

The background of the entire page is a high-contrast, blue-toned image of the Earth as seen from space, with the Americas visible. A grid of white dots is overlaid on the image, suggesting a global network or data points.

Logistics Growth Opportunities on the US / Mexico Border

From the Border Industrialization Program of 1965 to the United States Mexico Canada Agreement (USMCA) in 2020, this report explores Mexico's transformative role in North American trade and analyzes the impact of near-shoring in a post-COVID economy. Mexico has seen an extraordinary increase in foreign direct investment (FDI) as investors seek to mitigate supply chain risks and rising labor costs amidst geopolitical tensions with China.

This report delves into Mexico's ascent as the top trading partner with the US, underscored by its remarkable \$656 billion in two-way trade since Q1 2023. Industry experts highlight key trends within the transportation and logistics sector and share their outlook and expectations for the Southern Border region.

Introduction

Mexico has been “getting ready” to do business with the United States for going on 60 years. The Border Industrialization Program (BIP) of 1965 cleared the path for developing the Mexican Northern Border infrastructure, and by the late 1960s, the US auto industry was using Maquiladoras (factories in Mexico run by a foreign company) to supplement production with Mexican labor. The Motor Carrier Act of 1980 and the Staggers Rail Act deregulated the US trucking and rail industry, opening the door for the expedited movement of freight between Mexico and the US. The Maquila Decree, established in 1989, created the legal requirements for foreign operations in Mexico. These culminating factors opened the door for the North American Free Trade Agreement (NAFTA) in 1994.

Meanwhile, China became the top US global trading partner, and, although Mexico’s trade was adequate, it wasn’t living up to its potential. Then came the game-changer – 2020. First, COVID-19 highlighted the US’ dependence on China for its global supply chain. It brought major port congestion on the West Coast and port closures in China. Alongside a lack of safety stock with US manufacturers, these factors created an explosion in air freight rates. This paved the way for the United States Mexico Canada Agreement (USMCA), replacing NAFTA in July 2020.

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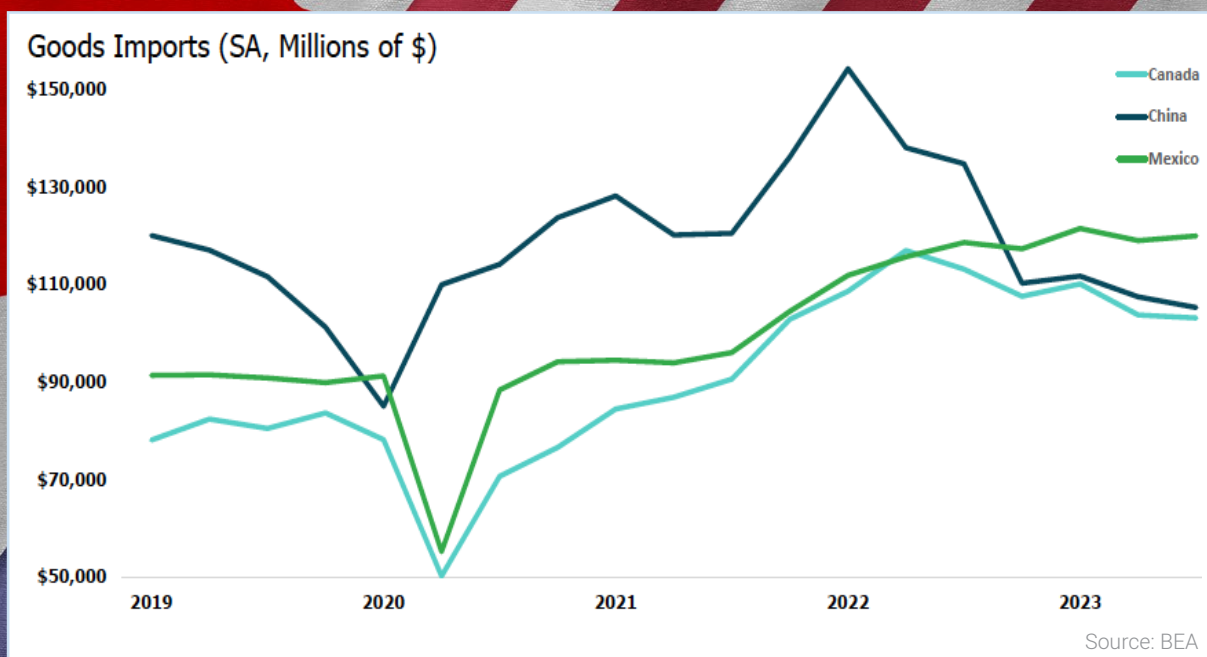


Ron Lentz
Managing Partner

Today, the US/Mexico border looks very different:

- Mexico is the #1 trading partner with the US
- Laredo, TX is the #1 US international gateway
- Over \$800 million worth of goods passes through Laredo daily
- Foreign Direct Investment (FDI) has increased by nearly 100% since 2000, totaling \$36 billion in 2023

In Q1 of 2024, Mexico is projecting \$31 billion of committed investments made by foreign countries, of which 57% have come from the US. The US government believes that this is just the beginning. In December 2023, through the National Defense Authorization Act (NDAA), the US pledged to build and renovate the bridges crossing the Rio Grande between Mexico and the US. This includes the expansion of the World Trade Bridge in Laredo from 8 lanes to 18. Get ready. Near-shoring is not just a trend, it will become the new way of business.



Key Findings

For 2024, there is a projected \$31 billion in committed investments made in Mexico by foreign countries, of which 57% have come from the US. The review of the United States Mexico Canada Agreement due July 1, 2026, does not seem to have put off international companies from investing in Mexico.

The Laredo Port handles \$800 million worth of shipments daily which demonstrates the region's pivotal role in facilitating global trade. Over 15,000 trucks pass through Laredo daily via routes, such as the World Trade Bridge and Colombia Bridge. Rail and intermodal services will receive a boost when a new bridge is completed in Laredo, hopefully by the end of 2024.

