



THE OTHER SIDE OF THE COIN

CHAPTER 5 THE IMPORTANCE OF NEARSHORING TO MEXICO'S AUTOMOTIVE INDUSTRY



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THE NEARSHORING PHENOMENON AND ITS IMPACT ON THE MEXICAN ECONOMY



MEXICO'S STRATEGIC POSITION



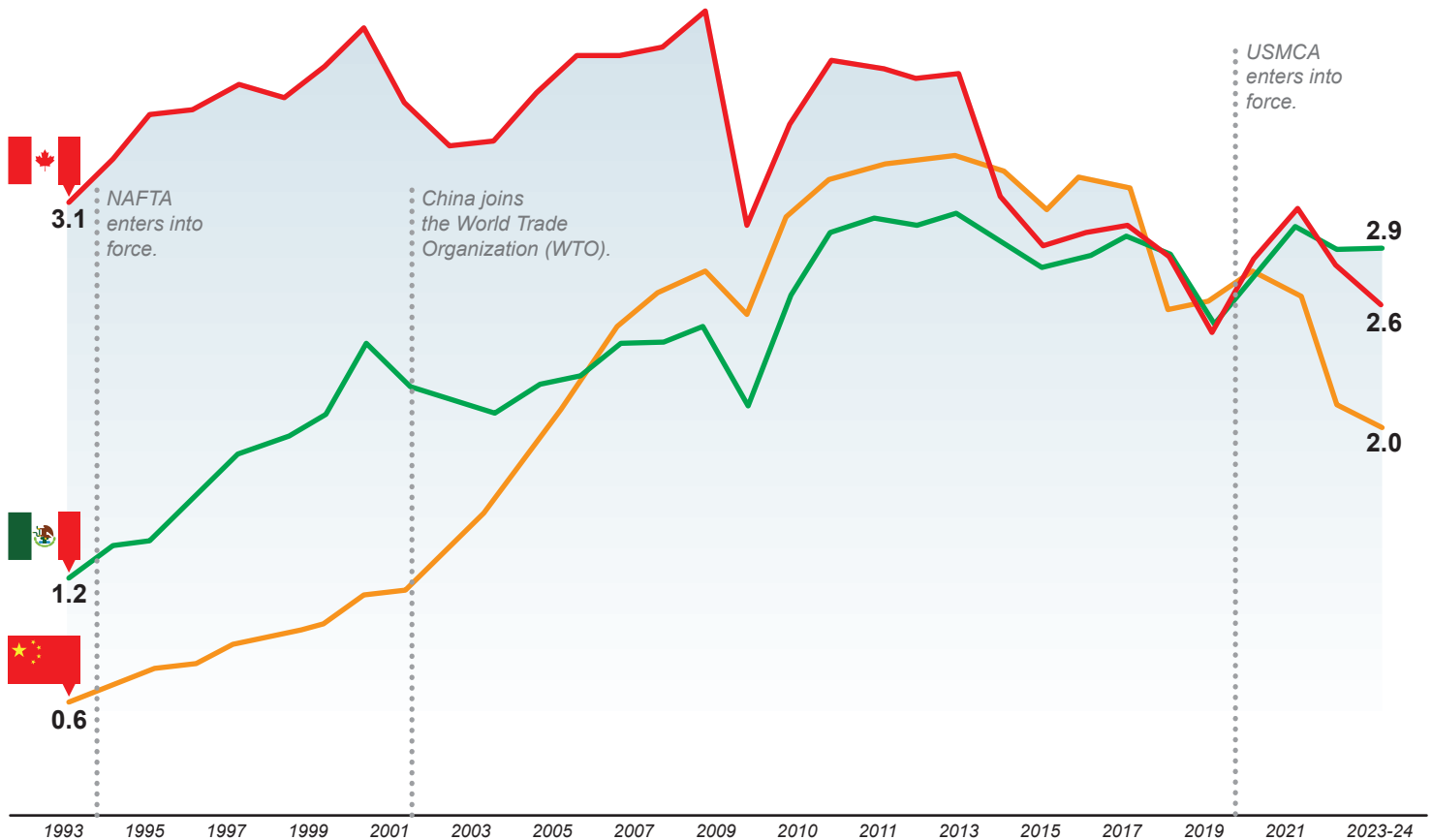
Since NAFTA entered into force in 1994, Mexico has successfully capitalized on its favorable access to the U.S. market, steadily increasing its share of U.S. imports. Given Mexico's competitiveness in productivity, proximity, costs, and well-established logistics networks, integration with the United States

has continued even amid the recent process of geoeconomic fragmentation. In 2025, Mexico consolidated its position as the United States' leading trading partner, displacing China - whose share has declined since 2017 - and became the world's largest destination for U.S. exports.

LARGEST U.S. TRADING PARTNERS

Total U.S. trade in goods with Canada, Mexico, and China as a share of U.S. GDP.

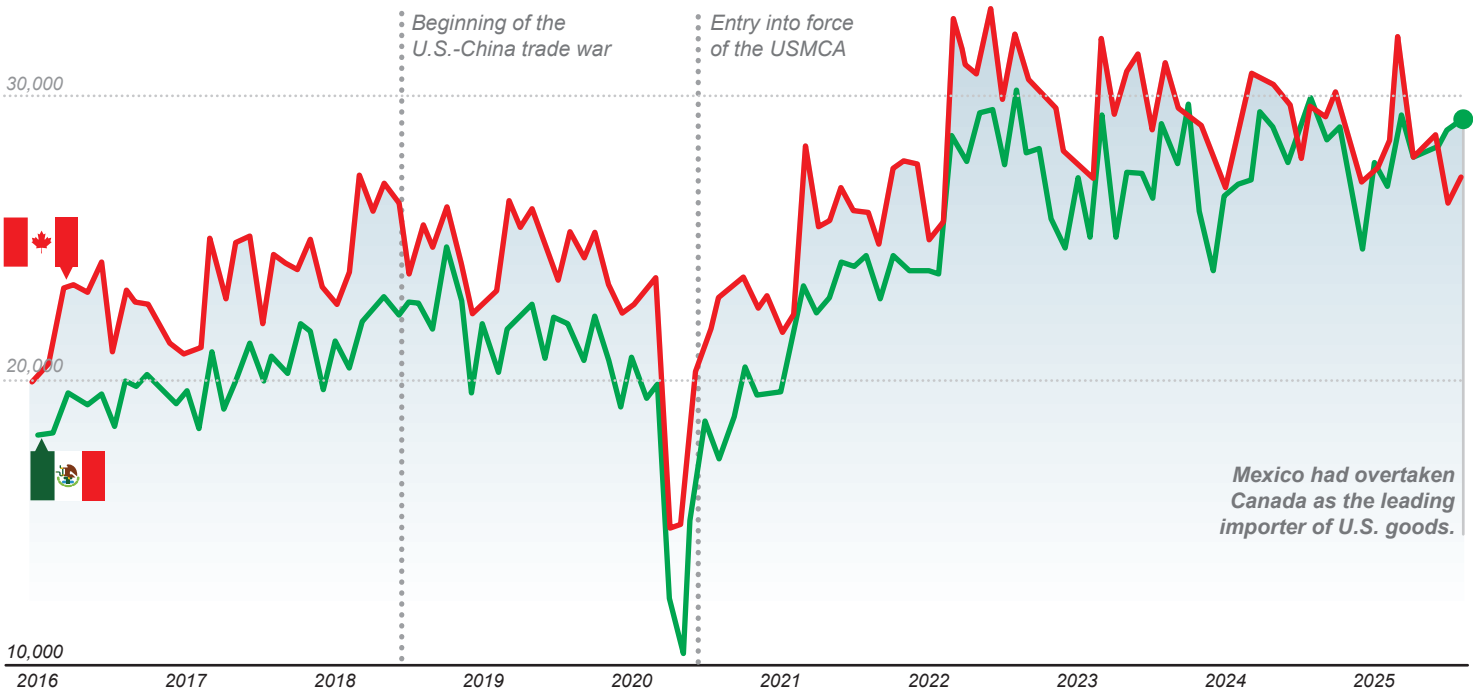
Constant 2015 dollars.



Source: INA, based on IMF and Brookings Institution data.

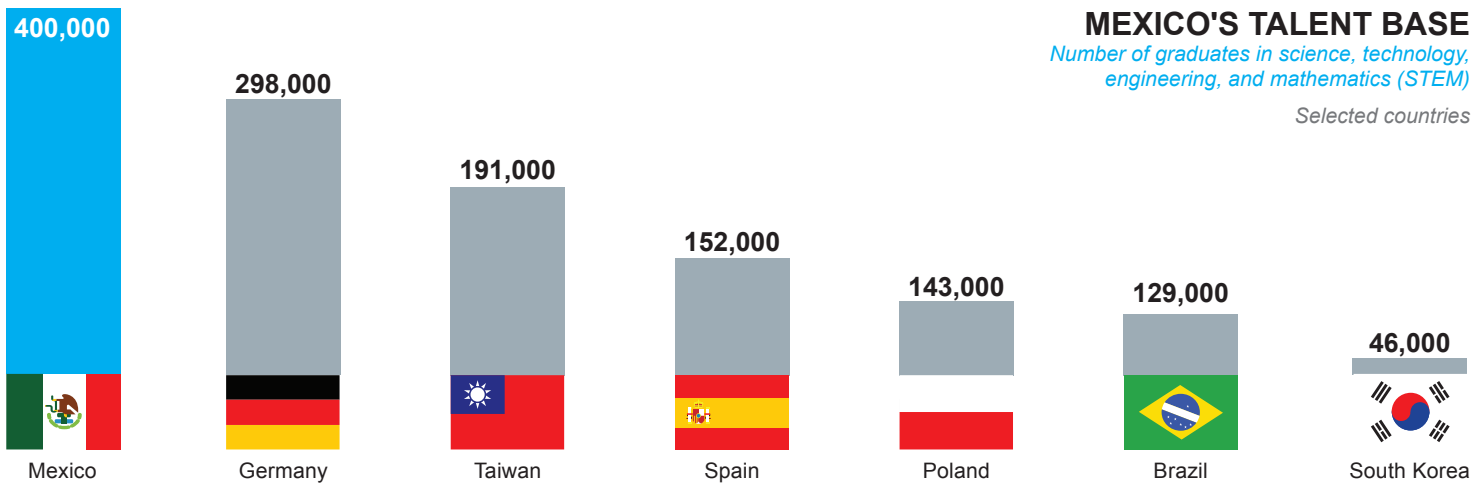
IMPORTS OF U.S. GOODS

USD millions.



