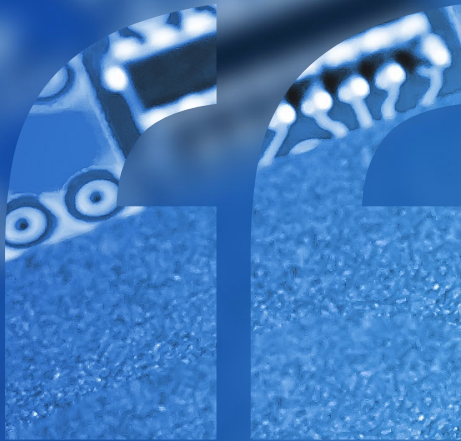


C L I F F O R D
C H A N C E



**MEXICO'S PLANS TO
DEVELOP ITS
SEMICONDUCTOR
INDUSTRY:
CHALLENGES AND
OPPORTUNITIES**



— THOUGHT LEADERSHIP

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MEXICO'S PLANS TO DEVELOP ITS SEMICONDUCTOR INDUSTRY: CHALLENGES AND OPPORTUNITIES

Recent global developments accelerating the push for geographical diversification of semiconductor production include positioning Mexico as a primary destination for the chip manufacturing industry over the next decade. Companies will seek to take advantage of recently announced tax incentives, an abundance of low labor costs and proximity to the U.S. as they advance nearshoring agendas.

As a result of rising strategic competition between the United States and China and security concerns over Taiwan's dominant position in global chip manufacturing, the semiconductor industry is experiencing unprecedented challenges. Currently, Taiwan controls over 90% of the global market in the production of advanced semiconductors but political and economic risk exposure is increasingly leading to nearshoring of semiconductor manufacturing and production. In a recent study, Boston Consulting Group estimates that approximately US\$3 trillion will need to be invested in the industry over the next ten years to meet the increasing global demand for semiconductors. Such an investment will require collaboration across governments and the private sector globally to make the supply chain more resilient.

Anticipated and Existing Policies Supporting Technological Innovation

The recently elected Administration of President Claudia Sheinbaum in Mexico includes technological innovation among its priorities and has identified strategic hubs in Mexico for the development of the semiconductor industry. In September last year, Sheinbaum presented her Economic Program (which was supplemented by the recently published "Plan Mexico"), which focused on strategic sectors essential for Mexico's economic advancement, including: semiconductors, electric vehicles, aerospace, pharmaceuticals and medical devices, and agroindustry.

It identifies strategic hubs for the development of the semiconductor industry including: Nuevo Laredo (Tamaulipas), Sonora, Lazaro Cardenas (Michoacan) and Jalisco to leverage existing manufacturing and logistics infrastructure. The Sheinbaum Administration is focusing on renewable

energy, technological innovation and sustainable development, which closely aligns with the semiconductor industry's needs for reliable, clean energy and advanced infrastructure.

As part of Plan Mexico, in January 2025, the Sheinbaum Administration introduced a presidential decree which outlines preliminary incentives for local and foreign companies aiming to nearshore their semiconductor manufacturing operations. Included among these measures are tax deductions for investment in equipment used for the "manufacturing, assembly and transformation of magnetic components for hard disks and electronic cards for the computer industry." Other eligible items included are electric cars, train cars, airplanes, communication towers and laptops. The decree offers further deductions for companies who provide employees with scientific and technical training.

As a precedent to this approach, in 2022, the U.S. enacted the bipartisan CHIPS and Science Act (the CHIPS Act), which

allocated approximately US\$53 billion to strengthen U.S. domestic semiconductor manufacturing, research, and workforce development. The CHIPS Act represented a dramatic shift in U.S. industrial policy, providing funding for domestic manufacturing incentives, research and development, workforce training and supply chain security. The legislation also established the International Technology Security and Innovation Fund (ITSI), which provides the U.S. Department of State with US\$500 million to promote the development and adoption of secure telecommunications networks. The ITSI will support semiconductor manufacturing in strategic markets such as Mexico through expanding assembly, testing and packaging capacity to diversify the semiconductor manufacturing industry in strategic markets.¹

Furthermore, the bipartisan Americas Trade and Investment Act introduced in March 2024 (the Americas Act), endeavors to expand the U.S. Mexico-Canada Agreement (the USMCA) to promote investment and economic development across the Western Hemisphere, and seeks to “establish a regional trade, investment, and people-to-people partnership of countries in the Western Hemisphere to stimulate growth and integration through viable long-term private sector development.”²

As further discussed below, depending on the approach the new Trump Administration will take, these policies, combined, could create substantial opportunity for partnerships among the public and private sectors in both the U.S. and Mexico to support the semiconductor manufacturing industry’s growth in Mexico.

