Entrada Group

WHITEPAPER

Manufacturing's Global Shift from China to Mexico

Learning Lessons from two Trailblazers

The foundations of global manufacturing are shifting on a scale not seen in 50+ years, and the pace is picking up faster than anyone expected. For decades now, China has been known as the "factory of the world." If you wanted to produce cheaply, quickly or massively, you went to China. Consensus opinion saw China as the most strategically advantageous place to produce, and anywhere else seemed like a limitation or liability. But now that's changing—faster than anyone expected.

More than any other global production location, Mexico has stepped into the gap created as companies all over the world are lessening their reliance on China. Manufacturers are rushing to setup Mexico operations to take advantage of the country's available labor force, desirable demographics, open-trade approach and US proximity, among other benefits.

This paper will explore why companies are shifting from China to Mexico (or to China and Mexico) through the Mexico manufacturing successes of two companies that are Entrada Group clients with vastly different circumstances. One produces seasonal consumer recreational products while the other is a vertically integrated contract manufacturer that delivers custom end-to-end solutions from design through assembly and delivery.

China – The Downsides that Tip the Scales

China was never a perfect place to center so much manufacturing output. Rather, it was a place where the upsides outweighed the downsides.

That upside was a significant one, perhaps the single most important resource in the history of manufacturing: cost-effective labor. Historically, Chinese workers cost less, keeping production costs in check. And since the labor force was massive and motivated, manufacturers could scale production in China to any size without running out of workers.

With an endless talent pipeline to pull from, manufacturers had a strong incentive to be in China. It was so strong, in fact, that it helped (or forced) many manufacturers to accept the disadvantages, even when they caused frequent disruptions. Common pain points in China included:

- ***Over-Extended Supply Chains*** – Long-lead supply chains have been a source of stress and high costs for years. The pandemic only further exposed how easily these supply chains could break.
- ***Poor IP Protections*** – Because China lacks strong laws and enforcement around intellectual property (IP) protections, manufacturers have long had to deal with having their designs stolen, copied and sold by unscrupulous competitors. News reports revealed stories of clean room facilities that had been setup nearby to certain Customs inspection stations in China[1].
- ***Significant Tariff Costs*** – Shipping goods to and from China, often with stops along the way, resulted in tariffs that inflate the cost of each shipment. Recent trade wars that show no signs of cooling off, regardless of which political party holds power, have only driven these costs upward.
- ***Complex Geopolitical Forces*** – The fact that the US and China are rival global superpowers puts their trade relationship in a precarious position. Mounting tensions between the two countries (particularly with respect to Taiwan) makes a conflict more likely and raises the stakes for anyone whose business may be caught in the crossfire. One example of this trade disruption is the electronics ban that the US has in place for products that are 100% Chinese made, due to espionage concerns. These Chinese products represent more than an economic threat to the US.
- ***Lengthy Travel Times*** – Getting from North America to China takes a full day of travel each way, making it challenging and time consuming for executives or technicians to visit in person.

Once acceptable as the cost of doing business, the downsides of manufacturing in China are more complicated and consequential. At the same time, China's promise of cost-competitive labor has started to disappear. The average manufacturing wage rose from less than $1 per hour in 2006 to $6.32 by 2021 as China's former one-child policy has led to declining numbers entering the labor market. Of course, that labor market is still enormous, highly scalable, and experienced, so China will remain a manufacturing force to be reckoned with into the foreseeable future. But its era as the factory of the world is gone for good.

> ***It has never been more important to ask: Why are we still in China? Followed by two equally important questions: Where do we go instead and how do we get there?***

1 "Offshoring Gone Wild: Stories from the Front," IndustryWeek, January 12, 2022.

Mexico – The Upsides are Too Great to Ignore

While many locations around the world offer cost-competitive labor, only one country offers that plus many of the upsides that China never could. That place is Mexico, which has seen an explosion of new manufacturers in recent years and a flurry of industrial output. Exports from Mexico to the US grew by 25% between 2019 and 2022, and the manufacturing sector was 5% larger in 2022 than the year before.