These developments are taking place against a backdrop of slowing global trade and increasing geopolitical fragmentation, shaped by U.S.-China trade tensions, the pandemic, and Russia's invasion of Ukraine. However, rising political tensions have also encouraged stronger trade and investment flows toward economies that are not clearly aligned with either side of the geopolitical divide. This environment has created new opportunities for Mexico, not only because of its highly advantageous geographic position in North America and its proximity to

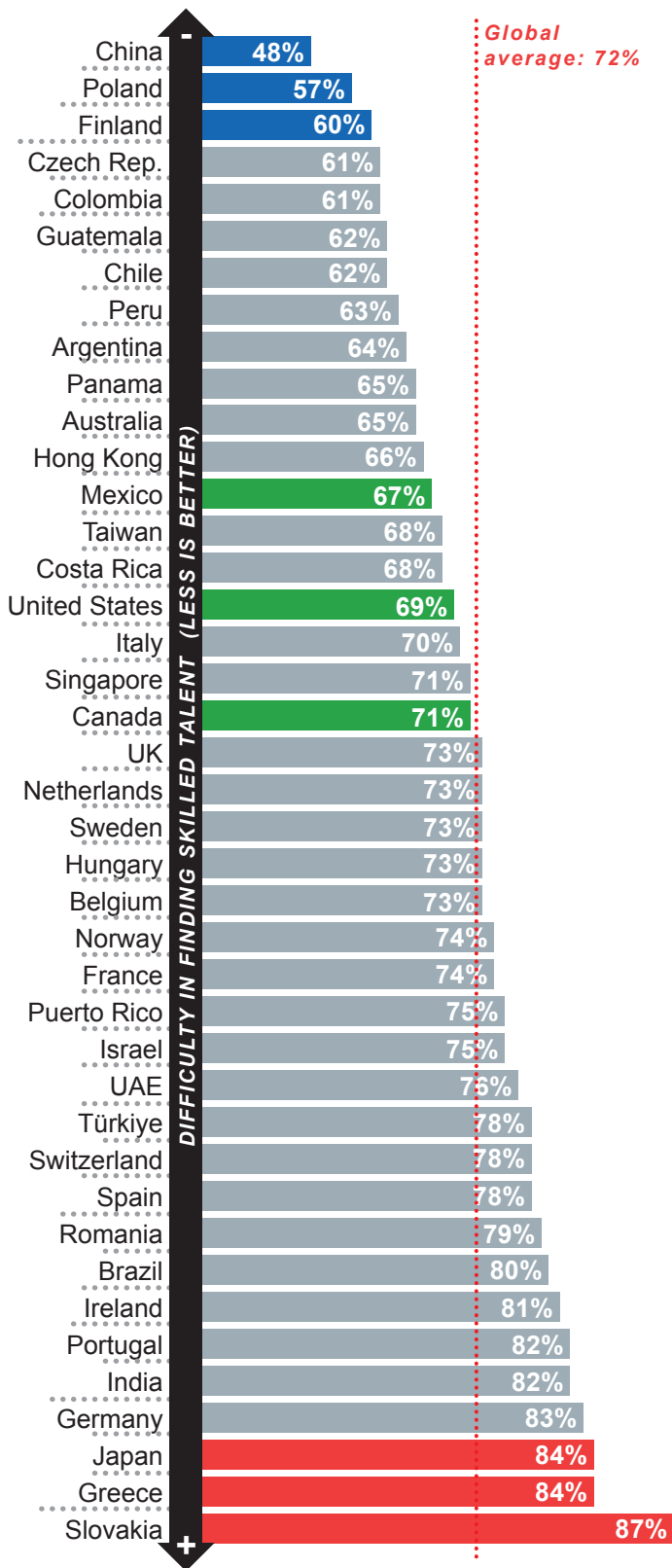
the United States and Canada, but also because of its ability to ensure access to inputs, manufacture goods, provide services, and, above all, supply the talent required relative to competing locations. According to the source, Mexico ranks first in the number of STEM graduates among the countries included in the comparison, providing a dynamic workforce that can adapt to the needs of advanced industrial sectors. The size and strength of the domestic market also create a favorable environment for the growth of new operations.



Source: INA, based on CSIS and Government of Mexico data.

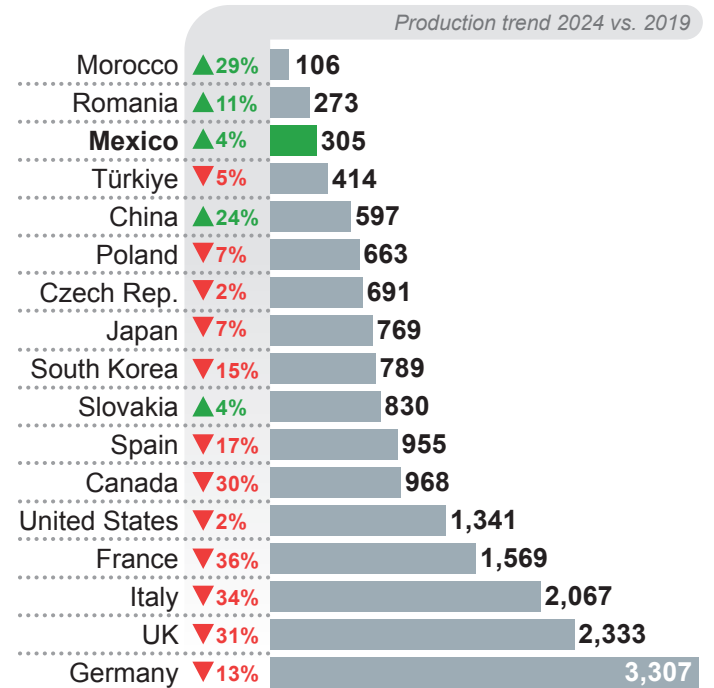
SKILLED TALENT

OECD Countries, 2025



LABOR COST PER VEHICLE, BY COUNTRY

U.S. dollars, 2024



Source: INA, based on Oliver Wyman data

As a result, foreign direct investment (FDI) in Mexico has increased in recent years as companies seek to capitalize on geographic proximity to the U.S. market (nearshoring) and gain greater protection against potential trade barriers associated with geopolitical tensions (friendshoring).

FDI IN MEXICO

Historical Performance at Year-End

USD millions and annual percentage growth.



2

WHAT ARE NEARSHORING, OFFSHORING, AND FRIENDSHORING?



Nearshoring entails transferring all or part of production, as well as relocating business operations, to locations closer to the target market but outside the company's home country. Its purpose is to reduce logistics and operating costs, leverage available specialized talent or human capital, and benefit from cultural and linguistic affinity despite operating across national borders.

Offshoring, by contrast, refers to relocating manufacturing processes or services abroad, irrespective of geographic distance. Its objective is to supply goods or services at lower cost or under more competitive conditions than those available in the country where the parent company or contracting entity is located.

DIFFERENCES BETWEEN NEARSHORING AND OFFSHORING

NEARSHORING <i>Transfer of activities to nearby locations.</i>	DEFINITION	OFFSHORING <i>Transfer of activities to distant locations.</i>
<i>Operations are established nearby, facilitating management and communication.</i>	GEOGRAPHIC DISTANCE	<i>Requires more complex management and effective communication strategies.</i>
<i>May be higher because of wage structures in nearby countries - or, in some cases, lower.</i>	LABOR COSTS	<i>Generally lower because labor is less expensive in the destination country.</i>
<i>Faster delivery times and greater responsiveness because of proximity.</i>	EFFICIENCY	<i>Potential cost efficiencies and access to new international markets.</i>
<i>Access to specific markets and local knowledge.</i>	COMPETITIVE ADVANTAGES	<i>Cost advantages and access to international markets.</i>
<i>More direct control and closer oversight because of geographic proximity.</i>	MANAGEMENT AND CONTROL	<i>A decentralized approach requiring remote management systems.</i>
<i>Lower barriers because of cultural and linguistic similarities.</i>	CULTURAL AND COMMUNICATION BARRIERS	<i>Potential barriers caused by cultural and linguistic differences.</i>
<i>Lower supply risk for goods or services because of national and regional political stability.</i>	RISK AND SECURITY	<i>Potential political, legal, and security risks in an uncertain international geopolitical environment.</i>
<i>Mexico and Eastern European countries.</i>	LOCATION EXAMPLES	<i>China, India, Vietnam, and the Philippines.</i>

Finally, friendshoring refers to relocating production and sourcing operations to countries considered geopolitically aligned with or trusted by the company's home country or principal market.

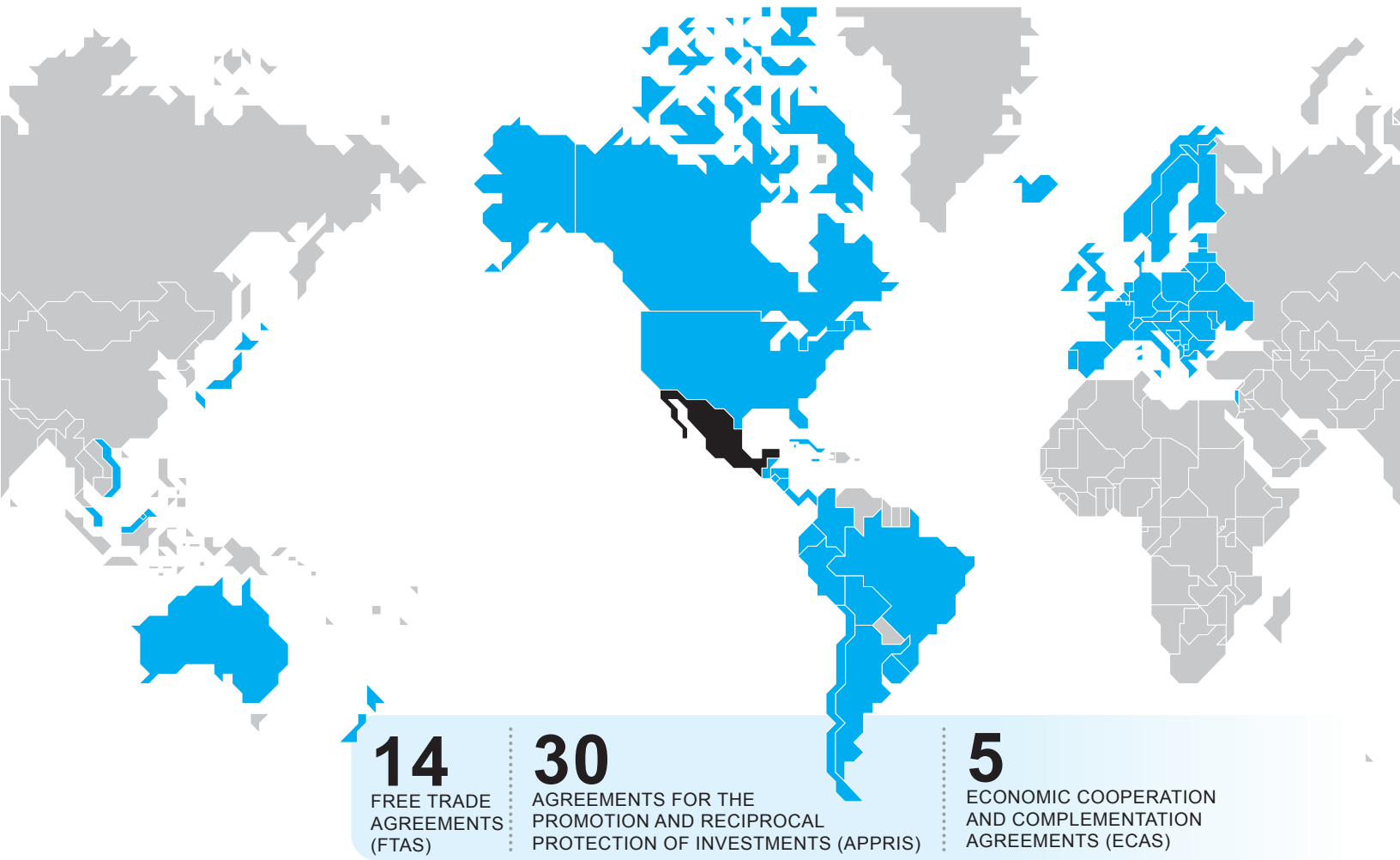
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MEXICO'S ADVANTAGES IN THE NEARSHORING CONTEXT



Mexico has consolidated its position as a strategic destination for nearshoring and related strategies through a combination of structural and situational advantages that position it as a leader in Latin America. Its privileged geographic location, with direct access to North American markets under the USMCA, enables companies to reduce logistics costs and lead times, strengthening their competitiveness relative to other countries.

