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The Geopolitical Landscape and Potential Trade Policy Responses in Mexico

A report exclusively prepared for the Japan External Trade Organization (JETRO)

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I. Introduction

This report was commissioned by the Japan External Trade Organization's (JETRO) Office in Mexico. It seeks to provide with elements that can anticipate potential trade and investment policy responses from the Mexican government, and that can support informed decisions on the evolution of Mexico's economic landscape.

In light of an increasingly complex geopolitical environment -marked by US-China tensions, shifting supply chain strategies, growing protectionist measures pushed forward by the United States (US), and border and migration concerns- Mexico finds itself at the center of nearly every issue that aligns with President Trump's priorities. As such, Mexico faces critical decisions on how to position itself with its northern neighbor, and within regional and global trade and investment networks. Furthermore, Mexico's relationship with China as a trade and investment partner has been criticized sharply by the US, while trade relations under the Agreement between the United States, the United Mexican States and Canada (USMCA) could face renewed uncertainty.

It is thus foreseeable that stricter policies will be implemented in relation to the above, with international trade at the forefront of any strategy. This is already generating tensions and challenges for Mexico. In this regard, President Sheinbaum's administration is expected to articulate its trade and investment responses and alternatives towards key economic sectors, which shall influence the business environment in the country for the years to come.

With this as a background and based on a set of six questions provided by JETRO, we discuss the geopolitical and trade aspects of Mexico's potential policy responses to the challenges that may likely emerge to the changing regional landscape.

Specifically, the report provides elements for each of the six questions, to inform on the perspectives of (i) nearshoring of foreign direct investment flows into Mexico, including from the US and China; and (ii) potential considerations of Mexico regarding trade negotiations' follow up with the European Union (EU), the Comprehensive and Progressive Agreement for Trans-pacific Partnership (CPTPP), the Economic Complementation Agreements ACE 6 with Argentina, ACE 53 with Brazil, and ACE 55 with Mercosur.

In addition, this report includes reflections in relation to the USMCA review process, formally foreseen to be conducted by July 1st, 2026. Provided that current tariff challenges against Mexico and Canada can be overcome, such review process could intensify discussions among North American partners on the expectations and concerns of advancing regional integration, and of the US' interests, including regarding security-sensitive sectors, which will likely push for stricter regulations to limit Chinese influence in Mexico.

Towards the end, final considerations aiming to complement the conclusions supplied as part of the responses to each question are provided. Mexico will need to reinforce diplomatic and trade negotiations to maintain, or even recover, stable access to the US market while simultaneously accelerating its diversification strategy. Mexico's success in articulating policy reactions will largely depend on how effectively it allocates its political priorities and diplomatic resources over the next four years to address the former; and strengthening trade partnerships with other regions is essential to attain the latter. This would have to be complemented with additional, necessary policies aimed at reducing the cost of doing business in the country, to retain and even attract nearshoring investments, leveraging its strategic, enduring geographic position to maintain competitiveness in global supply chains despite rising protectionist pressures north of the border.

II. Reflecting on fundamental trade and investment policy responses: the questions

Navigating the challenges of a Trump presidency will require consistent and strategic engagement throughout his administration. Therefore, in seeking to preserve its advantages as an investment destination, or at least to sustain an attractive enough business environment, Mexico's success in articulating policy responses to the questions below will largely depend on how effectively it reinforces diplomatic and trade negotiations to maintain, or even recover, stable access to the US market while simultaneously accelerating its diversification strategy. Strengthening trade partnerships with Europe, Asia, and Latin America through agreements like the CPTPP and the EU-Mexico FTA is essential in mitigating the risks of overreliance on the US. We deliberate on those issues as we respond to the questions below.

1. During the Biden administration, FDI inflows into Mexico increased due to nearshoring trends. Under the Trump administration, will nearshoring flows decrease?

