

# Outlook for Mexico Manufacturing Continues to Improve

## *Manufacturing in Mexico in Key Sectors Showing Strategic Advantages Relative to China*

Several factors have aligned to make [manufacturing in Mexico](#) a more strategic choice for the U.S. market. For 20 years, manufacturers left the U.S. for China to cut costs. In 2001 China was paying an hourly wage of just .58 US per hour. Mexico was unable to compete with these rates and saw the migration of hundreds of thousands of jobs to China.

From 2001 to 2003, over 200,000 jobs migrated from Mexico to China. China became the location of preference to manufacture low value added products- items that could be manufactured in high volume with limited technical skills. Today, manufacturing of low value added products continues to shift to locations with lower wages, such as Vietnam, Bangladesh, and Pakistan.

By contrast, Mexico made a concerted effort to focus on high-value added manufacturing- investing resources on developing programs and setting up schools to educate a young workforce in technical and engineering fields. Today, Mexico graduates more engineers than the U.S. and Mexican engineers are involved in highly sophisticated design and innovation.

A 2011 Alix Partners Report on Perspectives on Manufacturing Nearshoring found that Mexico rated as the number one choice for near shoring. A 2009 comparison done by Alix Partners ranked Mexico in the number one place for global competitiveness, followed by India, China the U.S. and Brazil. In just three years, Mexico moved ahead of China and India, driven by increasing labor costs in China, a favorable exchange rate for the Mexican peso, relatively low transportation costs and free trade status.

A Boston Consulting Group report forecasts that by 2015 it will be as economical to manufacture certain goods for the U.S. market in the United States as it is in China. BCG forecasts that wages in China in 2015 will be \$ 6 US per hour. BCG points to seven industries that are nearing that break-even point: electronics, appliances, machinery, transportation goods, fabricated metals, furniture, and plastics and rubber – all products with relatively low labor content and high transportation costs.

The lessons learned by the disruption to supply chains caused by the 2011 earthquake and tsunami in Japan, as well as floods in Thailand, contributed to a trend by Japanese companies to establish manufacturing in Mexico and the U.S. for the North American market. The high value of the yen against the dollar has also contributed significantly to this trend, making it more expensive to manufacture in Japan.

While the U.S. stands to benefit from jobs returning from China, Mexico will be the location of choice in a number of areas, such as the manufacture of automotive parts, aerospace components, metal mechanics and medical devices. The relative stability of the Mexican peso over a decade has helped to attract FDI. Wages in Mexico compare very favorably to wages in much of the U.S. and Canada. Mexico has invested in preparing a young labor force that is motivated and skilled.

Ines Rodriguez, Human Resource Director for North American Production Sharing (NAPS), a leading U.S. based shelter company with administrative offices in Tijuana, forecasts a tightening in the labor market in the border region. As the U.S. economy recovers, manufacturing operations are in a positive trend to expand. Rodriguez comments: “In 2013, hiring qualified engineers and technicians will prove more challenging. Skilled employees will have more choices. By structuring effective strategies now, NAPS’ clients will be in a better position to manage growth while keeping the best talent available in the region”.

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## **About NAPS**

With over 20 years of experience doing business in Mexico, NAPS can provide expert commentary on trends and changes in the industry. NAPS offers administrative support services for companies manufacturing in Mexico. Administrative services include: Site Selection, HR, Recruitment, Accounting, Payroll, Customs, Environmental and Corporate Compliance. For more information contact NAPS at 858.794-7947 or visit our [website](#).