Manufacturers are flocking to Mexico for advantages they can't find elsewhere:

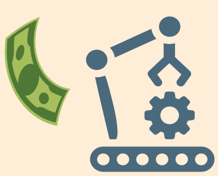
- ***Skilled and Scalable Labor:*** The labor market is young and growing rapidly, and the number of workers with specialized skills and certifications is impressive, making it easy to staff production with speed, scale or both.
- ***USMCA Trade Agreement:*** Being party to the trade pact with US and Canada gives Mexico a big advantage over China and other global production powers.
- ***Proximity:*** Since Mexico is only a few hours' flight away, site visits are an easy round-trip for company executives or prospective clients. And because the time zones are the same, syncing on videoconference calls isn't a hassle on either end.
- ***Competitive Labor Costs:*** Although wages in Mexico are seeing heady increases (as are labor rates globally), the country remains highly cost-competitive, particularly when compared with wages in the US.

Mexico looks extremely compelling as a place to produce. That said, the decision to set up shop in a new country is complicated, costly and consequential. Setting up production and recruiting a workforce while learning and abiding by all applicable laws involves making countless big decisions in a very short timeframe. Delays, mistakes and setbacks are common, any of which could doom the whole project (or company).

That's where Entrada Group comes in. We make launching in Mexico a seamless, less risky and scalable process for any manufacturer. Our manufacturing support platform provides global companies with end-to-end support for everything needed to setup and run a Mexico facility: location and corporate infrastructure, labor force, Customs, trade compliance, import/export and much more. It's easy to comply with all relevant regulations while establishing a successful and strategic operation with the help of our expert teams. We are not a subcontractor that is responsible for production. Rather we are your expert guides to, and partners on, manufacturing in Mexico with ease and efficiency.

Mexico Manufacturing By the Numbers

Economic analysis by Deloitte reveals the Mexican manufacturing sector is red hot.



Investment in machinery and equipment was

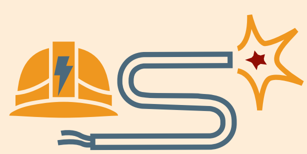
17% higher

in 2022 than 2020.

Foreign direct investment was

25% higher

in 2022 than 2021.



Electrical equipment production has

grown by 22%

since 2020

Manufacturing activities are now

16.5% of GDP

up from 15.9% in 2019.

Where Mexico Remains Reliant

Based on our **client experiences**, Mexico's supply base and ability to generate raw materials remains uneven, as this table illustrates. Other manufacturers in other regions of the country will report different experiences.

Input or Process	Sources from	Real-World Examples from Entrada Clients
Steel*	Asia	Stainless steel, high-strength steel, steel casting *Note: Mexico produces some steel domestically, but most is dedicated to the OEM auto and construction sectors
Fiberglass parts	China	Climate-controlled parts must be delivered in refrigerated boxes.
Carbon fiber	US, China	Climate-controlled parts must be delivered in refrigerated boxes.
Aluminum die casting (molds)	China	Up to 450 tons
Copper coils	Asia	Used in production of large industrial motors
Welding and casting	Asia	Including steel and stainless steel casting, aluminum die casting up to 450 tons
Electronics	Asia	Assembly and production of most electronic parts and other components
Wire and cable	Asia, Mexico	Wire, harness connectors (mostly from Asia)
Rubber compounds	Asia, Mexico	Mexico is improving but much is still imported from Asia
Plastic pellets	Italy, US	Input into injection molding
Injection molding	Mexico, Asia	Plastic and rubber injection molds
Battery Cells	China	A large market that is still reliant on China

The Easiest Route into Mexico

Entrada Group guides manufacturers through not just the initial setup phase, but all requirements for ongoing production from that point to successfully operate in and export from Mexico. Decades of anecdotes prove the concept works as intended. The outcome of working with the Entrada Group is an efficient entry into Mexico and limitless potential from there.

See what that experience looks like through the following stories highlighting two real companies, Entrada clients, that launched in Mexico and haven't looked back.

