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Navigating Nearshoring: Recent Trends and Future Outlook

For many reasons, companies in the U.S. have recently invested significantly in “nearshoring,” relocating supply chains to Mexico and Canada. In April, as part of the [FBT Connect™ Manufacturing](#) program hosted by Frost Brown Todd, a panel of four industry experts discussed the reasons behind this recent trend and the challenges and opportunities associated with nearshoring in light of recent policy measures.

This article summarizes some of the key topics and considerations explored by the panelists, providing additional insight on how U.S.-based companies should assess relocating supply chains to North America.

Reasons for Nearshoring

The main reason that companies explore and reevaluate their supply chains is, of course, cost savings. In the past decade, numerous external factors have required U.S. companies to reconsider the most cost-efficient way to structure their supply chains. Three of the factors explored by the FBT Connect™ nearshoring panel, as described below, are particularly relevant in the present global environment.

C+1 Strategy

First, there is an established movement to reduce reliance on Chinese manufacturing—a movement some term the China Plus One (C+1) strategy. For years, there have been growing concerns from U.S. companies with rising labor costs and the ability to protect their intellectual property in China. While these concerns certainly play a role in the nearshoring trend, recent events have kicked U.S. companies’ nearshoring efforts into overdrive. The COVID-19 pandemic that began in early 2020 caused widespread supply chain shortages and delays, prompting companies to seek more resilient and localized supply chains. And the ongoing trade

war between the U.S. and Chinese governments, with the 80%+ tariffs implemented by each side, has necessitated further action from companies seeking to protect their bottom line.

Escalating Tariffs

This brings us to the second factor explored by the panel—the broad reciprocal tariffs announced by the U.S. government, with the most extreme tariffs imposed on “bad actors” like China. Vietnam, another manufacturing hub that has benefited from significant investment in recent years, initially faced a 46% tariff. The day following the nearshoring panel discussion, the U.S. government announced a 90-day pause on the reciprocal tariffs, with the exception of China. So, while the only certainty regarding the recent tariffs is that the scope and timing is uncertain, nearshoring allows companies to mitigate these uncertainties. This mitigation strategy is relevant in large part due to the favorable trade agreements with Mexico and Canada, which allow U.S. companies to avoid some of the “worst case” scenarios attendant with tariff exposure.

USMCA Considerations

The third factor considered by the panel is the current trade agreement among the U.S., Mexico and Canada—the United States–Mexico–Canada Agreement (USMCA)—entered into in July 2020. The USMCA creates a favorable trade environment by, among other things, significantly reducing or eliminating tariffs on many goods and simplifying trade procedures. The relations between these three countries, however, are not without challenges.

Near-Term Hurdles for North American Nearshoring

As noted by the nearshoring panel at FBT Connect™ Manufacturing, the USMCA will be renegotiated in the near future, with the current agreement providing that a joint review is required by July 2026 at the latest. In addition, although Canada and Mexico were largely spared from the reciprocal tariffs implemented by the U.S. government, certain tariffs have affected specific Mexican and

Canadian products, including, for example, a 25% tariff on steel and aluminum imports. While Mexico has declined to retaliate to this point, Canada has implemented “countermeasures” that include a 25% tariff on certain vehicle imports from the U.S.

Even in the face of these challenges, the panelists expressed robust optimism that the three countries will reach an agreement that deescalates the current tensions between the U.S. and its two North America trading partners, while maintaining the competitive advantages that are in place under the current framework. Notably, the panel acknowledged that the ongoing tariff measures taken by the U.S. government may simply be a strategy aimed at reducing dependence on China—a theory to which many informed commentators subscribe.

Further, Mexico and Canada have certain immutable advantages over many of their global counterparties—including geographical proximity, time zone alignment and fewer cultural and linguistic differences—that make investment attractive to U.S. companies and, in turn, incentivize the U.S. government to minimize barriers to North American trade.

Opportunities for Mexico and Canada

The nearshoring trend, and even the economic unrest resulting from ongoing tariff measures and countermeasures, present opportunities for Mexican- and Canadian-based companies.

Manufacturers continue to explore moving production and warehousing activities to North America to reduce supply chain disruption and avoid higher tariffs. In light of these opportunities, both the Mexican and Canadian governments are becoming introspective in eliminating any internal barriers to trade and commerce, including improving infrastructure and boosting domestic consumption.

In Mexico, for example, there is a new railroad being built to compete with the Panama Canal, and the government is exploring streamlining the tax code to create a more attractive place for manufacturing companies to do business. In Canada, policymakers, companies and consumers are promoting a “Buy Canadian First”

campaign to support Canadian businesses and strengthen the local economy. Additionally, Canada can attempt to present itself to other important trading partners, such as the European Union, as an arguably more reliable and stable trading partner than its neighbor to the immediate south, which could incentivize companies to move manufacturing to Canada.

Key Takeaways

This final consideration and certain others may become less significant in the short term once the dust of this current tariff storm settles. But supply chain decisions, like where to invest in manufacturing facilities, are by their nature long term. Whatever the short-term outcome of this economic and geopolitical uncertainty, manufacturing, transportation and logistics stakeholders in the U.S., Mexico and Canada will continue to capitalize on the opportunities that have been presented to ensure that the nearshoring trend becomes an established and profitable economic reality.

For more information or assistance navigating supply chain, global trade and tariff-related issues, please contact the authors or any attorney with the firm's [Manufacturing Industry Team](#).

Presidential Administration Impacts

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