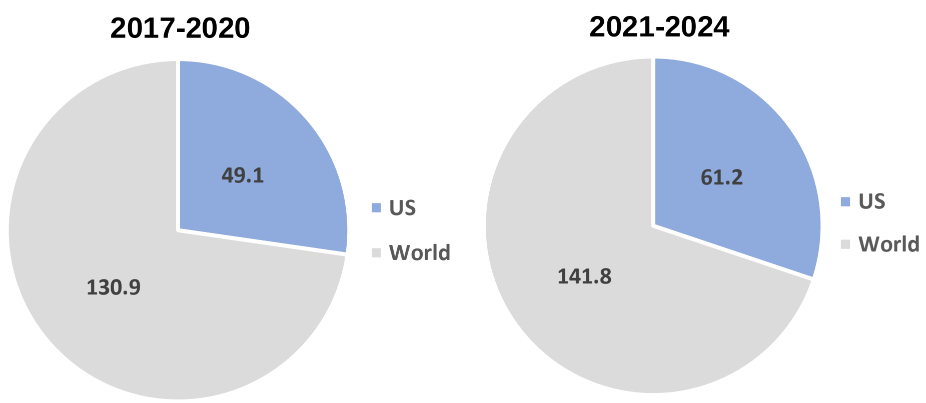
The USMCA, along with other pre-existing nearshoring trends, influenced Mexico’s investment dynamics with the arrival of Joe Biden to the White House. The shift in global trade patterns, especially in the context of trade tensions between the US and China, the China supply chain diversification approach, as well as Biden administration’s nearshoring strategies and industrial policy measures, repositioned Mexico as a relevant investment hub in North America as of 2021.[1]

[1] Former President Joe Biden’s nearshoring strategy emphasized building diversified and resilient supply chains while strengthening regional trade partnerships, particularly with Mexico. A key example of this approach was reflected in statements of Gina Raimondo, former Secretary of Commerce, who underscored Mexico’s role as a strategic ally and a top trading partner to the US. Raimondo stressed the importance of capitalizing on this partnership to collaboratively recover from the pandemic and strengthen regional supply chains, ensuring economic stability and resilience for both nations. This strategy was further complemented by industrial policy measures, such as the Inflation Reduction Act (IRA) and the Chips and Science Act, which among their objectives, was to incentivize domestic manufacturing on strategic industries while encouraging firms to move their operations to markets closer to the US. See, US Department of Commerce, “Secretary of Commerce Gina M. Raimondo Co-chairs U.S. Mexico High Level Economic Dialogue”, September 9, 2021. Available at: https://www.commerce.gov/news/press-releases/2021/09/secretary-commerce-gina-m-raimondo-co-chairs-us-mexico-high-level

In addition, Mexico's long-standing expertise in manufacturing sharing schemes and competitive advantages, such as its geographical position, and privileged access to the US and other major markets also made it a valuable partner in the evolving landscape of regional manufacturing and trade, enabling it to benefit from foreign direct investment (FDI) flows.

From 2021 to 2024, FDI inflows to Mexico from the US grew three times faster than incoming FDI from the world (25% and 8%, respectively), compared to the previous four-year period (2017-2020), during Donald Trump's first administration. Over this period, the US was the largest investor to Mexico, contributing with 61.2 billion US dollars, accounting for 43% of total FDI inflows (Figure 1).

Figure 1. FDI inflows from the world and the US into Mexico
(billion dollars)



Source: own elaboration based on Ministry of Economy data.

In addition, based on preliminary figures of Mexico's Ministry of Economy, at the end of 2024, Mexico recorded a new historic high in FDI, totaling 36.8 billion dollars. The US remained the largest investor to Mexico, accounting for 45% (16.5 billion dollars) of the total amount received by the country.[2]

Another strong indicator that supports the growth of FDI inflows into Mexico recorded over this period is the substantial increase of private investments in construction of industrial facilities and office spaces. Such investments by the private sector recorded an annual growth rate of 17.2% in 2023, while the occupation rate of such spaces attributed to nearshoring amounted to 28% of the total, reaching almost 1.7 million square meters.[3]

[2] Ministry of Economy, "México recibió 36 mil 872 mdd de IED, nuevo máximo histórico", February 25, 2025. Available at: https://www.gob.mx/se/prensa/mexico-recibio-36-mil-872-mdd-de-ied-nuevo-maximo-historico