FDI in Mexico has seen a 9% increase in Q1 of 2024, equal to \$20 billion, relative to the same period in 2023, equaling \$18.6 billion. Companies investing in Mexico are benefitting from the huge subsidies on offer from Biden's Inflation Reduction Act (IRA) which is encouraging investment in green technologies, particularly electric vehicles.

Mexico is currently more competitive than China in terms of labor costs. Factory wages are lower, \$3.90 per hour compared with \$5.58, although this differential is narrowing. The USMCA seeks to bridge the wage disparity between US and Mexican workers by strengthening vulnerable unions and enhancing working conditions. In doing so, it strives to foster greater fairness and stability within the North American labor market.

Freight on Mexican to U.S. trade routes grew by 5% in 2023, more than double the growth of other global trade rates, with record volumes driven primarily by the automotive, food and beverage sectors. Many cross-border logistics companies have anecdotally confirmed that they are experiencing volume growth rates of more than 20%. This boom is encouraging major investment, but it has also caused stress on existing services and infrastructure.

The automotive industry has led the way in near-sourcing activity. Elon Musk has urged suppliers to its Shanghai plant to replicate the supply chain model in Mexico. Maersk opened a 322,900 sq ft facility in the emerging hub of Tijuana, Mexico focused on the high tech, automotive, consumer and retail sectors increasing its capacity to 1.6 million sq ft in the country.

The Texas-Mexico Border Transportation Master Plan (BTMP) lays a comprehensive roadmap for improving connectivity between Texas and Mexico. With \$37.4 billion allocated for over 600 border-wide projects, including critical trade, these investments are poised to strengthen infrastructure essential for the efficient movement of goods and people.

AI experts and trade SMEs are coming together to push the boundaries of innovation. The utilization of new tools will become increasingly necessary for operators to manage the flow of goods effectively. However Mexico must increase levels of training and skills which equip an entrepreneurial workforce to thrive in this new digital market.

WiseTech Global acquired Sistemas Casa, a Mexico-based provider of customs and international trade software solutions. The acquisition is part of WiseTech Global's strategy to provide a single global customs system, covering more than 70% of global manufactured trade flows.

Mexico has seen significant growth in semiconductor trade. Imports shot up from \$135.6M in 2013 to \$394.2M in 2022. Major real estate company Prologis asserted that every \$1 billion invested in automotive factories resulted in 5-10 million square feet of warehousing requirements. 40% of its logistics leasing in Mexico in 2022 was driven by near-shoring activities.

Chinese companies are major investors in Mexico, looking to take advantage of the USMCA trade deal which gives Mexican-based manufacturers access to its neighbouring markets. Chinese companies accounted for 30% of the \$7 billion invested in the state since late 2021, only second to US investors which accounted for 47%.

There are concerns that the government has little interest in engaging with industry challenges, and that ports and road infrastructure are creaking under the pressure. Customs clearance may take days or even weeks in Mexico compared with hours in China. The level of transport infrastructure investment must be increased to facilitate supply chains. Investment must also be in the right geographical locations if manufacturers and retailers are to benefit.

By acquiring established cross-border logistics firms with existing operations, infrastructure, and expertise, logistics companies can gain a significant competitive advantage. The acquisition of LTL carrier Hercules Forwarding by TFI gives it capacity and capabilities along the US-Mexico border, and potentially a bigger stake in freight moving between Canada and Mexico.

Industry Trends

The transportation and logistics industry looks vastly different than it did in Q1 2020. Globally, companies have had to adapt, reconsidering their growth strategies and international partners. The border between the US and Mexico is no exception.

COVID-19's impact on supply chains provided additional incentives for near-shoring to Mexico. Similar geographies and overlapping time zones shorten lead times for producers. Additionally, closer proximity allows for improved delivery service and greater customization.

Entries processed by Customs and Border Protection (CBP) have increased proportionally with imports, indicating the overall growth within the industry and economy. Top market players have increased R&D spending to gain a competitive advantage as the demand for a streamlined clearance process in short turnaround times continues. The evolving trade environment and increasing complexity of compliance are driving demand for CHB services, and the growing US customs brokerage market is just one such example.

In short, there is a dynamic and active market in the transportation and logistics industries. Companies are seeking strategic acquisitions to expand their operations, strengthen their market position, and capitalize on opportunities in cross-border trade and digital solutions.

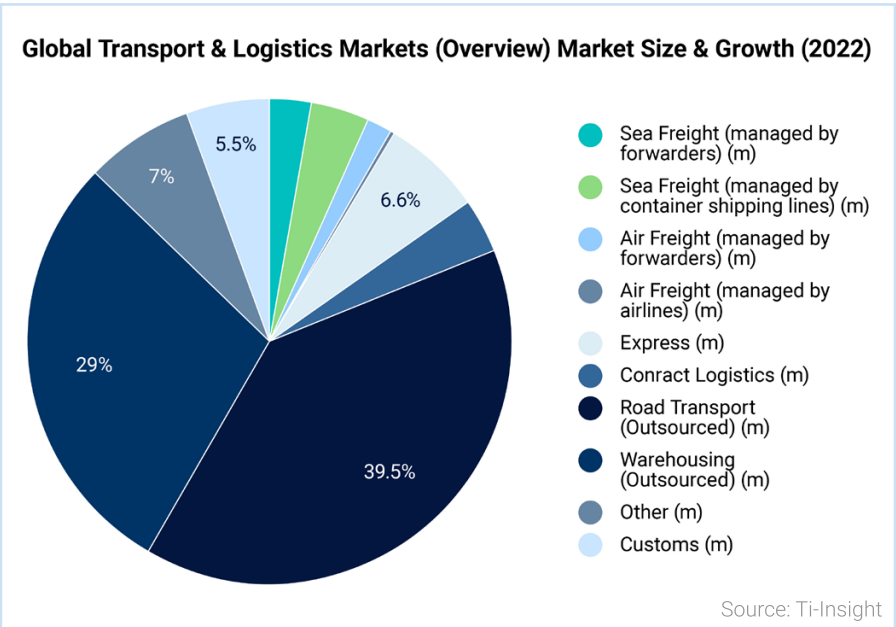
Overview of the Southern Border

The story of the US / Mexico border is one of constant change, shaped by a mix of economic and political factors. Dating back to the inception of the BIP in 1965, legislation spurred economic development along the border and laid the groundwork for future progress. However, it wasn't until the Motor Carrier Act and Staggers Rail Act of 1980 that significant strides were made in transportation efficiency, increasing trade between the US and Mexico. In 1989, the Decree for Development and Operations of the Maquiladora Industry fueled a surge in manufacturing along the border, attracting FDI and reshaping economies in the region.

