

Manufacturers Are Leaving China, But Where Are They Headed?

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Seeing China's manufacturing sector shrink is a trend that excites Americans, although it may not actually alleviate much of the pressure around a U.S. unemployment rate of 7.3 percent. The reality, according to many experts, is that the phenomenon is more one of nearshoring than reshoring, as many of these businesses — along with their jobs — head to Mexico.

The competitiveness of offshoring has been declining for years, as China has faced increasing wages and currency costs, as well as higher fuel and transportation costs. There are also many hidden costs and risks that are difficult to anticipate. [According to Jason King](#) [1], Vice President of global business firm AlixPartners, “companies are waking up to the harsh reality that manufacturing offshore in places like China and other low-cost countries is costlier than it initially looked.”

In fact, by some estimates, manufacturing in China will cost as much as manufacturing in the U.S. as soon as 2015.

Why Mexico?

Unlike China, Mexico continues to boast low labor costs and has a huge advantage in terms of proximity to the American market. That said, finding out how many American companies are manufacturing in Mexico is surprisingly difficult. According to Mario Vidana, Senior Trade Specialist with the U.S. Department of Commerce, there are no public directories for Foreign Direct Investment (FDI) companies established in Mexico. In order to obtain this information, you would need to contact

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the chamber of commerce or industry chamber in each state. Vidana also warned that they are often reluctant to share this information.

So while the exact number of U.S. companies that are relocating their factories to Mexico is unknown, it does appear that the trend is especially apparent in the automotive, aerospace, and textile industries. In an interview with [Entrada Group](#) [1], King points to several key benefits of producing in Mexico compared to China. These benefits include lower transportation and warehousing costs, an improved ability to respond to customer demands, a better control of intellectual property, the ease of proximate time zones between management and production, and the cultural similarities between the U.S. and Mexican markets.

Paula Ramos, Marketing Director at MFI International, echoes many of these advantages, the greatest being the proximity to American markets. MFI International provides manufacturing services in the Juarez, Mexico region that ease collaboration between U.S. companies and Mexican manufacturers. She specifically cites the benefits of working in the border region of Mexico, where there are concentrations of skilled workers and industry.

“You get the benefits from the lower labor rates in Mexico, and you can have your products within the same day. We have cases where we can place an order in the morning and the product comes back to an El Paso facility that afternoon,” Ramos says. “It’s almost like being in the U.S.”

To Ramos, this quick turnaround is what defines nearshoring. “I talk to companies that say ‘nearshoring’ and then mention factories in Columbia and Central America — that’s still far.”

According to Ramos, manufacturing in Mexico is being developed in “clusters” which are often incentivized by the Mexican government. The skilled workforce is available throughout Mexico, and different cities are working to attract different types of investments. Nissan, for example, [recently opened a plant in Aguascalientes](#) [2], which will attract suppliers and OEMs to that region. There are a large number of automotive and aerospace companies moving south, which is building up new clusters, she says.

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