[3] CBRE, "Demanda Inmobiliaria Industrial por Nearshoring", March 5, 2024. Available at: https://www.cbre.com.mx/press-releases/demanda-inmobiliaria-industrial-por-nearshoring-2023; Deloitte, "Nearshoring in Mexico, May 4, 2024. Available at: https://www2.deloitte.com/mx/es/pages/finance/articles/nearshoring-en-mexico-2024.html

In the midst of this favorable scenario, where nearshoring trends have fueled FDI inflows to Mexico, and have positioned the country as one of the largest recipients of FDI in the world in 2024,[4] Donald Trump's return to office has created a climate of uncertainty among investors that impacts Mexico's perception as an attractive market to foreign capital. This has been mainly driven by President Trump's rhetoric around the reconfiguration of the US' economic policy, aiming at reindustrializing the country through the implementation of unilateral actions on international trade policy. This shift has been marked by a series of executive orders and policy announcements to reshape global trade dynamics in favor of domestic productivity and investment.

On January 20, 2025, President Trump issued a Presidential Memorandum titled the *"America First Trade Policy"*, which mandates a sweeping review of current US trade and economic policies.[5] The memorandum focuses on establishing a robust and reinvigorated trade policy that promotes investment and productivity and directs several agencies to investigate and make recommendations related to existing trade deficits, and alleged unfair trade practices, among others. The memorandum also directed the Office of the United States Trade Representative (USTR) to begin consultations in preparation for the USMCA's joint review, which is scheduled to occur on July 1, 2026, to assess the agreement's impact on US businesses and to make recommendations regarding the country's position in the agreement.

Moreover, on February 1, 2025, President Trump announced the imposition of 25% tariffs on imports from Canada and Mexico, and 10% tariffs on energy imports from Canada to address the flows of fentanyl, illegal immigration, and unfair market conditions.[6] An additional 10% tariff was also imposed on Chinese imports, compounding existing duties. Just nine days later, on February 10, President Trump announced the reimposition of 25% global tariffs on steel and aluminum imports under Section 232 of the Trade Expansion Act of 1962, effective on March 12, without exceptions, overturning previous exemptions negotiated with Canada and Mexico, and with other countries.[7]

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[4] According to official figures, in 2024, Mexico ranked ninth among the countries that receive most FDI inflows in the world, recording US$36 billion. See, UNCTAD, "World Investment Report", 2024. Available at: https://unctad.org/system/files/official-document/wir2024_en.pdf.

[5] The White House, "America First Trade Policy", January 20, 2025. Available at: https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/.

[6] President Trump suspended tariffs on imports from Mexico and Canada, agreeing with both countries a 30-day pause in return for concessions on national security issues regarding illegal migration and crime enforcement. This pause expires in early March, and the implementation of tariffs remains unclear. However, Trump's recent remarks on these tariff plans indicate that the measures will take effect as soon as the understandings negotiated with Mexico and Canada cease to be effective. The White House, "President Donald J. Trump imposes tariffs on imports from Canada, Mexico and China, February 1, 2025. Available at: https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/#:~:text=Until%20the%20crisis%20is%20alleviated,have%20a%20lower%2010%25%20tariff; Reuters, "Trump pauses tariffs on Mexico and Canada, but no China", February 3, 2025. Available at: https://www.reuters.com/world/us/trump-says-americans-may-feel-pain-trade-war-with-mexico-canada-china-2025-02-03/, and CNBC, "Trump says tariffs on Canada and Mexico "will go forward", February 24, 2025. Available at: https://www.cnbc.com/2025/02/24/trump-says-tariffs-on-canada-and-mexico-will-go-forward.html

[7] The White House, "President Donald J. Trump restores section 232 tariffs, February 11, 2025. Available at: https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-restores-section-232-tariffs/

After these announcements, President Trump issued yet another Presidential Memorandum introducing the "*Fair and Reciprocal Plan"*, designed to establish a framework for implementing reciprocal tariffs on a country-by-country basis, targeting not only foreign tariff rates but also broader trade-related measures, such as subsidies, value-added taxes, and discriminatory regulatory practices.[8]