The inception of NAFTA in 1994 ushered in a period of remarkable economic integration among the US, Mexico and Canada. This transformed how businesses engaged across borders, fostering a relationship that extended beyond national boundaries. Over the years, there was an increase in trade and investment along the Southern Border culminating in the formation of the USMCA in 2020. This updated trade pact reflected the evolving trade objectives of North America by addressing challenges while emphasizing the region's commitment to economic collaboration.

Against this backdrop of initiatives, the Southern Border emerged as a cornerstone of North American commerce, exemplified by its status as the largest trade gateway on either US international border. The Laredo Port, receiving \$800 million of products daily, stands as a testament to the region's role in facilitating cross-border trade. Moreover, American companies' strategic redirection of shipping routes from West Coast ports to Mexico's Pacific coast bolstered trade through Laredo, driving increased distribution to the US and Canada.

The recent surge in FDI in Mexico, underscores the region's attractiveness for near-shoring. This trend, fueled by the highest-ever demand for industrial space in Mexico in 2022, reflects manufacturers' efforts to mitigate supply chain disruptions by relocating production from China to Mexico. Mexico's ascent as the top US trading partner since the beginning of 2023, accounting for \$656 billion in two-way trade, further solidifies its position as a key player in North American commerce.



NAFTA / USMCA

The replacement of NAFTA with the USMCA marked a transformative phase in North American trade. Through tariff reductions and the streamlining of cross-border transactions, the USMCA has opened doors to near-shoring opportunities. This shift strengthened trade ties among North American countries and fueled a notable increase in cross-border land transport.

Central to the USMCA are its labor reforms, designed to address wage disparities and strengthen workers' rights. This prompted Mexico to implement comprehensive labor laws, safeguard independent unions, and combat corruption in its labor market. Additionally, the USMCA seeks to bridge the wage disparity between US and Mexican workers by strengthening vulnerable unions and enhancing working conditions. In doing so, it strives to foster greater fairness and stability within the North American labor market.



Although the USMCA has transformed North American trade, the agreement may be in at risk depending on the next US Presidential election. During renegotiation in 2017, President Trump wanted to enforce a 'hard break' clause after four years, a position flatly rejected by the Canadian and Mexican governments. In their mind, the agreement should be a permanent structure allowing for companies to build long standing supply chains and for governments to invest in infrastructure facilitating trade. However, Trump successfully managed to negotiate a so-called 'sunset provision' which is due in July 2026. With a potential Trump Presidency, an acrimonious dispute during the review process is possible.

It seems that the 'sunset provision', has not dampened FDI in Mexico. It would be possible for the US to withdraw from the agreement at any time with six months' notice, and in many ways the review just formalizes the process with a specific milestone. Many hope this will positively impact the USMCA, building stronger rather than adversarial relationships. However, the risk is that it plunges trade relationships in the region into uncertainty, impacting FDI and creating unwelcome volatility. Despite uncertainties surrounding the future of the USMCA, near-shoring and cross-border activity seem to be here to stay.

Foreign Direct Investment (FDI)

FDI in Mexico is trending upward with a 9% increase in Q1 of 2024, equal to \$20 billion, compared to the same period in 2023, equaling \$18.6 billion. This surge is linked to relocations and expansions driven by near-shoring in key border regions like Monterrey, Juarez, and Tijuana. FDI is projected to reach \$31 billion by year-end and underscores Mexico's growing appeal as a manufacturing center with Nuevo Leon, Jalisco, and Puebla emerging as top states for these investments.

The increase in FDI flowing into Mexico boosts the country's economy and presents opportunities for cross-border trade. As multinational companies establish or expand their operations in border areas, they create synergies that extend into nearby parts of the US, such as improved infrastructure and streamlined supply chains. This positive impact has catalyzed regional economic development, fostered job creation, and fortified the commercial ties between the US and Mexico.

Infrastructure Bill

The Texas-Mexico Border Transportation Master Plan (BTMP) aims to enhance infrastructure along the Texas-Mexico border, facilitating more effective cross-border trade. By identifying challenges and opportunities, the BTMP lays a comprehensive roadmap for improving connectivity between Texas and Mexico. With \$37 billion allocated for over 600 border-wide projects, including critical trade corridors like the World Trade Bridge, these investments are poised to strengthen infrastructure essential for the efficient movement of goods.

Additionally, the Border Management, Security, and Assistance Act of 2023 and the National Defense Authorization Act (NDAA) of 2024 further strengthen infrastructure along the border by improving border security. These laws provide funding to boost security measures through increased technology and personnel. Funds allocated for non-intrusive inspection technology, border security technology, and air assets reflect the concerted effort made to fortify security at ports of entry. By bolstering both infrastructure and security measures, these pieces of legislation set the stage for more efficient cross-border trade.

Nearshoring Trends

Recent years have seen a surge in demand by US-based manufacturers for near-shoring production to Mexico, driving growth in cross-border freight volumes and warehousing development. The rise in near-shoring is reshaping the landscape of US-Mexico trade, propelling it to a remarkable \$600 billion in the first three quarters of 2023. Mexico has many competitive advantages over Asian competitors. Its proximity to the US means that producers can shorten lead times, improve service delivery, and offer greater levels of customization. Sharing time zones is also a benefit.

