifications
 - Work Instructions
 - Specialized supply chain
- Have you considered what the capital expense will be to move?
- If you have any unique or customized manufacturing equipment, special materials or know how, does your new country of manufacturing have those capabilities?
- Are you shutting down production to move fixtures and tools or will you be building a second set of fixtures and tools?

What does the supply chain look like in your new country of manufacturing?

- Can you find the same parts and pieces?
- What do lead times look like?

What does your transfer schedule look like? Will you continue to manufacture while moving your program?

Does your new manufacturing facility have the certifications, such as ISO, IATF, UL or FDA, that your product might require?