Mexico also has an open economy supported by an extensive network of 14 free trade agreements (FTAs), 30 Agreements for the Promotion and Reciprocal Protection of Investments (APPRIs), and five Economic Cooperation and Complementation Agreements (ECAs) with Brazil, Argentina, Uruguay, and Paraguay. Together, these instruments facilitate integration into global value chains.



Source: INA, based on Government of Mexico data



As shown, nearshoring in Mexico is supported by a combination of structural and situational advantages that position the country as a regional leader in attracting capital and as a key partner in the reconfiguration of global supply chains.

NEARSHORING IN MEXICO



Quality of life
Mexico offers a high quality of life for expatriate employees and their families, with a relatively low cost of living



Proximity to the United States
Mexico shares a 3,146-km (1,955-mile) border with the United States.



Time zones
Mexico's time zones overlap with U.S. Pacific, Mountain, and Central Time zones, facilitating communication and collaboration.



Infrastructure
Mexico has made significant infrastructure investments and is ranked 61st in the World Bank infrastructure report cited by the source.



Competitive costs
Labor cost per vehicle in 2024: Mexico, USD 305; United States, USD 1,341; Canada, USD 968.



Skilled workforce
Mexico has a large, skilled workforce, particularly in manufacturing and technology. The source also states that Mexico ranks among the top 50 countries in the World Bank Ease of Doing Business report.



Economic growth
Mexico recorded a growth rate of 0.8% in 2025.



Free trade agreements
Mexico has FTAs with 50 countries, including the USMCA with the United States and Canada.



Mexico's macroeconomic and political stability reinforces investor confidence, while international recognition confirms the country's appeal. Mexico ranked as the world's fifth-largest FDI recipient in the first half of 2025 and as the sixth-best investment destination among leading emerging markets in the 2025 FDI Confidence Index. These results reflect the country's ability to balance opportunities and risks in a highly competitive global environment.

FDI

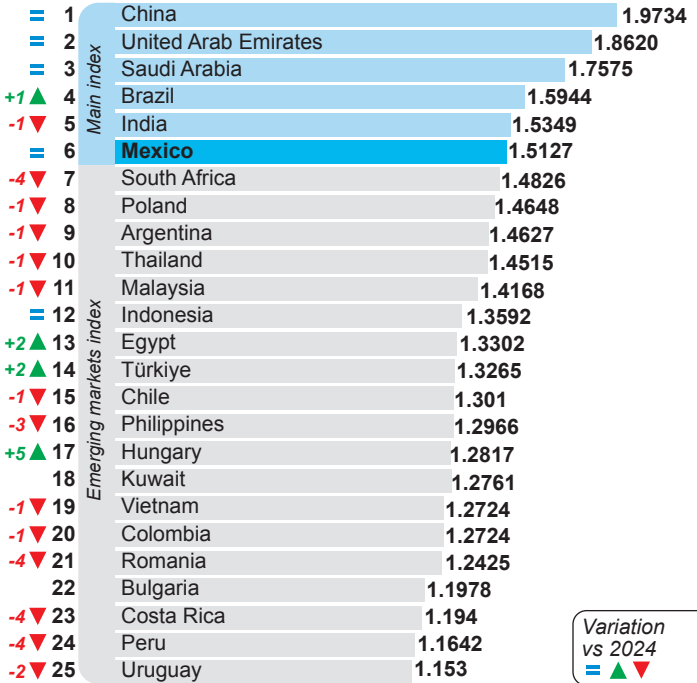
Largest FDI Recipient Countries - First Half of 2025

USD billions



FDI CONFIDENCE INDEX

Emerging-Market Ranking, 2025



Variation
vs 2024
▲ ▲ ▼ ▼

Source: INA, based on Ernst & Young Global Limited data.

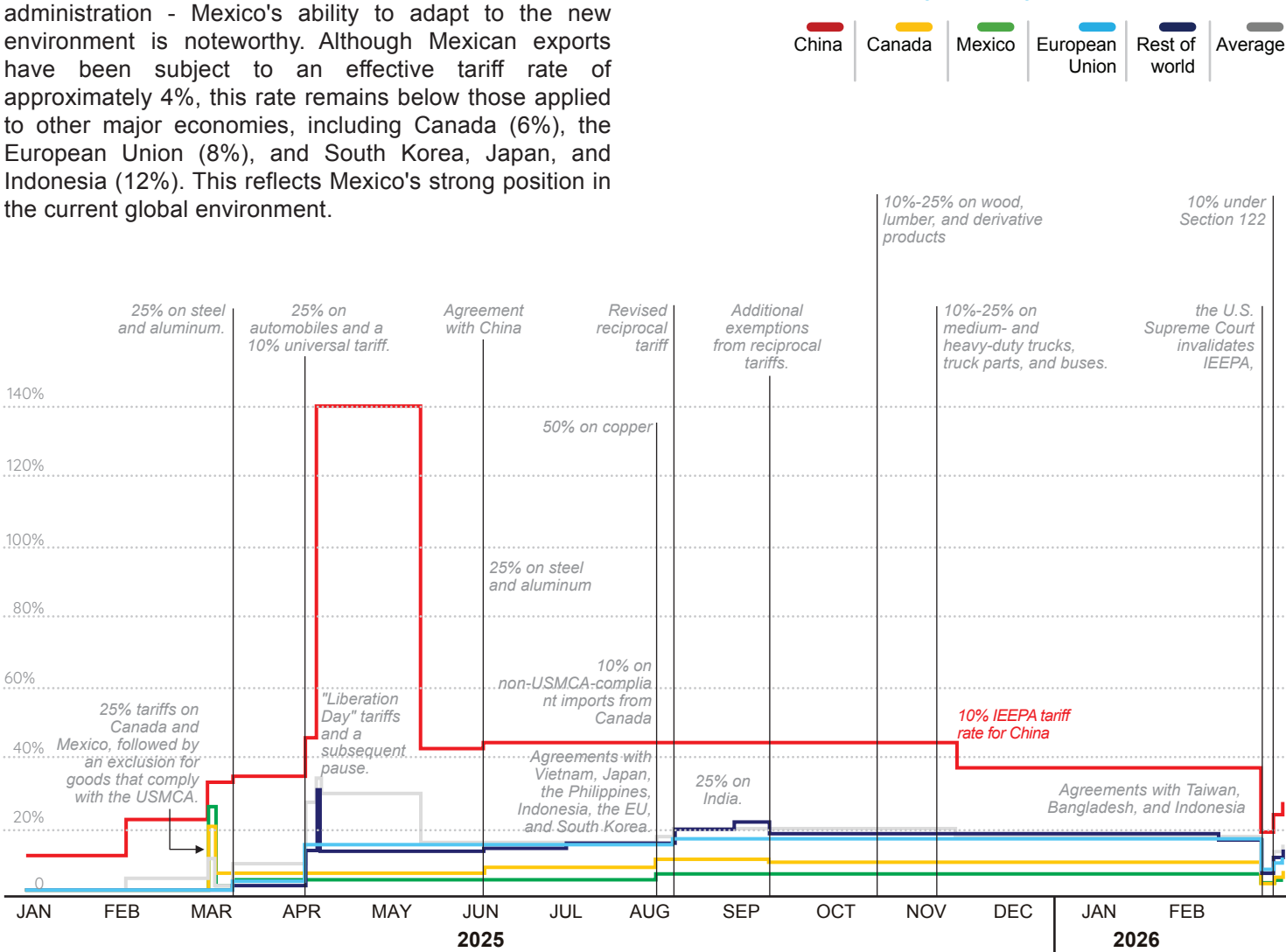
Source: INA, based on OECD and Kearney data.



Finally, in the context of the new international trade order - characterized by tariff measures implemented by the U.S. administration - Mexico's ability to adapt to the new environment is noteworthy. Although Mexican exports have been subject to an effective tariff rate of approximately 4%, this rate remains below those applied to other major economies, including Canada (6%), the European Union (8%), and South Korea, Japan, and Indonesia (12%). This reflects Mexico's strong position in the current global environment.

IMPACT OF TARIFFS

Trade-Weighted Average U.S. Tariff Rates, 2025-2026



This positions Mexico favorably relative to competing economies - particularly China - and could boost nearshoring activity and strengthen U.S.-Mexico economic integration over the medium term.

Source: INA, based on Brookings Institution data.

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INVESTMENT AND NEARSHORING TRENDS



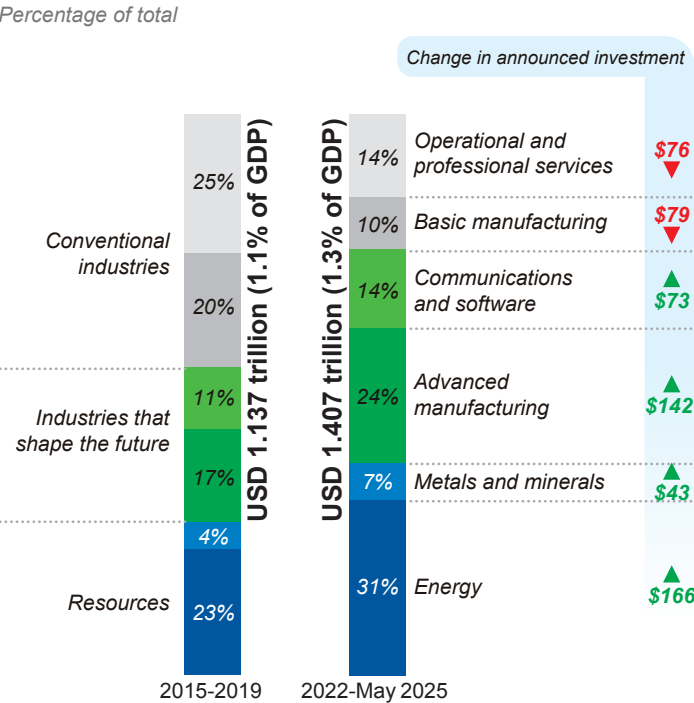
FDI flows are increasingly directed toward the industries that will shape the global economy and the resources that enable them. Future-defining industries include data centers that power artificial intelligence, semiconductor manufacturing facilities, electric-vehicle (EV) and battery plants, and a range of advanced manufacturing sectors, from pharmaceuticals to robotics.