Considering the above, the upcoming review of the USMCA looms large. Article 34.7 of the agreement mandates a joint review every six years to assess its functionality and determine its extension beyond the initial 16-year term. While the review process is designed to revise the USMCA's effectiveness, it will be deeply influenced by the political agendas of the Parties to the agreement, especially President Trump's protectionist initiatives and his "America First" rhetoric, injecting volatility into this process; indeed, analysts assess that the process may be a full renegotiation, rather than just a joint revision, raising concerns among investors, whose confidence depends on the maintenance of a credible commitment to renewing the agreement by 2036.[9]

In light of the broad spectrum already displayed in the US, both through the announced policy measures -including the most recent indications that the US will move forward, even with a one-month additional relief on the imposition of tariffs to originating goods from Canada and Mexico[10], as recently announced-, and ideas emerging in the context of President Trump's protectionism and the USMCA review process, it remains to be seen which of the abovementioned policies will be formally implemented and to what extent.

In a somewhat positive scenario, should Trump proposed tariff plans fall short of fully materializing, and the USMCA review process concludes successfully by creating stability in open discussion areas while preserving the well-functioning components of the agreement, Mexico could potentially avoid the anticipated adverse effects, given its strategic geographical proximity to the US and the continued duty-free access granted under the USMCA, likely sustaining, and perhaps even strengthening, the incentives for producing goods to serve the US market, further solidifying Mexico's role as a manufacturing and export platform.

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[8] The White House, "President Donald J. Trump announces "Fair and Reciprocal Plan" on trade, February 13, 2025. Available at: https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-announces-fair-and-reciprocal-plan-on-trade/

[9] For a discussion on the review process, see The Wilson Center, "A Practical Guide to the USMCA 2026 Review: 3 Principles, 5 Rules for Success", November 2024. Available at: https://www.wilsoncenter.org/sites/default/files/media/uploads/documents/24-174_USMCA-Review%20%281%29.pdf; USTR, "Agreement between the United States of America, the United Mexican States, and Canada text", Article 34.7 Review and Term Extension. Available at: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between

[10] The White House, "President Donald J. Trump Proceeds with Tariffs on Imports from Canada and Mexico", March 3, 2025. Available at: https://www.whitehouse.gov/fact-sheets/2025/03/fact-sheet-president-donald-j-trump-proceeds-with-tariffs-on-imports-from-canada-and-mexico/, and The White House, "Amendment to Duties to Address the Flow of Illicit Drugs Across our Southern Border", March 6, 2025. Available at: https://www.whitehouse.gov/presidential-actions/2025/03/amendment-to-duties-to-address-the-flow-of-illicit-drugs-across-our-southern-border/

Yet, if President Donald Trump were to impose tariffs on imports from Mexico, its largest trading partner, and the USMCA's 2026 review process became a prolonged dispute among the Parties to the agreement, the country's most enduring advantages still would lie in its competitiveness and deep integration within North American supply chains. This interconnectedness not only reinforces Mexico's role as a critical trade partner but also enhances the region's collective ability to compete with China across key industries. From agricultural trade to high-value sectors like automotive, medical devices, pharmaceuticals, aerospace, IT and engineering services, Mexico's cost-effective labor force, strategic geographical location, and privileged access to other major markets located in Europe, Latin America, and across the Pacific position it as a key player in strengthening North American industrial resilience. As companies seek to mitigate global supply chain risks and capitalize on nearshoring trends, Mexico's skilled workforce and growing innovation ecosystem will continue to drive its competitive edge, contributing to make North America a more self-sufficient and globally competitive economic bloc.

Conclusion

Notwithstanding the uncertainties derived from the US's protectionist policies and USMCA's 2026 joint review, we estimate that Mexico will continue to retain some of its features as an attractive market in North America to nearshore investment inflows by virtue of its well-known competitive advantages. While it is complicated to calculate future flows of FDI, particularly in the near term as investors will be in a "wait and see mode" as the Trump administration's policy signals evolve and eventually settle, there is no question that Mexico's strategic geographic location and endowments make it a natural hub for attracting foreign capital. In addition, its extensive network of preferential trade agreements offers businesses access to diversified markets and lowered trade barriers that coupled with its cost-competitive labor force and growing industrial base, presents a strong rationale for foreign investors to relocate their operations to the country.