Its proximity also means that it has lower risks from a logistics perspective. American manufacturers lost billions during the West Coast port congestion crisis in 2022, and this encouraged them to look for sourcing alternatives. Mexico also has long term stability with the USMCA contrasting with the geopolitical relations between the US and China and resulting tariffs on trade. The COVID-19 lockdowns in China disrupted supply chains and damaged trust in the Chinese government's commitment to a stable economic and social environment.

Many companies investing in Mexico are benefitting from the huge subsidies on offer from Biden's Inflation Reduction Act (IRA) which is encouraging investment in green technologies, particularly electric vehicles (EV). Mexico's membership in the USMCA and its status as a trusted ally of the US (despite some obvious tensions on immigration) have helped in this respect. Chinese businesses have become major investors in the country to circumvent the tariffs the US government has placed on many of its imports since the first Trump administration. They too are hoping to benefit from the subsidies within the IRA.

Labor costs are an important factor in the growth of near-shoring. According to BCG, Mexico is more competitive than China. Factory wages are lower, \$3.90 per hour compared with \$5.58, although this differential is narrowing. There are attractive currency exchange rates, lower energy costs, better productivity, and barely any trade tariffs. In contrast, the average tariff on Chinese goods is now almost 20%. Also, Mexico has fully implemented the World Trade Organization's Trade Facilitation Agreement which is beneficial for e-commerce companies.

The momentum of nearshoring is expected to continue into 2024, supported by favorable conditions enabled by legislation such as USMCA and the 321 program. According to consultancy firm AMI, freight on Mexican to US trade routes grew by 5% in 2023, more than double other global trade rates, with record volumes driven by the automotive, food, and beverage sectors. Many cross-border logistics companies have anecdotally confirmed that they are experiencing volume growth rates of more than 20%. This boom is encouraging major investment, but it has also caused stress on existing services and infrastructure.

The “De Minimis” Debate

Most of e-commerce is business to consumer (B to C). This allows individual shipments to fit under the 'de minimus' exception. For imports into the US, the 'de minimis' threshold is \$800, negating the need for companies to pay tariffs, duties, etc. On overseas purchases, this typically would mean a consolidated air container with hundreds or thousands of individual shipments falling under the exception.

However, in the event of business-to-business (B to B), the consolidated shipment would not fit within the exception. This has led to foreign countries, in particular China, building warehouses and distribution centers near the northern Mexican border in order to be able to break the shipments into individual B to C shipments for cross-border delivery.

While this is far from the majority of the e-commerce shipments coming in from those countries, it is a work around being used to a greater extent every year.

There is discussion as part of the anti-China trade discussions that we need to close this loophole. If Congress actually does close this workaround, it would impact cross-border northbound truck volume but it remains to be seen if Congress has either the will or the ability to actually do this in the future.

Maquiladoras / IMMEX

Maquiladoras play a pivotal role in the country's economy and global trade dynamics. These factories, operating under preferential tariff programs established by Mexico and the US, have experienced significant growth due to initiatives like the Manufacturing Industry, Maquiladora, and Export Service (IMMEX) program. IMMEX has been instrumental in attracting FDI into Mexico by offering special tax breaks for companies operating within Maquiladoras.

Originally introduced as the Maquiladora Program and later rebranded as IMMEX, this initiative was designed to boost employment rates and stimulate FDI in Mexico's manufacturing sector. With the implementation of NAFTA, IMMEX emerged as Mexico's second-largest industry, creating over one million jobs and accounting for 50% of the country's total exports.

The USMCA has brought about transformative changes to Mexico's labor relations. Addressing wage disparities and advocating for stronger workers' rights, the USMCA aims to enhance the conditions for workers in Maquiladoras, further solidifying their significance in Mexico's economic landscape.




The US. Department of State is partnering with the Government of Mexico to explore opportunities to grow and diversify the global semiconductor ecosystem under the International Technology Security and Innovation (ITSI) Fund, created by the CHIPS act of 2022. This partnership will help create a more resilient, secure, and sustainable global semiconductor value chain. Mexico has seen significant growth in semiconductor trade. Imports shot up from \$135.6 millions in 2013 to \$394.2 million in 2022.

Technology Opportunities

New trends in customs software stand to revolutionize cross-border trade. For a long time, the flow of data within a supply chain has been of equal importance to logistics providers as the flow of goods and containers. We may finally be at a stage where much of this data begins to move automatically and rapidly between the various systems used to manage supply chains. The role of many individuals in our industry may look very different ten years from now because of it.

This potential is particularly evident along the southern border where shipment volume has been growing significantly over the last few years due to strong macro-economic and geopolitical forces. As the volume of shipments traversing this border continues to escalate, the utilization of new tools will become increasingly necessary for operators to manage the flow of goods effectively. New technology able to significantly improve the accuracy of data analysis could have profound impacts on the speed and efficiency of customs entry processes, allowing shipments to be released faster and bringing the time needed per shipment down significantly. Generative AI is one of the more exciting technological developments, but there are many powerful new tools emerging across the industry. Executives at the forefront of the development of logistics technology shared their insights on its evolution below:



Max Ibata-Arens
Director: Technology Sector

“New technologies, particularly large language models and AI-driven platforms, are enabling a level of data analysis and decision-making support previously unimaginable. Today's trade compliance professionals can expect AI to help them perform intricate tasks such as tariff engineering, supply chain traceability, tariff code determination, free-trade agreement qualification, and more - tasks that are all still mostly performed manually, by hand, using spreadsheets, bookmarked websites, PDFs, and sticky notes.”

- **Shannon Hynds, CEO at Quickcode.ai**

“AI technology is now crucial in three main areas within this sector: aiding in tariff classifications, mapping multi-party supply chains for compliance, and streamlining complex data entry for greater efficiency. The use of generative AI, combining language models and multimodal machine learning (LLM + LMM technology), has significantly advanced AI-assisted data entry capabilities.”