Another key trend is investment in automotive software innovation and development. Industry executives report that the share of R&D budgets devoted to software and digital investment will almost triple, from 21% today to 58% by 2035. In addition to expanding into new geographies, companies identify new business models - including digital platforms - and new product categories as two of the strongest growth opportunities.

NEW INVESTMENT ANNOUNCEMENTS BY SECTOR

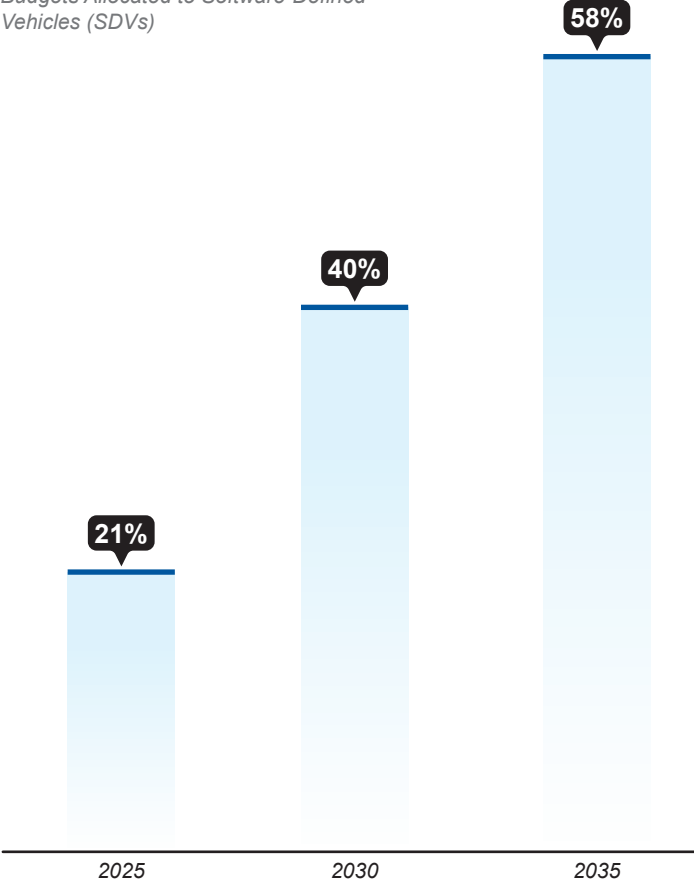
Annual average for 2015-2019 and 2022-May 2025



INVESTMENTS

Automakers are betting on software and digital R&D investments over the next 10 years.

Percentage of Automotive R&D Budgets Allocated to Software-Defined Vehicles (SDVs)



New investment announcements in these areas are on track to reach USD 840 billion globally, compared with an annual average of USD 490 billion between 2022 and 2024. The increase is driven entirely by the expansion of new data centers and semiconductor fabrication facilities.

Source: INA, based on McKinsey data.

Source: INA, based on IBM Institute for Business Value data.



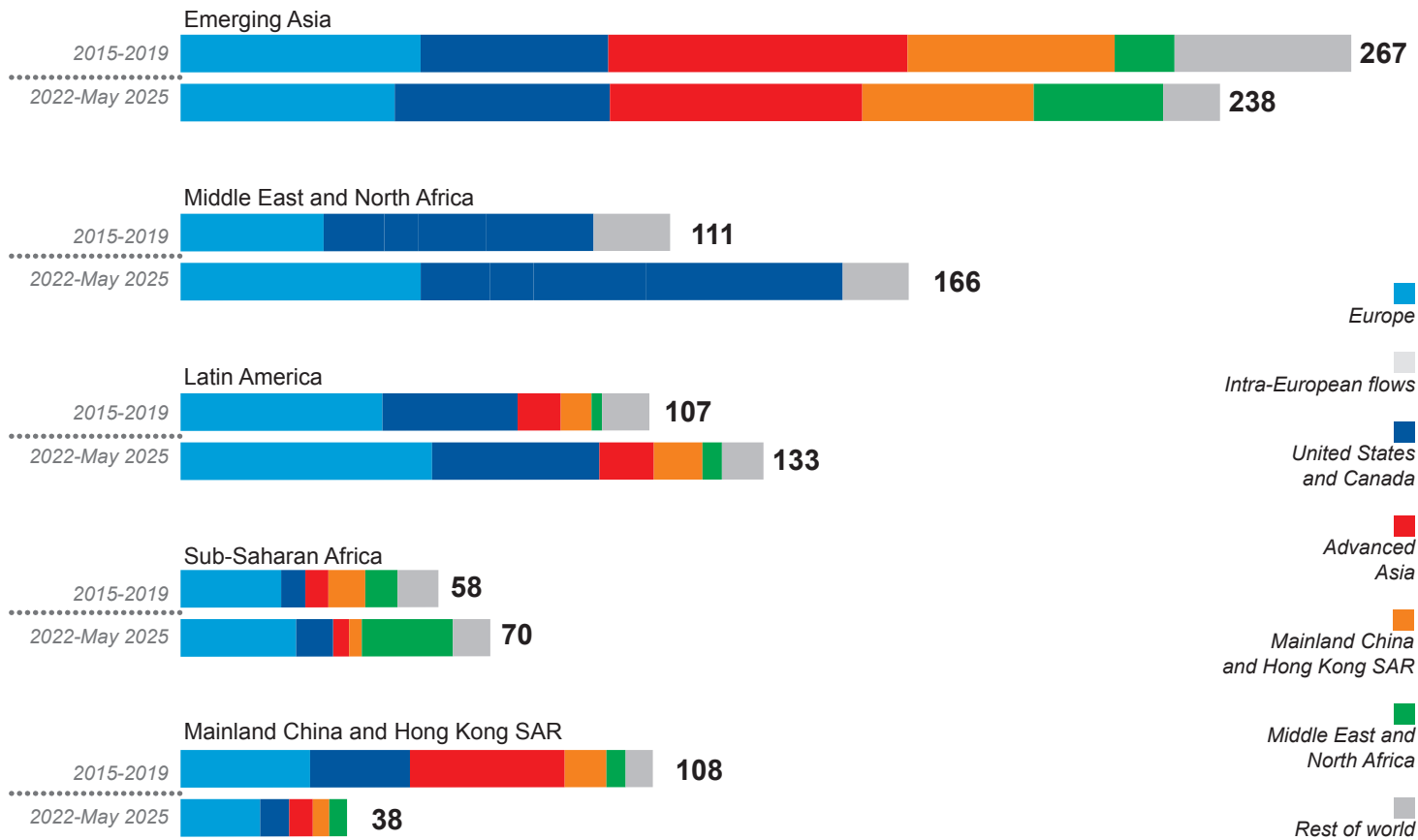
Investment decisions also involve a comprehensive assessment of risks and capabilities. Geoeconomic considerations in logistics have gained importance as companies seek to ensure operational continuity and reduce supply-chain vulnerabilities. Sustainability requirements are also increasingly directing investment toward locations that shorten distances, reduce emissions, and comply with increasingly stringent environmental standards.

In this context, infrastructure quality - particularly transportation, energy, and connectivity - is a decisive factor, as is the availability of specialized technical talent capable of adopting and operating more complex production processes. Together, these factors are redefining global site-selection criteria and creating a competitive environment in which Mexico's position depends on efficient integration, operational resilience, and execution supported by a skilled workforce.

FDI ANNOUNCEMENTS IN EMERGING ECONOMIES

Greenfield FDI Announcements and Inflows by Region

Annual average, USD billions.



Source: INA, based on McKinsey data.



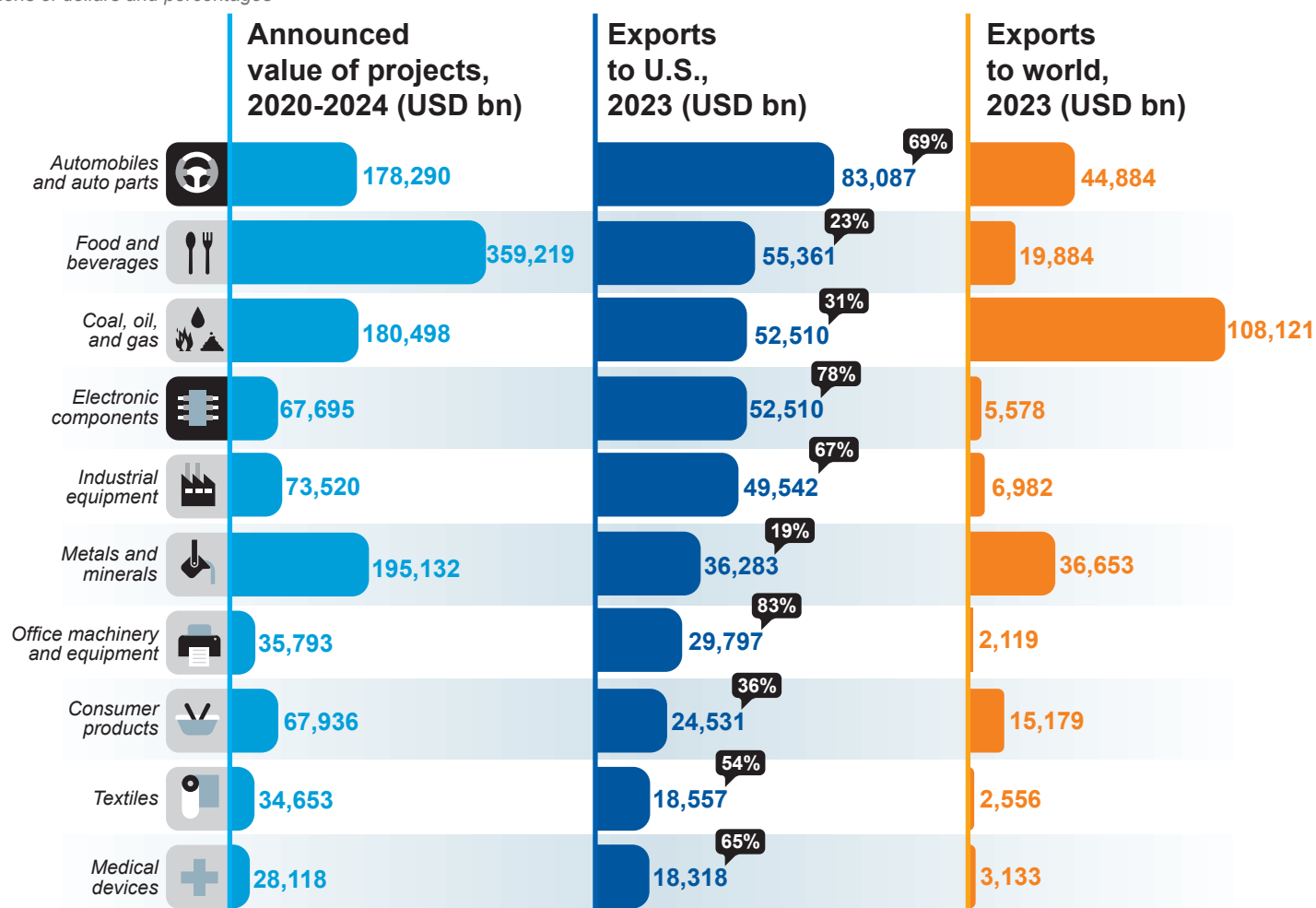
A final key factor for FDI in Latin America and the Caribbean is proximity to the United States, which has shaped the sectors attracting the most investment in recent years. The ten leading export sectors serving the U.S. market accumulated more than USD 245 billion in

announced projects between 2020 and 2024, equivalent to 49% of the total. In six of these sectors - primarily manufacturing - more than half of exports go to the United States, particularly in the automotive and electronics industries.

