Nearshoring: Mexico Aims to be the New “El Dorado” for Doing Business Abroad

Article By:
Francisco Victoria-Andreu
Ivan W. Bilaniuk

Mexico has just announced significant tax incentives for companies in certain key industries to relocate operations to Mexico. A government decree issued on October 11, 2023 seeks to boost the nearshoring trend targeting ten export-oriented manufacturing sectors.

Nearshoring is the process by which a company relocates operations offshore, but close to the market where it intends to sell its products. The enactment of the North American Free Trade Agreement (NAFTA) in 1994 provided a significant boost to nearshoring in Mexico with several northern border cities developing into global manufacturing centers for various types of products such as household appliances, auto parts, electronic equipment, textiles, etc. NAFTA reduced or eliminated tariffs on goods produced in Mexico that were imported into the U.S. if the manufacturing process satisfied NAFTA’s rules of origin for preferential tariff treatment. The United States-Mexico-Canada Agreement (USMCA) entered into force...
on July 1, 2020 replacing NAFTA. The USMCA changed the rules of origin to qualify for preferential tariff treatment, but nevertheless continues to provide some incentive for nearshoring.

In recent years, geopolitical events have led increasing numbers of U.S. companies to look at nearshoring to their southern neighbor:

(1) the U.S.-China trade war that began in mid-2018, when the U.S. began imposing tariffs pursuant to Section 301 of the Trade Act of 1974 on imports from China in response to China’s actions on technology transfer and intellectual property that hurt U.S. commerce; and

(2) the COVID-19 pandemic that caused logistics issues with imports from Asia disrupting supply chains.

The Mexican Government’s new incentives seem designed to encourage U.S. companies (and other foreign investors) that are exploring whether to nearshore to Mexico to make the investment commitment. The Ministry of Finance of Mexico has estimated that these incentives may attract as much as $18.5B in new investment through 2024,[1]

The Mexican government decree issued on October 11, 2023, includes multiple significant tax incentives. It permits accelerated depreciation of investments made from the date of the decree through 2024 in new fixed assets in ten export-focused manufacturing sectors.
- Electronic components
- Semiconductors
- Batteries
- Motors
- Electrical or electronic equipment
- Fertilizers
- Pharmaceuticals
- Agribusiness
- Medical instruments
- Cinematography

The amount eligible for accelerated depreciation varies from 56% to 89% based on the type of asset, e.g., manufacturing equipment such as dies and tooling (89%), computer hardware (88%), cargo trucks (86%), and construction of manufacturing facilities for semiconductors (56%). In addition, a 25% tax deduction is guaranteed for three years for worker training expenses in these ten sectors.\[2\]
Communiqué No 68 of the Government of Mexico dated October 11, 2023 available at (in Spanish)

Executive Branch Decree Granting Tax Incentives to Key Sectors of the Export Industry Consisting of the Immediate Deduction of Investment in New Fixed Assets and the Additional Deduction of Training Expenses dated October 10, 2023 available at (in Spanish)
https://www.dof.gob.mx/nota_detalle.php?codigo=5704676&fecha=11/10/2023#gsc.tab=0

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