- **John Pennypacker, VP of Sales and Marketing at Deep Cognition**

Market Map of Key Players



Retailer / Manufacturer Investments in the Border Region

Retailers and manufacturers have invested heavily in Mexico, causing low vacancy rates and a rise in rental costs for logistics facilities. According to Prologis, demand has doubled since 2019, and analysts assert that every \$1 billion invested in automotive factories results in 5-10 million square feet of warehousing requirements. Moreover, 40% of its logistics leasing in Mexico in 2022 was driven by near-shoring activities.

Most interest originates from US companies seeking to mitigate the risks and rising costs of importing goods from Asia. Chinese companies are also major investors, looking to take advantage of the USMCA trade deal. Nuevo Leon is particularly popular among foreign investors and has been actively seeking Chinese FDI. According to the New York Times, Chinese companies comprised 30% of the \$7 billion invested in the state since late 2021, only second to the US, which totaled 47%.

Although the automotive industry has led the way in near-sourcing activity, other sectors are also targeting the market:

- ZC Rubber is to build a new plant in Coahuila with a North American distribution center.
- Optimas is developing operations in Monterrey due to its links with the US auto sector.
- Tesla is establishing a factory in Monterrey and has urged suppliers to its Shanghai plant to replicate the supply chain model in Mexico. Ningbo Tuopu Group Co., Shanghai Bayon Precision Automobile Component Co., Suzhou Dongshan Precision Manufacturing Co., Zhejiang Yinlun Machinery Co. and Chinaust Group already have plans to do so.
- Other manufacturers include BYD, Chery Automobile Co., and SAIC Motor's MG brand.
- Both Lenovo and Engel have also opened plants in Monterrey.

While the investment is no doubt leading to an economic boom, the rate at which the market expands is dependent on the rules governing the import of goods into the US from Mexico. There is a review of the USMCA in 2026 which will likely lead to a push to renegotiate the terms of the deal, especially if the US government believes that it has been exploited by Chinese interests. Even if the USMCA is dissolved, nearshoring will persist, with tariffs on Mexico unlikely to reach those on China. In this context, expansion might decelerate but it's unlikely to reverse.

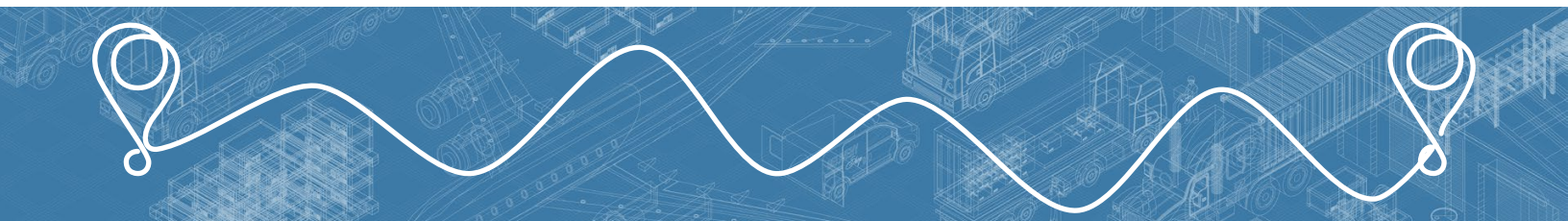
Leading Logistics Companies with Coverage

Unsurprisingly, US logistics and rail companies are ramping up their investment in transport and warehousing operations to take advantage of soaring cross-border volumes.

- The automotive and industrial sectors are driving growth for Ryder Mexico. To cope with the additional volumes Ryder has recently opened a second, 50,000 sq ft cross-border facility in El Paso, Texas.
- Echo Global Logistics has opened a facility in Laredo and Monterrey, following customers' requests to put 'boots on the ground' and simplify brokerage services on both sides of the border.
- Blue Grace logistics has established a dedicated office for cross-border freight services and out-sourced warehousing operations in Guadalajara.
- Redwood Logistics announced that it was investing in the automotive, pharmaceutical, food, and beverage sectors and commented that its clients were shortening lead times and diversifying their supply chains away from China.
- Maersk opened a 322,900 sq ft facility in the emerging hub location of Tijuana, Mexico focused on the high tech, automotive, consumer, and retail sectors taking its capacity to 1.6 million sq ft in the country.
- Other major companies to invest recently in operational capacity have been CH Robinson and Arrive Logistics.

In addition to road-based logistics, rail intermodal services are also critical to cross-border trade. BNSF, J.B. Hunt Transport Services and Grupo Mexico's Ferromex (GMXT) commenced a new service in January 2024 linking Monterrey and Mexico City regions with the US Midwest. GMXT also works with US railroad company Union Pacific and Canada's CN connecting all three countries within the USMCA. Rival Canadian Pacific Kansas City (CPKC) has also commenced services between Chicago, Kansas City, Missouri, Laredo, Texas and Monterrey and San Luis Potosi in Mexico signing intermodal deals with Schneider National and Knight-Swift Transportation. Rail and intermodal services will receive a boost when a new bridge is completed at Laredo, hopefully by the end of 2024.

Specialist logistics services are also seeing a surge in interest, especially temperature controlled. Canadian Pacific Kansas City railroad added 1000 53-foot containers to its Mexico Midwest Express service, moving a range of fresh and frozen goods northbound and largely beef, chicken and pork southbound.



Mexican Government Must Act to Motivate Investors

Geopolitical tensions caused a surge in demand in Mexico as near-shoring strategies drive growth in freight volumes and warehousing development. However, economic and political fragility, a characteristic of the region for many decades, remains endemic. There are hopes that a new government will bring about reforms and stability, however, this weakness has left it vulnerable to foreign influence, not least from China's offer of infrastructure investment.