LATIN AMERICA AND THE CARIBBEAN:

*Top 10 Export Sectors to the United States (2023)
and New Investment Announcements (2020-2024)*

Billions of dollars and percentages

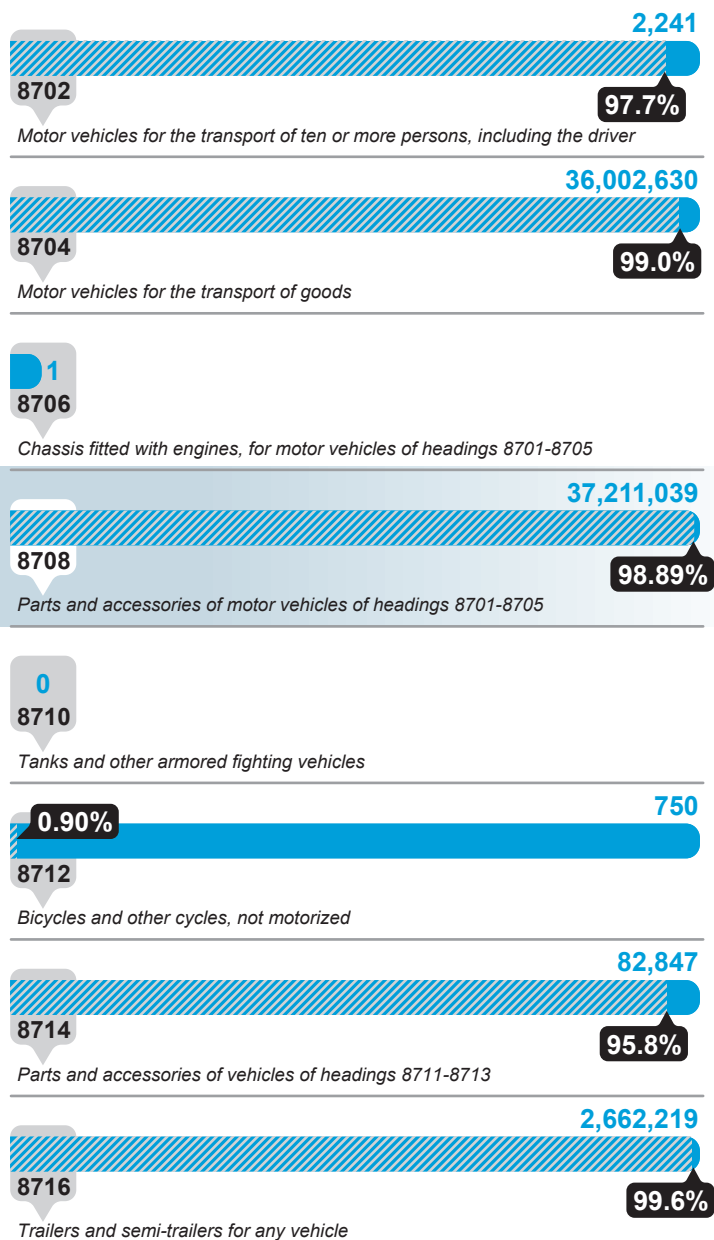
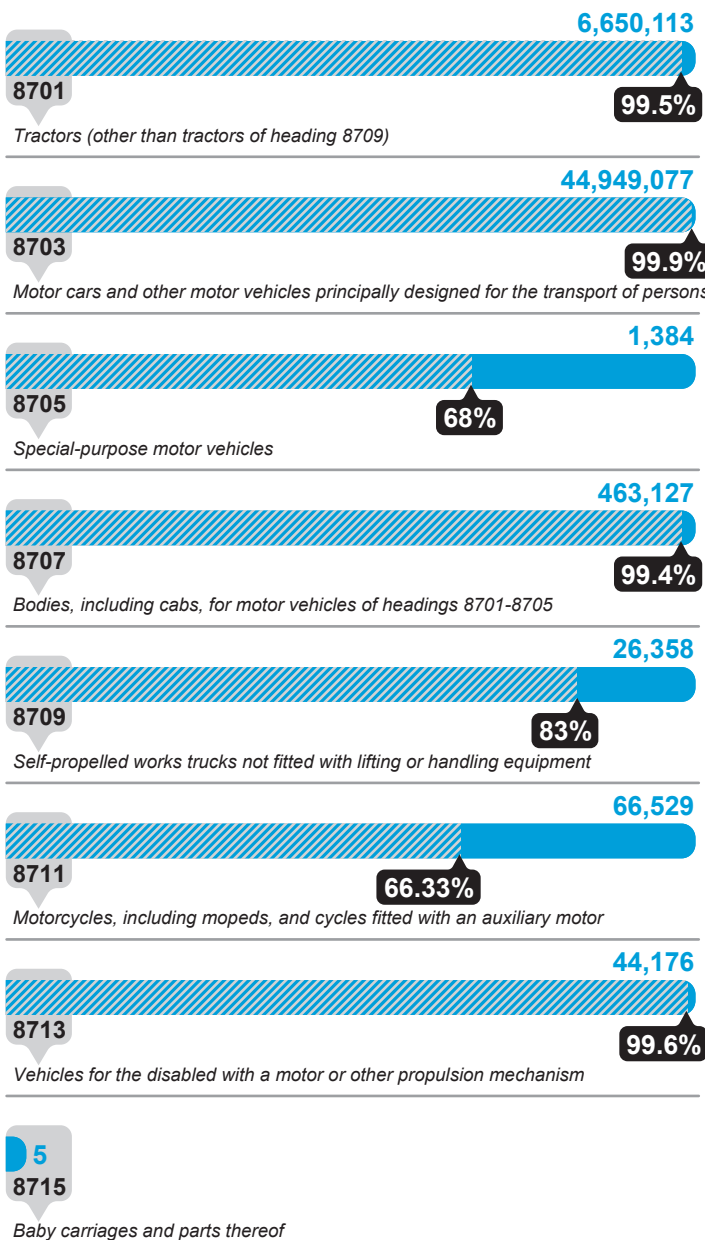


Source: INA, based on ECLAC data.

EXPORTS TO THE UNITED STATES:

Automotive and Auto Parts, by product (HS heading), millions of dollars, 2025

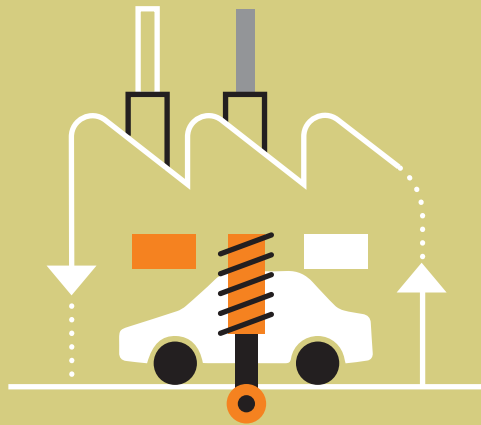
Latin America  Mexico's share 



Source: INA, based on ITC Trade Map data.



NEARSHORING **AND MEXICO'S AUTOMOTIVE** **INDUSTRY**



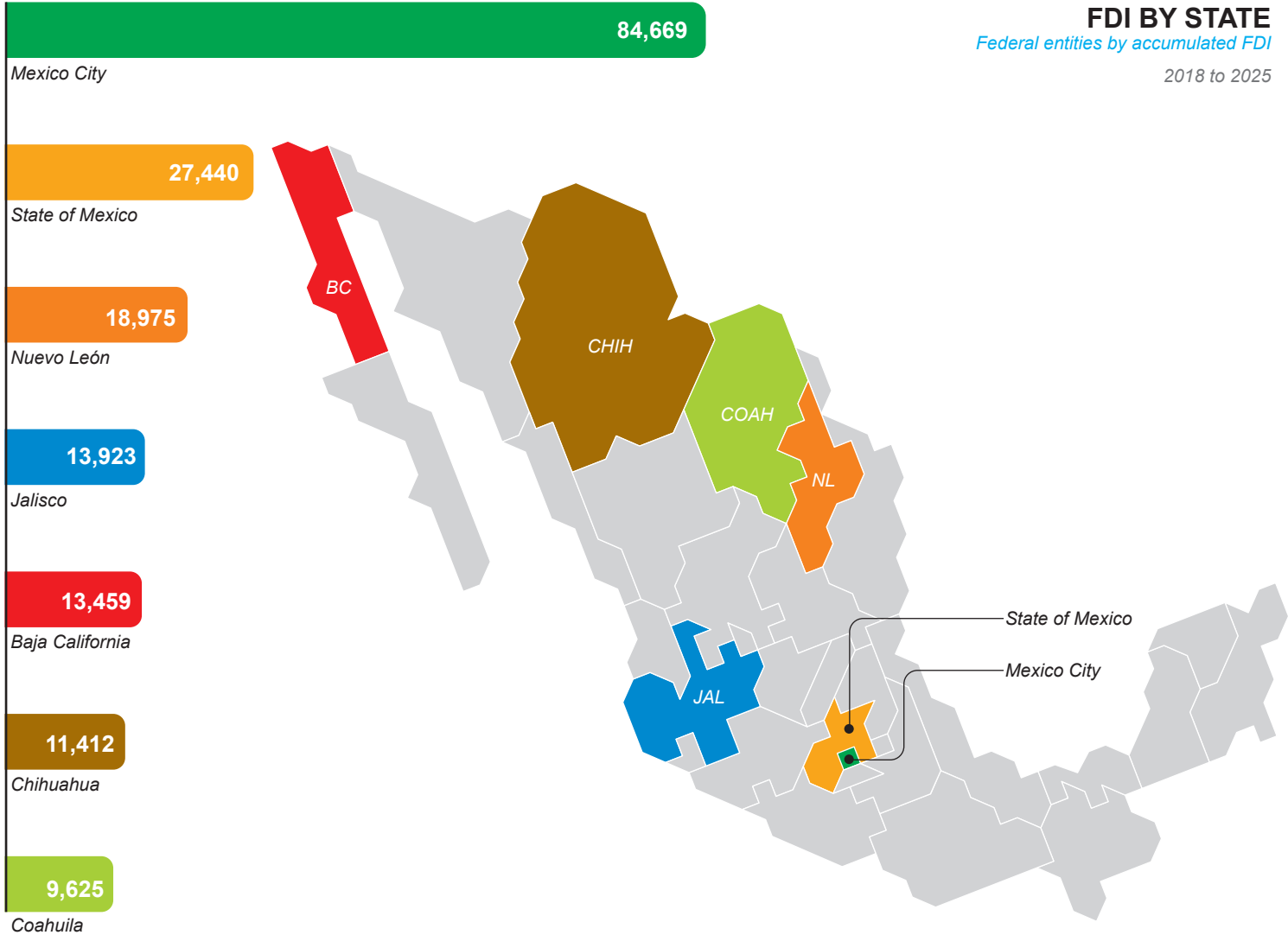
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OVERVIEW OF MEXICO'S AUTOMOTIVE INDUSTRY IN THE NEARSHORING CONTEXT