Advancing Strategic Infrastructure and Industry Development Through Innovative Financing

The country’s strategic advantages extend beyond geographical proximity to and established political relations with the U.S. From the legal perspective, Mexico offers a legal framework for trade and

investment as a partner to the USMCA and from an investment perspective, Mexico has an established manufacturing base, developed through decades of automotive and electronics production, which provides a foundation of skilled labor and supply chains that can be leveraged for semiconductor production. Development of the semiconductor industry in Mexico has the potential to transform multiple sectors of the economy, helping to maintain its position as the leading trade partner of the U.S.

Such development is anticipated to primarily impact three key sectors: (1) power and utilities, where substantial requirements will drive investment in energy infrastructure, particularly renewable energy projects, including generation facilities and smart grid technologies; (2) water infrastructure, encompassing treatment and recycling facilities, distribution systems and waste management; and (3) technology and communications, including automation, robotics and specialized equipment maintenance industries.

Key transactions may span multiple sectors, from critical infrastructure agreements for example, power purchase, water rights and real estate) to technology-focused deals (for example, manufacturing joint ventures, IP licensing and equipment procurement). However, the magnitude and complexity of these transactions will require innovative blended finance structures that balance commercial viability with regulatory compliance while supporting long-term industry development.

A multi layered approach combining multilateral and development bank financing with commercial lending and capital markets funding will be essential. Blended finance solutions will play a crucial role, allowing projects to leverage public sector support to attract private capital. The participation of export credit agencies and specialized technology funds has the potential to further diversify funding sources.

¹ “The U.S. Department of State International Technology Security and Innovation Fund.” <https://www.state.gov/the-u-s-department-of-state-international-technology-security-and-innovation-fund/>.

² Text - S.3878 - 118th Congress (2023-2024): Americas Act, S.3878, 118th Cong. (2024), <https://www.congress.gov/bill/118th-congress/senate-bill/3878/text/is>.

More specifically, project finance structures could emerge as a key financing tool, particularly for large-scale manufacturing facilities and their supporting infrastructure. These structures could incorporate green financing elements to support renewable energy components, while specialized technology financing could facilitate equipment procurement.

Taking advantage of existing funding mechanisms will be essential for ensuring the long-term sustainability of these projects. Although it incentivizes the development of semiconductor facilities and equipment in the U.S., there may be opportunities to support projects that enhance security in the North American semiconductor supply chain. Access to these funds will require a delicate and nuanced approach which meets requirements of both the U.S. and Mexican governments' laws and regulations.

Leveraging Lessons Learned from Past Investment Mobilization Efforts

The pathways presented are based on successful investment mobilization efforts for parallel industries across Central America.

For example, in 1997, Intel opened the largest microchip factory in Central America with a US\$800 million investment in Costa Rica. With multilateral development bank funding from the World Bank; foreign direct investment from global private sector companies including Microsoft, IBM and Amazon; and policy initiatives by the Costa Rican government, Costa Rica has now established itself as a tech hub in Latin America, exporting over US\$900 million of high technology products between 2000-2016.

In a related effort, in 2021, the U.S. government launched the Partnership for Central America (PCA) to facilitate private sector investment, trade promotion and project financing across El Salvador, Guatemala and Honduras. Leveraging a suite of blended finance models with multilateral development banks,

government agencies such as the Development Finance Corporation (DFC) and the U.S. Agency for International Development (USAID), regional ministries of economy and the global private sector, PCA mobilized over US\$5.2 billion dollars to support projects across industries including textiles and manufacturing, infrastructure, technology and renewable energy.