Manufacturers relocating their production to Mexico has led to demand for cross-border logistics and warehousing services. Additionally, subsidies from Biden's IRA are encouraging investment in green technologies, particularly EVs. Mexico's membership of the USMCA combined with a low-cost labor force and direct, land-based connections put the country in an ideal position to take advantage of the boom.

Although many are positive about near-shoring driven growth, there remains frustration about the business environment and inefficient operational practices. Customs clearance may take days or even weeks in Mexico compared with hours in China. There is also a lack of trucking capacity, which may worsen with a new US visa system encouraging drivers to move north of the border. Security, corruption and general mismanagement are also putting off investors.

The success of near-shoring relies on a combination of US economic growth, the adoption of supply chain risk mitigation strategies by global manufacturers and the right domestic conditions in Mexico. If any one of these imperatives is compromised, so too will be Mexico's growth prospects. Much work is required by government and industry to ensure that the country takes advantage of the transformation of global supply chain strategies.

Southbound Activity

Estimates from logistics companies that handle cross-border freight peg the value of southbound logistics traffic from the US to Mexico at over \$200 billion annually. This represents not just finished goods headed for consumers in Mexico, but also raw materials, components, and industrial supplies feeding Mexico's manufacturing sector.

The makeup of southbound logistics flows reflects Mexico's increasingly prominent role in continental supply chains. Much of the traffic consists of parts and sub-assemblies produced in the US being shipped to Mexican factories for final assembly into products like automotive vehicles, electronics, and machinery. As more and more manufacturing has shifted to Mexico over the past few decades, the need for inbound components and materials has grown dramatically.

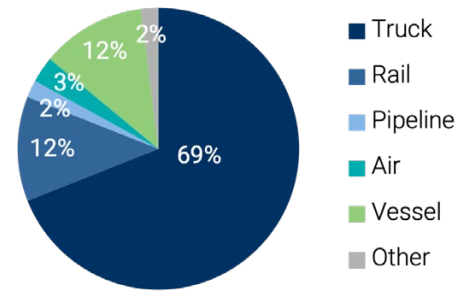
Another major category is agriculture products and foodstuffs - the US exports billions of dollars worth of crops, meat, and other foods to Mexico each year. Southbound logistics also handles consumer packaged goods, apparel, pharmaceuticals and medical devices, and a wide range of other merchandise headed for the Mexican market of over 120 million consumers.

The trucking industry is the backbone of southbound logistics from the US to Mexico, with the vast majority of freight crossing the border via truck. According to the Bureau of Transportation Statistics, over 70% of the value of US exports to Mexico moved by truck in 2022. Rail accounts for around 15%, with maritime and air shipments making up the remainder.

The top truck border crossings for southbound logistics include Laredo, Texas; Otay Mesa, California; Santa Teresa, New Mexico; and Nogales, Arizona among others. Rail crossings like Brownsville, Texas and Nogales also see heavy volumes. Logistics hubs in cities like Dallas, Los Angeles, Chicago, and Kansas City serve as origins for southbound freight.

While overshadowed by its northbound counterpart, the southbound logistics flow from the US to Mexico plays a critical role in binational trade and the integrated supply chains that have developed under NAFTA and the USMCA. As Mexico's economy and manufacturing output continues to grow, this southbound artery will remain an essential lifeline providing the parts, materials, and goods to feed that growth.

US-Mexico Share of Transportation Mode



Source: US Department of Transportation (BTS), FreightWaves, United States Census Bureau, American Trucking Association



XPO is a major provider of trucking and logistics services across the US-Mexico border. In 2022, XPO handled over 750,000 southbound shipments from the United States into Mexico, representing approximately 20% of its total cross-border volumes. Key southbound freight for XPO includes auto parts, packaged consumer goods, industrial supplies, and raw materials like plastics and metals. Major gateways for XPO's southbound Mexico traffic include Laredo, TX and Otay Mesa, CA.



As a major rail freight carrier linking the US Midwest with Mexico, Kansas City Southern moves significant volumes of southbound rail freight. In 2022, the company's southbound carloads from the US into Mexico totaled over 500,000 units. This included shipments of grain, coal, chemicals, petroleum products, and equipment/machinery headed to customers and suppliers across Mexico. KCS's main rail gateways for southbound Mexico traffic are Nuevo Laredo and Matamoros.



UPS maintains extensive southbound logistics networks and facilities catering to shippers moving goods from the US into Mexico. UPS's southbound volumes exceeded 3 million shipments in 2022, with southbound revenue up 8% year-over-year. Major product categories include industrial equipment, electronics, automotive parts, healthcare products, and e-commerce deliveries. UPS utilizes trucking and air freight services into major Mexican markets.

M&A Transaction Activity 2020-2024

Logistics companies are increasingly setting their sights on acquiring cross-border logistics firms that operate between the US and Mexico. There are several factors driving this trend.

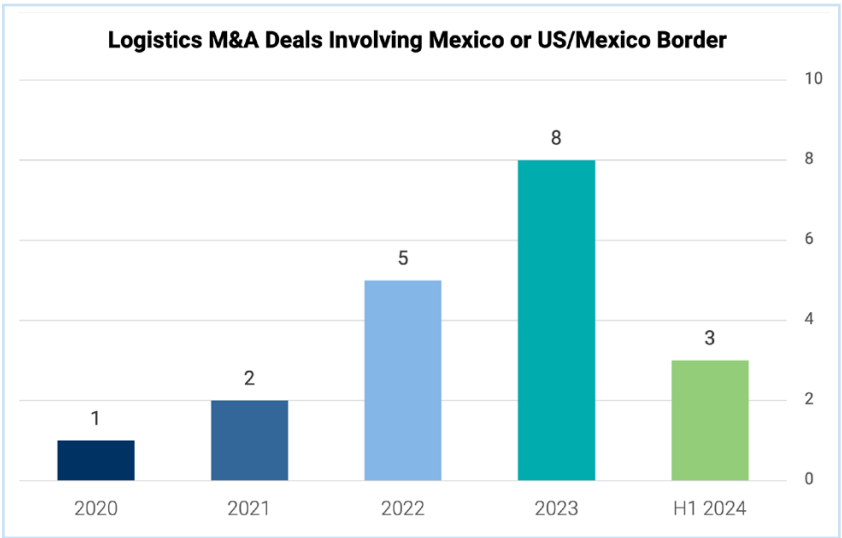
Mexico’s geographical position. Sharing an extensive land border with the United States makes it an attractive market for logistics companies seeking to expand their cross-border operations. The proximity between the two countries facilitates efficient transportation of goods and minimizes travel distances, which can translate into cost savings and faster delivery times.