In August, 2023, Mexico increased import tariffs on goods from non-Free Trade Agreement (FTA) countries, for a two-year period through July, 2025. Import duties for non-FTA countries range between 5%-25%. Mexico has FTAs with 50 countries, including most of its largest trading partners.

St. Croix Rods: A China Exit

Fishing rods are a very seasonal recreational product. That presented a challenge for St. Croix Rods, a brand known to anglers across America. That's because production was handled by a subcontract manufacturer in China. And while it was cost effective, the quality, consistency and transparency of the supplier left much to be desired.

Rods also had to be shipped in very large quantities, where they would spend over a month crossing the Pacific and several more days being trucked to Wisconsin—only for the products to fail inspection on too many occasions. In addition, the company had persistent concerns about protection of intellectual property in China, where little is done to protect proprietary designs, prototypes and production methods.

ST.CROIX ROD

BEST RODS ON EARTH®

St. Croix considered Vietnam and Thailand as alternatives to production in China, but neither country would solve the distance issue. Seasonality made it difficult for St. Croix to find the right balance between shipping large quantities from China to North America and being able to shift designs and styles quickly in response to customer expectations and preferences. Mexico offered the company everything it needed. By manufacturing fishing rods in North America, St. Croix could quickly ship to domestic distribution centers or directly to customers. And since a Mexican facility would be so close, the company could carefully manage operations during seasonal swings, new product launches or when deploying new production technology.

> ***Production quality in Fresnillo is so high that the rods can be shipped directly to retailers and consumers, without the need for inspection in the U.S.***

The company formed a new entity, Axiom, in 2008 to handle manufacturing in Mexico at Entrada Group's Fresnillo campus. Axiom had considered six different shelter companies before identifying Entrada as the best option. Entrada's location in Central Mexico was attractive because the region has a large and loyal workforce. Axiom would also retain the ability to control all facets of production, which helped the company raise standards for Quality Assurance, streamline the inspection process and make changes to the schedule or product mix as circumstances demand.

Proven Path to Growth

Moving to Mexico and partnering with Entrada quickly proved to be the right decision. Production, revenues and profits all went up. The company enjoyed a decade of prosperity before deciding to flex its manufacturing muscle in other ways. Axiom was well positioned to serve a market for custom fishing rod blanks, which hobbyists use to make their own custom rods. The company launched a new brand, RodGeeks, with direct-to-consumer shipping. RodGeeks devised a shipping strategy to minimize import costs and fulfill orders in as little as 10 days (compared to 120+ for rods from China). St Croix Fishing Rods now sells thousands of made-to-order blanks each year, making it the leading American fishing rod manufacturer. Jumping ahead a few years, St. Croix had a huge advantage when Covid hit and the company was well ahead of the competition, with North American production firmly established. Other companies had to scramble and find an alternative to Asia for fishing rod blanks or a subcontractor in North America. St. Croix was already shipping orders directly to consumers and retailers during a time when solitary sports like fishing were seeing greater interest than ever. Demand exceeded supply during the pandemic, but St. Croix was able to stay ahead of competitors by producing both in the US and in Mexico. "During the pandemic, everyone was seeing orders over capacity," says Scott Forristall, CEO of St. Croix Rods, who had taken over the company in 2019. "But where other companies were able to meet only about a 20% order fulfillment rate, we were up at about 60% because we had production in North America."

Today, Axiom produces in Fresnillo with an operation of more than 250 people. The facility is lively and active, with families and friends working side by side together. Every fishing rod is handmade and Axiom has a detailed, proactive training program for all new hires which takes one to two months to complete. Each rod is touched by 32 sets of hands before being finished, including hand-rolling, assembling, winding of line guides and painting. Axiom rods comprise seven types of carbon fiber and the company has over 820 SKUs for fishing rods.

This level of attention to detail is necessary, giving Axiom the ability to have new rods on the market within six weeks. It's also given St. Croix a clear path to future growth and additional market share.

Eastek: China-Plus-One Approach

Where St. Croix Rod's motivation was to end reliance on China, Eastek International Corporation had a slightly different goal in mind: **diversification**.