These models offer blueprints for blended financing and multi-sectoral partnerships to facilitate strategic investments in the semiconductor industry in Mexico.

Political Considerations

The semiconductor industry's development in Mexico faces several key political considerations as President Trump assumes office in the U.S. and the planned review of USMCA – presenting both opportunities and challenges.

While the Trump administration's policies towards Mexico remain uncertain, recent signals suggest that collaboration with the Sheinbaum Administration remain critical to support the U.S. strategy to counter Chinese influence.

Furthermore, to the extent that the U.S. takes the view that national security does not require a purely U.S. domestic supply chain for key sectors, the USMCA review could strengthen North American integration in critical industries such as semiconductors, potentially leading to the strengthening of cooperation frameworks and investment protections. The negotiation process will address critical aspects including rules of origin for semiconductor products, environmental and labor standards, technology transfer provisions, investment protection mechanisms, intellectual property rights and digital trade provisions, elements which will significantly impact the semiconductor industry's development framework and its integration into global supply chains.

A foundation to support such efforts already exists, as evidenced by the 2022 memorandum of understanding between Arizona State University (ASU) and the Mexican Embassy in the U.S. for semiconductor development collaboration, which aims to promote

workforce development, education and collaboration between ASU and Mexican institutions working in the semiconductor industry. Additionally, the Association of the Americas for Economic Prosperity (SCLIS-AAPE) established between the U.S., Mexico and other allies in 2024 aims to: (1) protect the global chip ecosystem from misuse which threatens national security and (2) to develop the requisite regulatory environments necessary to attract investors and so protect the global supply chain. These types of initiative demonstrate the potential for coordinated development of the North American semiconductor ecosystem, in which Mexico is a vital partner.

Looking Ahead

Mexico's opportunity to develop a significant role in the global semiconductor industry represents a transformative moment for the country's industrial development (to the extent that there is an opportunity to "nearshore" components for critical industries and sufficient public and private funding is made available). This emerging opportunity could redefine Mexico's position in global technology supply

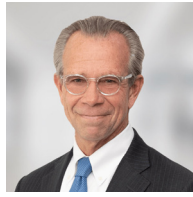
chains but presents both challenges and rewards for stakeholders across the semiconductor ecosystem and the broader global economy.

Success will require coordinated effort across multiple stakeholders, including government agencies, private sector investors, institutional investors and commercial banks, while maintaining policy stability through political transitions. The ability to balance U.S. and Chinese relations and protect national interests, while maintaining competitive advantages will be crucial. Organizations looking to participate in this developing industry must position themselves strategically within the evolving North American semiconductor landscape, understanding both the risks and substantial opportunities ahead.

Our team at Clifford Chance is committed to supporting and assisting clients with mobilizing investments to support the rapidly expanding semiconductor market across Mexico and the U.S. For more information, please reach out to the following contacts.



CONTACTS



David Evans
Senior Counsel
Washington DC
T: +1 202 912 5062
E: david.evans@cliffordchance.com



Jessica Springsteen
Partner
Washington DC
T: +1 202 912 5008
E: jessica.springsteen@cliffordchance.com



Violetta Kokolus
Partner
New York
T: +1 212 878 3291
E: violetta.kokolus@cliffordchance.com



Peter Hughes
Counsel
Washington DC
T: +1 202 912 5135
E: peterc.hughes@cliffordchance.com



Joshua Bernard
Counsel
Houston
T: +1 713 821 2835
E: joshua.bernar@cliffordchance.com



Alan Sakar
Senior Associate
Washington DC
T: +1 202 912 5435
E: alan.sakar@cliffordchance.com



Edward Charlton-Jones
Senior Associate
New York
T: +1 212 878 3148
E: edward.charlton-jones@cliffordchance.com



Isabella Blosser
Associate
Washington DC
T: +1 202 912 5922
E: isabella.blosser@cliffordchance.com



Pedro Buchanan
Special Legal Consultant
Washington DC
T: +1 202 912 5934
E: pedro.buchanan@cliffordchance.com

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Clifford Chance, Two Manhattan West, 375 9th Avenue,
New York, NY 10001, USA

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