The implementation of trade agreements like the USMCA has significantly boosted cross-border trade between the US and Mexico. As trade barriers decrease, the demand for reliable and efficient logistics services to facilitate the movement of goods across borders has surged.

The economies of the US and Mexico are deeply intertwined, with supply chains and production networks spanning both countries. Companies have established manufacturing facilities in Mexico to take advantage of lower labor costs and proximity to the US. This cross-border integration has driven demand for logistics services to support trade between the two nations.

By acquiring logistics firms with existing operations and expertise in navigating the complexities of cross-border transportation, logistics companies can gain a significant competitive advantage. These acquisitions allow them to quickly expand their footprint, leverage existing relationships, and tap into the knowledge of the acquired companies.

As trade between the US and Mexico continues, logistics companies recognize the strategic importance of having a strong presence in this market. Acquisitions of cross-border logistics firms operating in this region allows companies to capitalize on the demand for seamless transportation services, while positioning themselves for future growth in this dynamic market.



Top Ten Mexico Logistics Companies

This ranking provides insight into the major players in Mexico’s logistics industry based on their 2022 revenue figures. DHL emerges as the market leader, generating revenue of \$1,221 million followed closely by Grupo Traxion with \$1,016 million and DSV with \$973 million. Major international logistics companies hold a significant market position in the Mexican logistics market, with only two domestic companies within the top ten, Grupo Traxión and Estafeta.

Note: DHL consists of DHL Express México, S.A. de C.V. and DHL Metropolitan Logistics SC México, S.A. de C.V.. DSV consists of DSV Air and Sea, DSV Solutions and Panalpina Transportes Mundiales.

Source: Ti-Insight

Rank	Company	Revenue US\$M
1	DHL	1,221.0
2	Grupo Traxión	1,016.4
3	DSV	973.0
4	Penske Logistica	647.2
5	Geodis México	378.8
6	Ceva Freight Management México	327.6
7	Estafeta	264.8
8	Federal Express	229.7
9	Kuehne + Nagel	218.8
10	Ryder	216.0

Outlook and Expectations



The Southern Border is expected to continue its incredibly lucrative transformation which is primarily characterized by nearshoring as the shift from globalization to regionalization persists in a post-pandemic economy. The nearshoring trend has been fueled by several factors, including increased foreign direct investment (FDI), improved infrastructure along the Southern Border, and the United States-Mexico-Canada Agreement (USMCA), resulting in more efficient and profitable supply chains.

Under the USMCA framework companies producing goods in Mexico benefit from duty-free shipping across North America creating an encouraging environment for FDI. This trend is evident in Mexico's report of more than 400 companies showing interest in moving their production operations to Mexico. The increase in trade activity is particularly noticeable at border crossings such as Laredo, where over 15,000 trucks pass through daily via routes like the World Trade Bridge and Colombia Bridge.

To enhance border security and support growing trade volumes new laws like the Border Management, Security, and Assistance Act of 2023 have been put into effect. This legislation allocates funds to strengthen the capabilities of U.S. Customs and Border Protection (CBP) including investments in technologies, like non-intrusive inspection systems and AI-powered autonomous surveillance tower systems.

The Texas-Mexico Border Transportation Master Plan (BTMP) complements these initiatives highlighting Texas's role as a gateway, for trade connections between the US and its neighboring countries to the south. Focused on improving transportation infrastructure and fostering collaboration between Texas and Mexico the BTMP seeks to meet future transportation needs while enhancing trade routes for the region's economic well-being. This comprehensive plan includes 661 projects requiring an investment of \$37.4 billion showing a dedication to facilitating smooth movement of people and goods across the border.

With these combined efforts in infrastructure development alongside the appeal of nearshoring fueled by FDI and the USMCA, a positive outlook is painted for the future of the Southern Border region. By leveraging legislative initiatives, strategic partnerships, and robust investment frameworks, this area is positioned to become a center of economic activity promoting growth and prosperity for both the United States and Mexico.



Near-shoring is already bringing the Mexican economy a significant 'windfall'. If the right domestic policies are put in place and the US economy remains robust there is no reason why this trend will not power growth for many years to come, allowing the government to modernise infrastructure and raise living standards. Although there are many opportunities, it would be dangerous for the Mexican government and industry to become complacent. There are a number of key challenges for Mexico supply chains which must be overcome to take advantage of this potential.

Firstly, rising labour costs are a real problem which may lead to Mexico becoming stuck in the middle income trap – too expensive to compete on price with Asian competitors but unable to add sufficient value to products to make them globally attractive. Secondly, the level of transport infrastructure investment must be increased to facilitate supply chains. Not only this, but investment must also be in the right geographical locations if manufacturers and retailers are to benefit. Thirdly, business policy must be made less complex, allowing companies to operate more efficiently and reducing regulatory burdens and cost. Fourthly, there is a lack of management calibre level staff, and this must be addressed alongside the skills shortage by educational investment. There are also driver shortages, and the industry must be made more attractive by undertaking initiatives which address problems relating to security, for example, and gender diversity. Fifthly, the security situation in the country must be addressed. Parts of the country are lawless and the transport industry can be badly affected by corrupt officials, hijackings and other forms of cargo crime. And finally, there should be greater engagement with the global financial community in order to encourage investment in Mexican supply chains.

