LOCATION. LOCATION. LOCATION.

We've always been taught that the 3 most important factors in success were location, location, location. The same can be said for where to establish your business. In a post pandemic environment, now is a great time to review what nearshoring could mean for your supply chain.

The benefits of the United States – Mexico – Canada Agreement (**USMCA**) complemented by the impacts of the COVID-19 global pandemic and international trade tensions has created the perfect opportunity for companies to explore the benefits of shifting their manufacturing to Mexico to take advantage of the many benefits nearshoring has to offer.

The Bottom Line

Every company understands the concept of the cost of doing business and the importance of a comprehensive cost benefit analysis. The goal of every company is to offer quality products and services produced in the most economical manner possible.

Mexico offers several cost benefits that make it an attractive manufacturing and distribution hub.

A stable corporate **tax rate** and an incentive program combined with low labor rates and low costs of inbound freight make it a cost-effective location for manufacturing and distribution—especially when compared with China.

- Mexico enjoys one of the most favorable composite tariffs with the United States (0.04%)—compared with China's composite tariff rate of 19.2%.[1]
- Mexico's current tax rate of 30% has not changed since 2010.[2]
- The amount a company pays in overall taxes might be even lower if the company takes advantage of Mexico's Maquiladora Program or the country's Special Economic Zones.[3]

A **robust labor force** means Mexico can remain competitive, while still keeping wages cost-friendly.

- Mexico's labor market still offers great value with an average manufacturing labor cost of US $4.80 per hour compared with US $6.50 per hour in China.[4]

In addition, **Trade advantages:** Mexico has 14 free trade agreements with over 50 countries representing more than 60% of the world´s GDP.

[1] Alex Partners Mexico supply chain article June 2021
[2] Mexico Corporate Tax Rate, Trading Economics; https://tradingeconomics.com/mexico/corporate-tax-r
[3] Companies should consult with their own tax advisor to determine eligibility for specific tax-treatment benefits.
[4] Manufacturing labor costs per hour for China, Vietnam, Mexico from 2016 to 2020, Statista, https://www.statista.com/statistics/744071/manufacturing-labor-costs-per-hour-china-vietnam-mexico/.

Proximity

U.S.' proximity to Mexico is a major advantage to businesses due to quicker transit times.

- Transporting goods from Mexico to New York can take about 6 – 12 days while going from Shanghai to New York can take about 35 days. Mexico to Los Angeles is 4 days where Shanghai to Los Angeles, 22 – 26 days.
- Additionally, Components can be sourced from the U.S., assembled in Mexico, and shipped back to the U.S. in a short amount of time.

With Mexico being located in the **same time zones** as the U.S. (Pacific, Mountain and Central), companies will benefit from greater efficiency and productivity.

As more Americans speak Spanish and more Mexicans are speaking English, the once issue of a **language communication** barrier is less of an issue in today's marketplace.

Infrastructure

In Mexico, both transportation and communications infrastructure have been upgraded promoting the flow of freight over the border, reducing bottlenecks and improving logistics for U.S. – Mexico cross-border trade.

- Mexico has 16 major maritime hubs offering Pacific Ocean and Atlantic Ocean access. Critical investments include a Veracruz rail line corridor connection to Oaxaca connecting the Atlantic and Pacific coasts and an expansion of the Lázaro Cárdenas Specialized Automotive Terminal.[5]

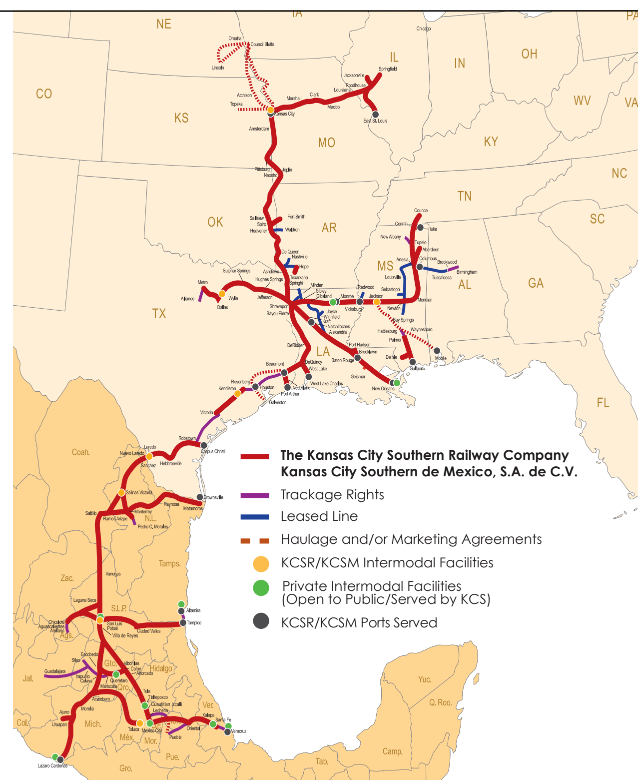
Environment

Because of Mexico's geographic proximity and figurative closeness with the United States, **corporate social responsibility** practices and trends are on the rise in Mexico.

If agility, flexibility, resiliency and profitability are what your company is seeking, then evaluating the prospect of Nearshoring in Mexico could be the best next step to take.

We at Kansas City Southern are here to assist no matter where you are in the process. Here is some info on Kansas City Southern to help with your decision:

- Kansas City Southern has over 6,700 route miles in the U.S. and Mexico and connects with every other major RR in North America.
- KCS' network covers 10 U.S. states and 16 Mexican states and has partnership with over 55 shortlines and100 transload facilities.
- KCS serves 17 U.S. ports and 3 Gulf of Mexico and 1 Pacific port in Mexico.
- KCSM is a fully owned subsidiary of Kansas City Southern, a 137 year old railroad.
- KCSM's network covers 67% of the Mexican population and 71% of the GDP through its over 3,300 route miles.



Please contact Linda Hernandez for more information.

[5] "Spotlight: The outlook for Mexico's port infrastructure in 2020." BNamericas, February 21, 2020; https://www.bnamericas.com/en/news/spotlight-the-outlook-for-mexicos-port-infrastructure-in-2020.