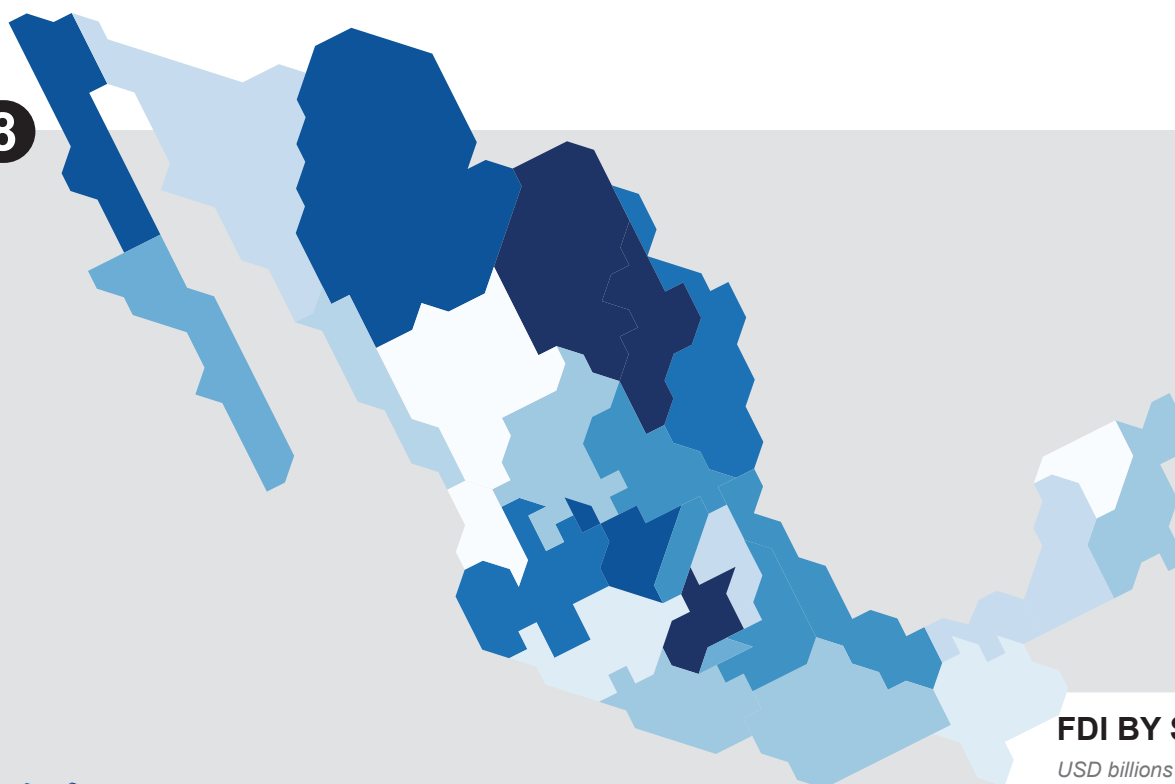
FDI inflows to Mexico have historically been concentrated in the northern states, where proximity to the United States facilitates the movement of inputs and finished products between the two countries. Most FDI - including the recent acceleration in foreign investment associated with

nearshoring - has gone to Nuevo León, Baja California, Chihuahua, and Coahuila. Mexico City, the State of Mexico, and Jalisco are also among the country's leading historical recipients.

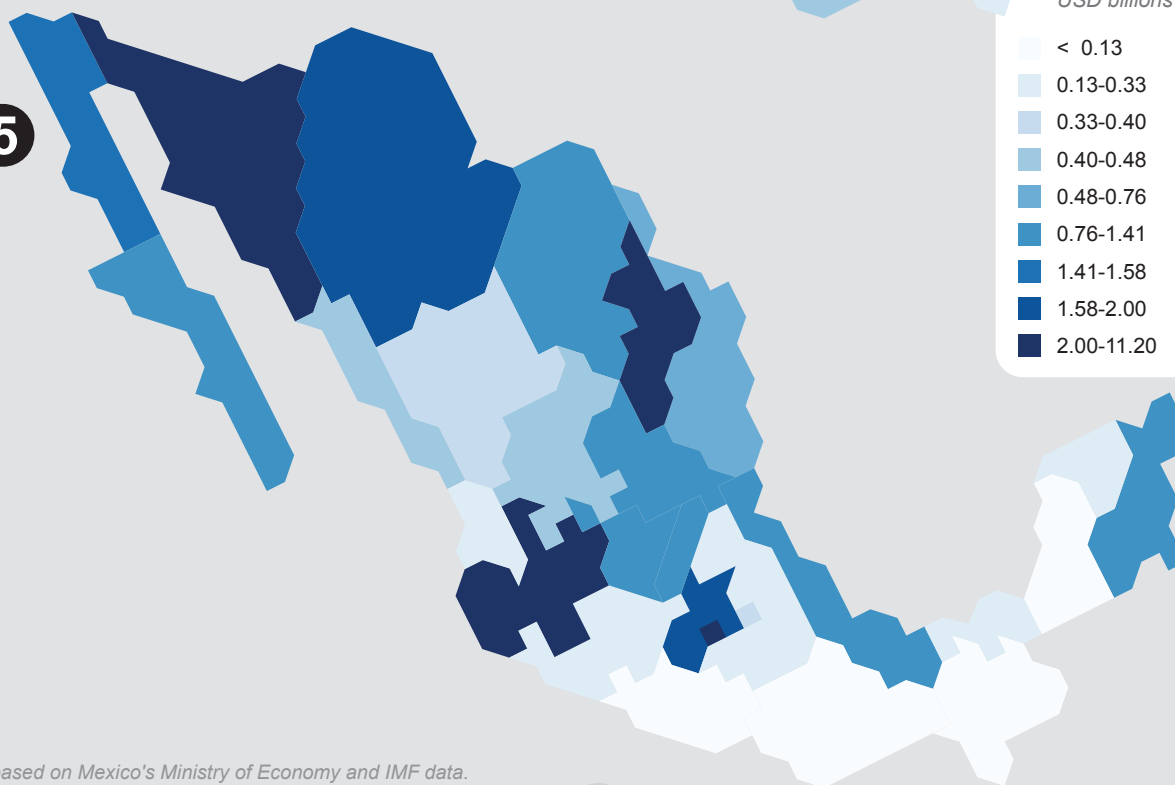


Source: INA, based on Mexico's Ministry of Economy.

2018



2025



FDI BY STATE

USD billions

- < 0.13
- 0.13-0.33
- 0.33-0.40
- 0.40-0.48
- 0.48-0.76
- 0.76-1.41
- 1.41-1.58
- 1.58-2.00
- 2.00-11.20

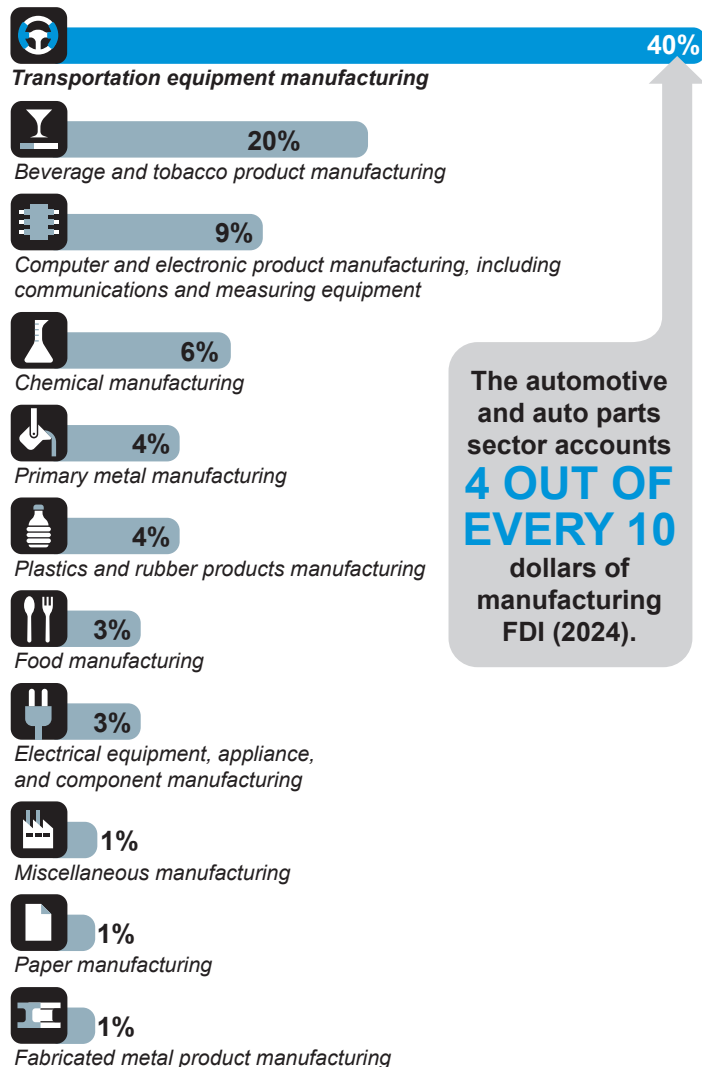
Source: INA, based on Mexico's Ministry of Economy and IMF data.



In this context, the automotive and auto parts sector - represented by transportation equipment manufacturing in the source chart - accounts for 40% of manufacturing FDI in Mexico, indicating a direct relationship between investment and bilateral trade.