In summary, Mexico must:

- Increase investment in appropriate transport infrastructure.
- Increase investment in broadband and mobile telecom infrastructure.
- Encourage take up of bank accounts to allow consumers to participate on digital platforms.
- Increase level of digitization of shipment documentation.
- Liberalize domestic sectors and encourage investment by international companies.
- Increase legal certainty, address corruption and security challenges
- Increase levels of training and skills which equip an entrepreneurial workforce to thrive in this new digital market.

Transaction Appendix



Jun. 2024 | Thor Equities Group acquires Premier Industrial Facility in Laredo, Texas

To expand Thor Equities' industrial real estate portfolio and capitalize on the trade boom between Mexico and the US.



Mar. 2024 | TFI acquires LTL carrier Hercules Forwarding

The acquisition gives TFI capacity and capabilities in both the US and Canada border and along the US-Mexico border and potentially a bigger stake in freight moving between Canada and Mexico.



Feb. 2024 | Supply Chain Solutions acquires Transport Acción

Supply Chain Solutions (SCS) has acquired Transport Acción S.A., a Mexican company with over 47 years in international logistics, expanding their service offerings worldwide.



Nov. 2023 | WiseTech Global acquires Sistemas Casa

WiseTech Global acquired Sistemas Casa, a Mexico-based provider of customs and international trade software solutions. The acquisition is part of WiseTech Global's strategy to provide a single global customs system, covering more than 70% of global manufactured trade flows.



Sep. 2023 | Warehouse Services Inc. acquires Sky Transportation

Sky Transportation is a regional truckload carrier focused on dry van freight, primarily in the Southwestern United States, including cross-border trade between the United States and Mexico.



Sep. 2023 | FLS Transportation acquires cross-border Mexico specialist AMAC Logistics

Arizona-based AMAC specializes in cross-border freight, providing inbound consolidation, outbound distribution and through trailer service at the Mexican border with Customs Trade Partnership Against Terrorism-certified carriers.



Sep. 2023 | Supply Chain Solutions acquires G4 Logistics International

Kentwood-based Supply Chain Solutions (SCS) acquired G4 Logistics International to strengthen cross-border logistics, particularly with Mexico, as part of a nearshoring trend.



Aug. 2023 | TFI acquires truck transport provider JHT

Based in Wisconsin, JHT transports new trucks from manufacturing plants to dealers and customers, including cross-border operations in Mexico.



Jul. 2023 | Luminus Management LLC acquires Mexico-based carrier Jaguar Transportation

Jaguar Transportation, a trucking company focused on cross-border trade with the US, is based in Monterrey, Mexico. The acquisition includes over 775 tractor-trailers and five freight facilities.



Jun. 2023 | Traxion acquires BBA Logistics

The acquisition is part of Traxion's plan to offer door-to-door cargo brokerage services in the US as freight volumes from Mexico to the United States continue to rise because of nearshoring.



Feb. 2023 | Sumit Enterprises acquires Craters & Freighters Phoenix

Craters & Freighters Phoenix has been acquired by Sumit Enterprises, Inc. The acquisition aims to leverage the company's established reputation for growth and expansion.



Dec. 2022 | Cox Transportation acquires cross-border specialist Outwest Express

Outwest Express is a truckload provider based in El Paso, Texas, specializing in Mexican cross-border logistics. With a fleet of over 400 tractors and 1,200 trailers, Outwest serves the retail, medical, and manufacturing sectors providing warehousing, transloading, and consolidation.



Dec. 2022 | B.I.G. Logistics acquires Xcell Logistics

With this acquisition, B.I.G. Logistics positions itself as a dominant supply chain logistics solutions provider on both sides of the Mexican border, offering comprehensive services to its customers in the USA and globally.



Aug. 2022 | Heartland Express acquires CFI's assets

Heartland Express has acquired CFI's truckload and Mexico logistics units. CFI Logistica provides asset-light TL and less-than-truckload services in Mexico.



Feb. 2022 | Descartes acquires NetCHB

The acquisition strengthens Descartes' ecommerce customs filing capabilities. NetCHB facilitates cross-border trade by providing a cloud platform for brokers and e-commerce shipments crossing into the United States.



Feb. 2022 | Arrive Logistics acquires cross-border business from Forager

Arrive Logistics has acquired Forager Group's cross-border business and proprietary platform, enhancing its cross-border services and technology offerings in Canada and Mexico.



Nov. 2021 | Rhenus acquires Texas-based Global Net Logistics, expands cross-border service

Rhenus Logistics Americas has acquired Dallas-based Global Net Logistics to strengthen its cross-border services between the United States and Mexico.



Jan. 2021 | Tecma acquires New Mexico carrier Omega Trucking

This acquisition strengthens Tecma's presence across the U.S.-Mexico border and enhances its ability to provide door-to-door service for clients in both countries.






Mar. 2020 | Nuvocargo acquires Oncarriage to Modernize Freight Forwarding

By modernizing the freight forwarding process between the U.S. and Mexico, Nuvocargo aims to become a one-stop-shop for all aspects of cross-border trade, offering a digital solution to a market traditionally reliant on paper-based processes.


Logisyn provides mergers and acquisitions (M&A) advisory specifically to companies in the logistics sector. Our customers include global freight forwarders, customs house brokers, domestic forwarders, trucking companies, logistics software providers, and many more. Logisyn's services include buy-side advisory for growth through acquisition, sell-side advisory for entrepreneurs looking to exit and capitalize, and enterprise valuation services to gain a better understanding of their business value. At Logisyn, our success is only achieved by providing a refined and synergistic buying and selling process, while maintaining the deep industry awareness that comes from having a team made up of T&L veterans.



 logisyn.com
 confidential@logisyn.com
 [@logisynadvisors](https://www.linkedin.com/company/logisynadvisors)

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 ti-insight.com
 ssmith@ti-insight.com
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