Illinois-based Eastek is a contract manufacturer specializing in advanced electronic assemblies. The company had been manufacturing in China for 30 years, with clients in a diverse range of sectors including healthcare, industrial, energy, transportation and communications. They had similar concerns about China that manufacturers the world over shared: uncertainty due to tariffs and geopolitical issues, and long delivery times. In addition, a growing number of Eastek's customers were requesting production closer to the US, to make site visits to the production location easier and more convenient.

Seeing the wisdom of a China-enhanced strategy, Eastek opened a Malaysian factory in 2019 (which they were unable to visit for nearly two years during the pandemic), but the pandemic revealed the need to shorten supply chains and get closer to customers. Mexico checked all the boxes. Manufacturing south of the border would help Eastek fill the gap of a North American manufacturing facility. It would also insulate against the risk of shipments from Asia getting delayed or more expensive. Just a few hours' flight from the home office in Illinois, Mexico looked like the future for Eastek.

That was true especially after making contact with Entrada. Executives from Eastek knew all too well the challenges of manufacturing in new countries. Getting started in Malaysia had taken 18 months of intense work. With Entrada providing compliance, labor, legal, tax, import/export assistance along with production space, it only took six months to kickoff production in Mexico.

EASTEK

EASTEK INTERNATIONAL CORPORATION

Read more:

Click here or scan QR code for Eastek International's Mexico launch e-book.

Eastek has grown its headcount in response to enhanced customer demand for production in Mexico, now employing over 130 people at Entrada's manufacturing campus in Zacatecas. There, Eastek produces everything from injection-molded plastics and surface-mount technologies (SMTs) to full turnkey assemblies.

At Entrada's manufacturing campus in Fresnillo "Eastek has done a lot of promoting of employees internally," says Gilles Antoine, Eastek's Vice President of Customer Success. "The workers here are hungry to grow and learn," he added. The biggest benefit is the clients now have the opportunity to visit Central Mexico in a few hours to inspect the site themselves and apply their stamp of approval. The partnership with Entrada puts Eastek in a position to say "yes" to whatever clients may need, as well as the flexibility to grow and adapt in future.

Eastek International Corp. made the strategic decision to work with an experienced partner like Entrada Group, which enabled the company to set up and run its own Mexico facility without lengthy delays or risk, and without ceding any control of production or qualityahead of time.

China Isn't Going Away

As companies like Eastek International demonstrate, China will never disappear as an important player in the world manufacturing landscape. It will always play a vital role and still remains unsurpassed for companies needing size, scale, fast rampup and high-volume production. Indeed the key consideration for companies in the future is more likely to be: China AND Mexico; not China OR Mexico. China is still reigning world champion for size and scale. Mexico rules for convenience and free-trade. Just ask Chinese investors. In 2022, China became the fastest-growing source of foreign direct investment into Mexico.

What You Get with Entrada

Entrada Group is the leading strategic manufacturing support partner in Mexico. We guide international companies in establishing and running their own Mexico production to support longterm growth.

Entrada Group is not a subcontract manufacturer. For over two decades, Entrada has been a trusted advisor to our clients, guiding them through all non-production-related obligations needed to support a scalable, global manufacturing export operation. Our clients still retain full responsibility over production, quality and operations. It is a true partnership.

If Mexico manufacturing were a marathon, partnering with Entrada is like gaining a 20-mile headstart. Entrada provides:

- 165-person dedicated support team
- Trade Certifications and licenses
- Your labor force
- Campus with facilities & Shared Services
- Over 20 years Mexico Manufacturing expertise

…all in place and ready to go when our clients join with us.

Entrada Group: An Easier Path to Mexico Manufacturing

Our clients could enter Mexico and run operations on their own. But they chose instead to partner with us because we guide them step by step through the whole process. On their own, launching in Mexico would take years and require a fully dedicated team of specialists in numerous areas to get everything right. We shortcut that waiting time and provide our expert team on day one. Our support doesn't stop there. We partner with you through the ongoing journey to optimize and scale-up your Mexico production footprint.

Learn more: www.entradagroup.com

More Resources:
Guide to Mexico Customs

The rest of our educational Mexico Manufacturing content:
Entradagroup.com/resources/

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