FOREIGN DIRECT INVESTMENT

by Manufacturing Industry

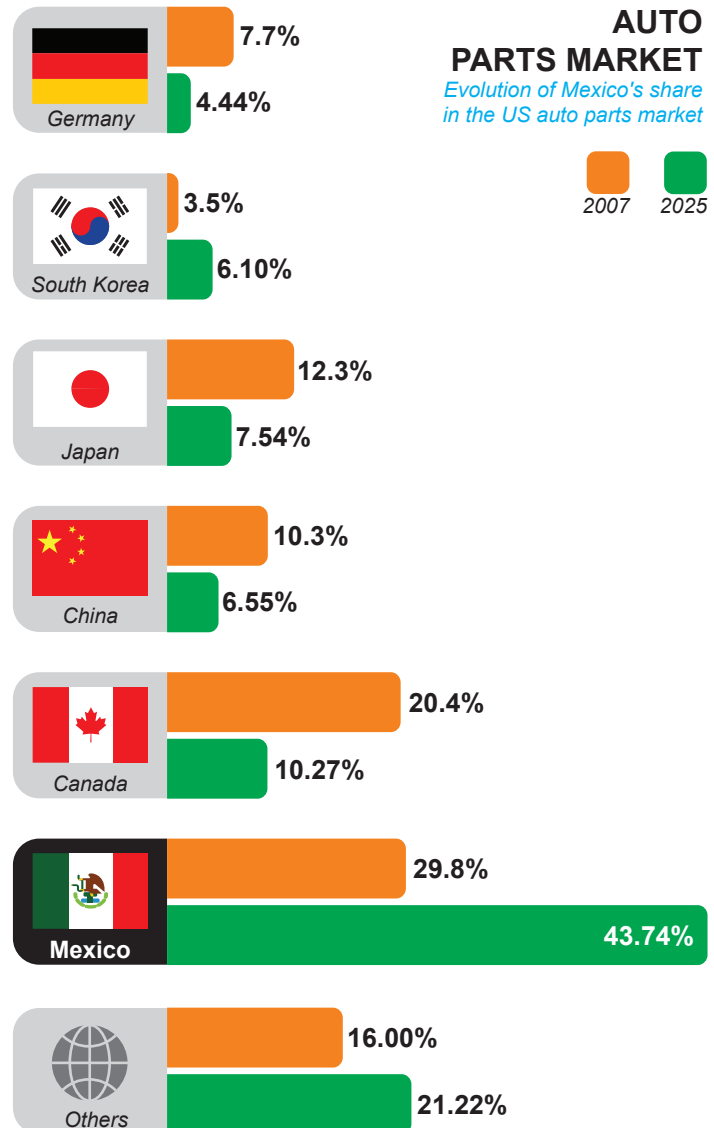


In 2025, 43.7% of U.S. auto parts imports came from Mexico. Compared with 2007, this represented an increase of approximately 14 percentage points, confirming the sector's interdependence within North America.

AUTO PARTS MARKET

Evolution of Mexico's share in the US auto parts market

2007 2025





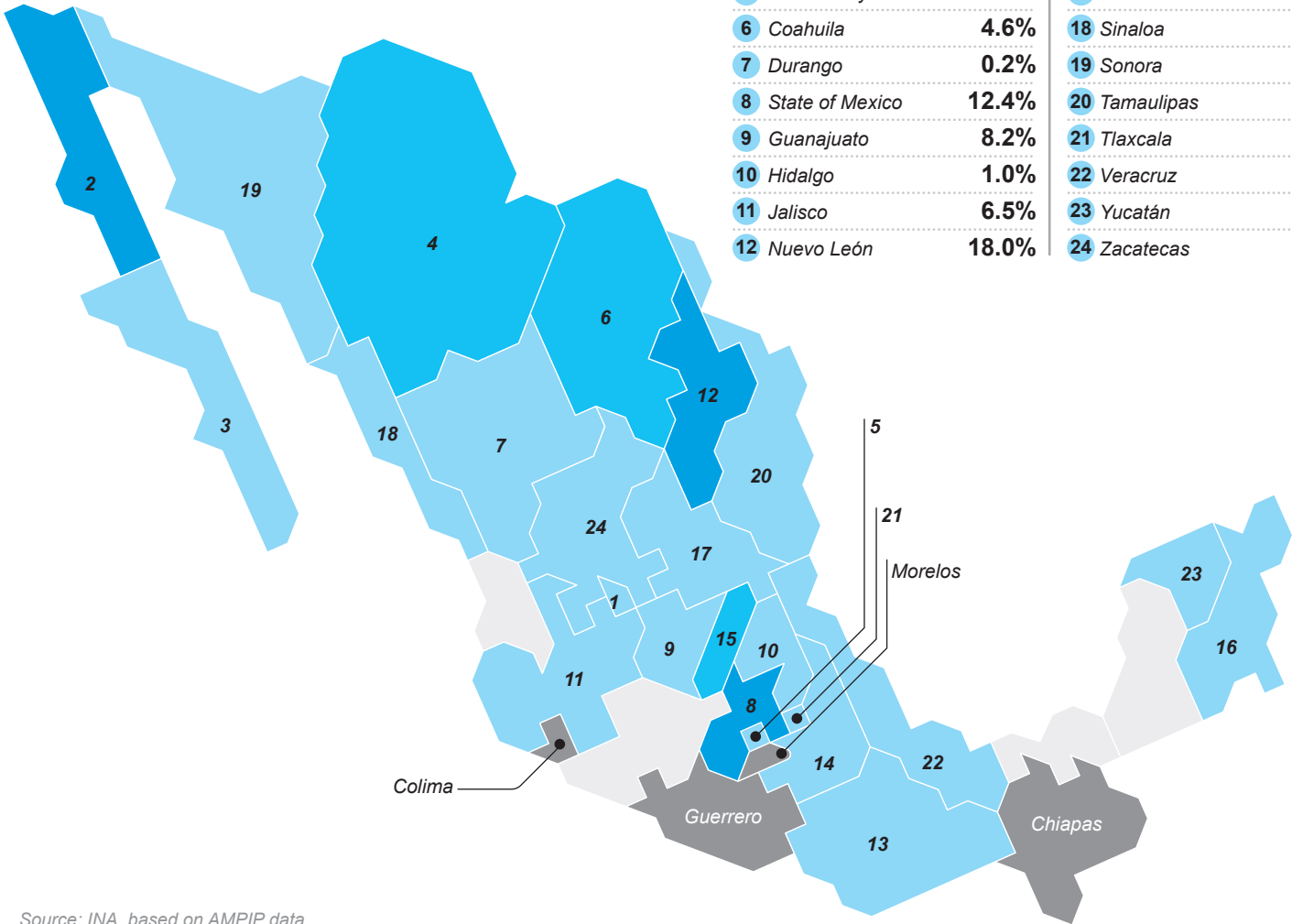
For companies that choose to invest in Mexico through nearshoring, the development of industrial parks is a fundamental factor. Northern Mexico accounts for 54% of the 477 industrial parks currently operating in the country.

AMPIP

Distribution of Industrial Parks in Mexico, 2025

■ Industrial facilities only

1	Aguascalientes	1.0%	13	Oaxaca	0.2%
2	Baja California	16.0%	14	Puebla	0.8%
3	Baja California Sur	0.2%	15	Querétaro	5.5%
4	Chihuahua	9.7%	16	Quintana Roo	0.2%
5	Mexico City	3.1%	17	San Luis Potosí	2.1%
6	Coahuila	4.6%	18	Sinaloa	1.3%
7	Durango	0.2%	19	Sonora	1.3%
8	State of Mexico	12.4%	20	Tamaulipas	4.4%
9	Guanajuato	8.2%	21	Tlaxcala	0.8%
10	Hidalgo	1.0%	22	Veracruz	0.6%
11	Jalisco	6.5%	23	Yucatán	0.4%
12	Nuevo León	18.0%	24	Zacatecas	1.5%



Source: INA, based on AMPIP data.



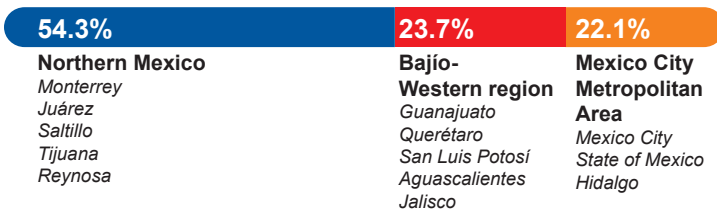
This industrial infrastructure hosts 4,000 companies and supports more than 3.7 million jobs in manufacturing and logistics. Of all companies, 26% are Mexican, 45% are U.S.-owned, and 29% are from the rest of the world.

The automotive industry accounts for the largest share of industrial-space occupancy (32%) as a result of nearshoring, followed by logistics (19%) and e-commerce (8%). Aguascalientes, Guanajuato, Querétaro, San Luis Potosí, and Nuevo León have the highest shares of automotive-related occupancy.

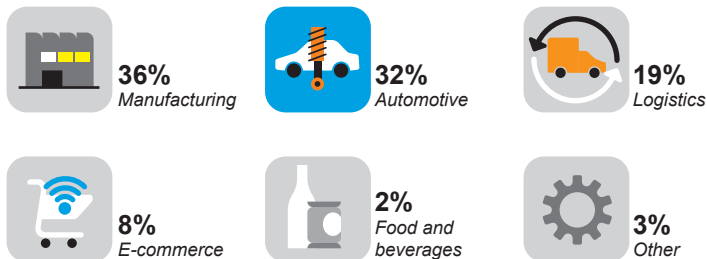
MOST DYNAMIC MARKETS

Distribution by entity, sector, and origin of companies

Percentage of the total



SECTOR



ORIGIN



Source: INA, with information from AMPIP

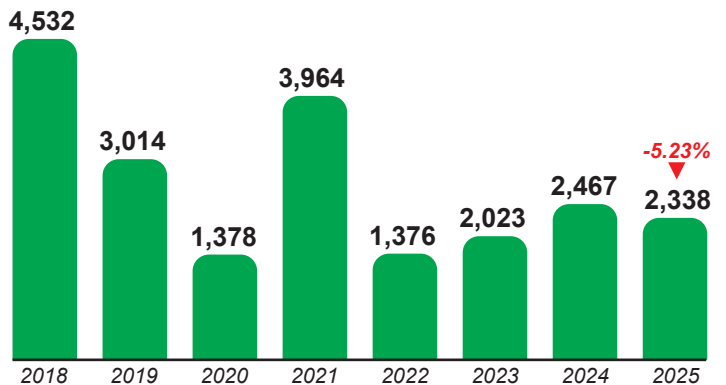


Between 2018 and 2025, cumulative FDI in the auto parts sector reached USD 21.092 billion. The leading source countries were the United States, Germany, Japan, South Korea, Canada, Spain, and Brazil.

AUTO PARTS FDI IN MEXICO, 2018-2025

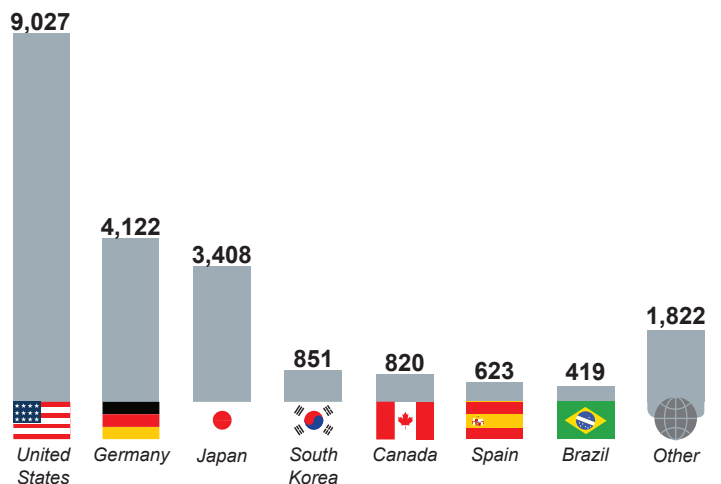
Since 2018, the sector has accumulated a total of \$21.092 billion, reflecting Mexico's strategic position as an automotive manufacturing hub in North America.

FDI (USD millions)



COUNTRY OF ORIGIN

FDI (USD millions)



Source: INA, based on AMPIP and Mexico's Ministry of Economy.



