HOW TO SUCCESSFULLY TRANSFER YOUR MANUFACTURING PLANT FROM MEXICO TO THE UNITED STATES

Date: 30 January 2025

US Real Estate Alert

By: Olivia S. Byrne, Tyler Hong Shik Won

President Trump's promise to impose a new 25% tariff on goods produced in Mexico has prompted many companies to consider alternatives to their current or planned operations in Mexico. The decades following the 1994 North American Free Trade Agreement (NAFTA) saw enormous industrial investment in Mexico, especially in northern cities like Monterrey, Tijuana, Chihuahua, and Baja California.[1] The benefits of producing goods in Mexico were clear – low labor costs, modest transportation costs to the United States, and reduced tariffs under NAFTA. These benefits, however, could be eclipsed by a new 25% tariff on Mexican origin goods. Companies with industrial plants that have tight profit margins are in a precarious position, so it is not surprising that many are now "looking to shift operations to the US to avoid these additional costs and reroute cargo from Mexican ports to US ports."[2]

The automotive sector is a prime example of an industry that will be significantly impacted by the proposed tariffs, if implemented. The United States imported more than US$86 billion worth of motor vehicles from Mexico and more than US$63 billion of auto parts from Mexico last year, according to US Department of Commerce data, excluding December.[3] This reflects the major investments automotive manufacturers and their suppliers made in Mexico in the years since NAFTA. It also reflects the extent to which Production in Mexico and the US became highly integrated, with producers in both countries (and Canada) relying on a free flow of parts and finished goods across borders. New tariffs, therefore, pose a major challenge to the status quo.

The question of whether to shift operations from Mexico to the United States requires a careful cost-benefit analysis to determine if there is an opportunity to increase profits by relocating to the United States. But, once this analysis is complete, how does one evaluate the opportunity? Proactive planning is essential. For example, when evaluating potential moves, it is important to: (1) select an ideal site that meets the utility and labor needs of the plant; (2) negotiate and maximize economic incentives; (3) conduct real estate due diligence and analyze real estate documents for the facility and its operations; (4) review the tax and corporate considerations with respect to the transaction; and (5) analyze supply chains to ensure products produced or processed in the United States will meet US country of origin standards.

For companies facing these challenges, the firm can assist in finding a successful solution. The firm has an internationally recognized Global Location Strategies practice and an experienced Policy and Regulatory practice with special capabilities in international trade regulation. We have strong relationships with federal, state, and local economic development and government officials all over the United States. This enables our clients to gain government assistance with evaluating when and where to move their operations in the United States. The firm

©2005-2026 K&L Gates LLP. All Rights Reserved.

has obtained incentives up to a billion US dollars for our clients and has assisted with finding the perfect site for our clients through our strong relationships with federal, state, and local governments and agencies.

Now is the perfect time to explore relocating to the United States, as doing so will better position your company to navigate future disruptions and obtain the best incentives possible when making use of the firms' years of experience and success in obtaining those incentives.

For more information on ways we can help you with global location strategies, please contact our Real Estate team.

FOOTNOTES

[1] *The Los Angeles Times*, p. 6.

[2] *State of the American Supply Chain, Averitt p. 2 January 9, 2025.*

[3] *WDSU, p. 3, January 21, 2025.*

KEY CONTACTS



OLIVIA S. BYRNE
PARTNER

WASHINGTON, DC
+1.202.778.9412
OLIVIA.BYRNE@KLGATES.COM



TYLER HONG SHIK WON
MANAGING PARTNER, SEOUL OFFICE

SEOUL, WASHINGTON, DC
+82.(0)2.2198.8715
TYLER.WON@KLGATES.COM

This publication/newsletter is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer. Any views expressed herein are those of the author(s) and not necessarily those of the law firm's clients.

©2005-2026 K&L Gates LLP. All Rights Reserved.