Automotive OEMs' preference for establishing operations in Mexico is explained not only by the country's industrial track record, but also by its central role in the nearshoring strategy that is reshaping North American value chains. The assembly-plant map shows a broad and geographically diversified presence, with complexes that combine final assembly, engine production, transmissions, stamping, and, more recently, hybrid- and electric-vehicle production. This manufacturing network enables automakers to locate critical operations closer to their principal consumer markets, reduce logistics risk, and respond more rapidly to new rules of origin and regional-content requirements.

Looking ahead, this process has produced an even more significant structural effect: the consolidation of an increasingly autonomous and diversified industrial ecosystem. The establishment of OEM operations has enabled Mexico to develop a robust, multi-tier supplier base, significantly reducing the industry's direct dependence on the automakers themselves. The industry now rests not only on OEMs, but also on an integrated network of companies that generate value at every link in the chain, strengthen sector resilience, and position Mexico as a production platform with greater capacity for adaptation and sustained growth.



Source: INA, based on AMIA and ANPACT data.

2

NEARSHORING OPPORTUNITIES FOR MEXICO'S AUTOMOTIVE INDUSTRY



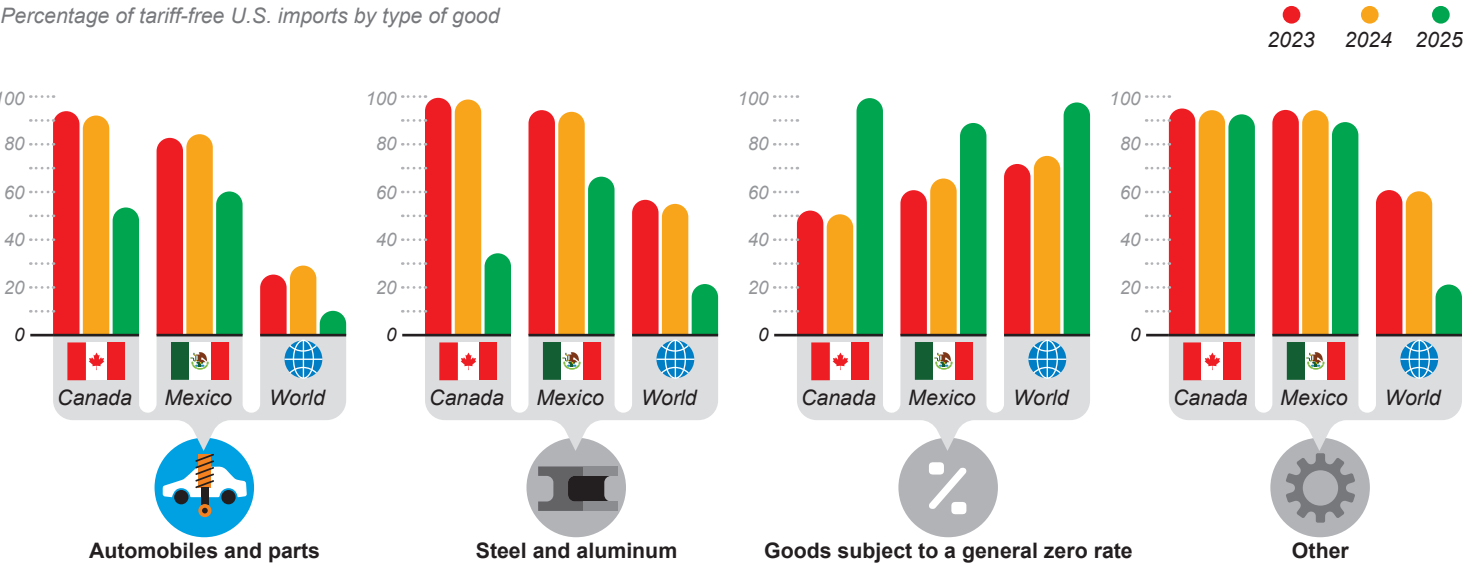
Despite the new international trade order defined by the use of tariffs, Mexico has a clear competitive advantage in the automotive sector, positioning it as a strategic partner for access to the U.S. market.

According to OECD data, a larger share of Mexican exports enters the United States duty-free than is the case for exports from other countries. This reflects higher regional content, particularly in light- and heavy-duty vehicles.

TARIFF-FREE

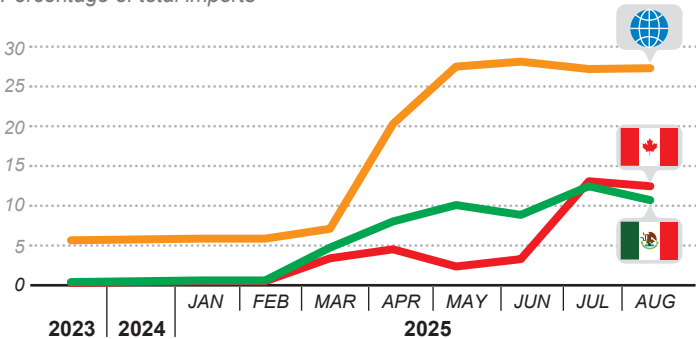
Examples of tariff-free trade with the United States by selected sectors

Percentage of tariff-free U.S. imports by type of good



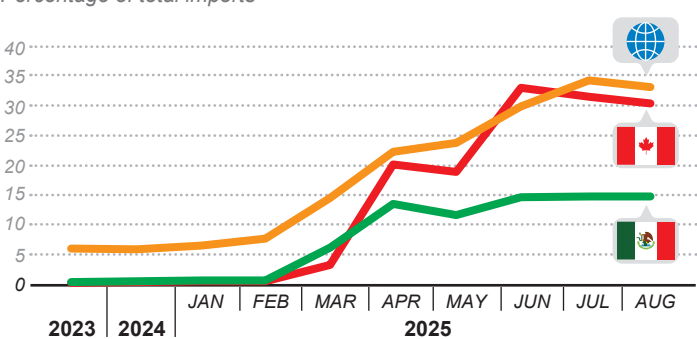
Average tariffs on automobiles and spare parts

Percentage of total imports



Average tariffs on steel and aluminum

Percentage of total imports



Source: INA, based on OECD data.



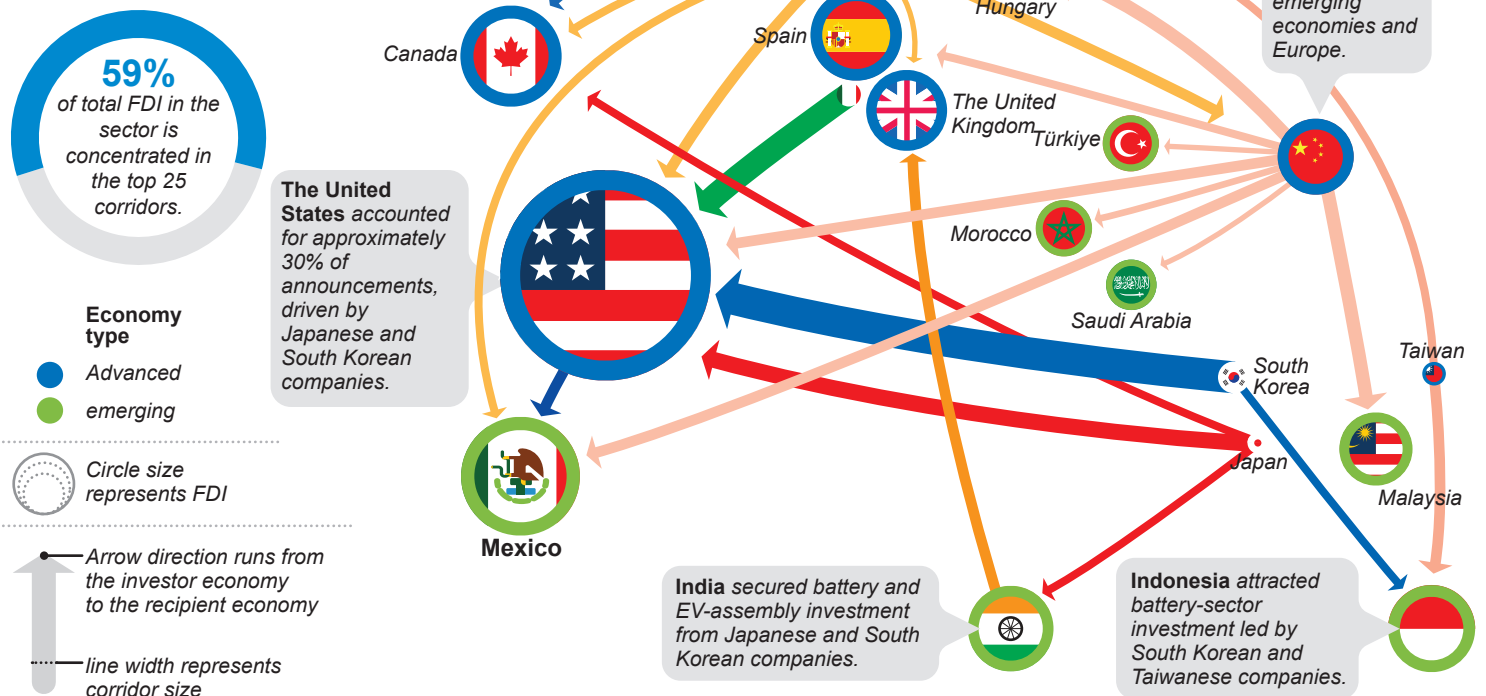
In this environment, nearly 60% of automobiles imported by the United States from Mexico comply with the USMCA, exceeding even Canada's share. For key inputs such as steel and aluminum, Mexico's compliance rate is roughly twice Canada's. This strength translates into lower effective tariffs - approximately 11% - well below the 27% faced by many global competitors. Amid rising trade tensions, this difference not only lowers costs, but also provides certainty, regional integration, and a structural advantage that consolidates Mexico's position as the most attractive and reliable destination for automotive production.

At the same time, the relocation of electromobility investment positions Mexico as one of the principal beneficiaries. McKinsey data identify Mexico as a destination in the network of the 25 largest electric-vehicle and battery investment corridors, which together account for 59% of total global investment in the industry. Direct investment from the United States and Germany is particularly significant, positioning Mexico as the second-largest investment destination, behind only the United States.

TOP 25 ELECTRIC-VEHICLE INVESTMENT CORRIDORS

FDI in electric vehicles and batteries is being reconfigured, shifting away from China toward a broader set of new hubs.

The figure is based on new investment announcements in USD billions.



Source: INA, based on McKinsey data.

CONCLUSION

Nearshoring is no longer a temporary phenomenon; it has become a structural pillar of Mexico's industrial development, and the automotive industry is its clearest expression. The combination of geographic proximity, productive integration under the USMCA, specialized talent, a mature manufacturing base, and growing technological capabilities has enabled Mexico to consolidate its position as a strategic North American partner, even in a global environment marked by trade tensions and geoeconomic fragmentation.

Beyond attracting investment, the true challenge - and opportunity - lies in further strengthening the local supplier base, increasing regional value content, and capitalizing on the relocation of projects linked to electromobility, semiconductors, software, and advanced manufacturing. If this momentum is supported by industrial policies, talent development, and public-private partnerships, nearshoring will not only reinforce the automotive sector's competitiveness, but also contribute to more integrated and resilient long-term growth for the Mexican economy.



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