Importantly, investors interested in relocating their operations to Mexico should closely follow the policies that the Mexican government will implement in response to US trade policies under President Trump's administration, and other domestic policy measures, including those to execute the so-called *Plan Mexico*,[11] to boost industrial competitiveness. Certainly, President Sheinbaum's cabinet will need to strengthen its diplomatic and political approaches with the US to address these measures effectively, thus avoiding significant additional harm to regional trade flows and the Mexican economy, which remains heavily dependent of its economic relations with foreign countries.

[11] For further information on the Plan Mexico, see Gobierno de México, "Plan México, Estrategia de Desarrollo Económico Equitativo para la Prosperidad Compartida", January, 2025. Available at: https://www.planmexico.gob.mx/assets/pdf/Plan_Mexico_PrimerBorrador.pdf

2. Will FDI inflows into Mexico from China slow down under the Trump administration?

The economic relationship between China and Mexico has experienced significant growth in recent decades. The insertion of Mexico in the global economy implied the openness and deregulation of its economy in the late 1980's, with its accession to the General Agreement on Tariffs and Trade (GATT), in 1986. From this moment on and following the implementation of the North American Free Trade Agreement (NAFTA), in 1994, trade and investment ties with the world became an important tool for Mexico's economic growth.

Under these circumstances, China took advantage of its complementarities with the Mexican market and its geographic closeness to the US, thereby becoming Mexico's second largest source of imports. This dynamic began to materialize after NAFTA entered into force, as imports coming from China increased from 6.2 billion dollars in 2002, once it had acceded to the World Trade Organization (WTO), to 129.7 billion dollars in 2024.

These trends were later followed by FDI inflows from China to Mexico, which have shown a steady growth in the past couple of decades, rising from 1.6 million dollars in 2002, to 710.3 million dollars in 2024, reflecting an average annual growth rate (AAGR) of 33.7%. However, despite this growth, Chinese FDI inflows have consistently represented a relatively small share of the total amount of FDI received by Mexico (less than 0.5%).[12]

Indeed, China's growing presence in the Mexican market via imports has not been followed by a substantial increase of Chinese investment in the country, and it remains uncertain whether recent announcements by Chinese firms will fully materialize. Even if they do, their impact will not be reflected in official statistics for several years.

Concerns in the US regarding Chinese unfair competitive advantages (i.e., via subsidies, and allegedly questionable industrial policies, among others), vis-à-vis domestic manufacturing production in the US have been sustained over time and basically emerged since China's accession to the WTO. However, it was not until 2017, with the advent of Trump's first mandate, that such concerns took a clearer shape and were articulated in trade policy measures, ranging from tariffs, to export controls and investment restrictions.

Most of the abovementioned measures remained in place during the Biden administration, escalating further with the additional 10% tariffs recently implemented by the subsequent Trump administration on all goods imported from China, which took effect on February 4th, 2025.

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[12] Secretaría de Economía, "Inversión Extranjera Directa", December 23, 2024. Available at: https://www.gob.mx/se/acciones-y-programas/competitividad-y-normatividad-inversion-extranjera-directa?state=published

In particular, the broad US trade swift toward China has long enjoyed bipartisan political consensus in Washington. Proposals once considered unthinkable, such as the possible revocation of China's Most Favored Nation (MFN) status, the imposition of tariffs on electric vehicles above the WTO-committed levels, or the fact that both countries have openly agreed to discriminate against each other by applying tariffs above committed MFN levels, are now trade policy signals that no longer come as a surprise. On the contrary, their discussion and application have become normalized.

Under the second Trump administration, the Washington-Beijing rivalry seems to go further in the short and medium terms. In this sense, Mexico is expected to face increased pressures from the US to implement measures against China on the economic front. This scenario becomes more plausible when considering recent accusations against Mexico by US stakeholders, arguing that the country is an indirect platform used by China to bypass the tariffs imposed by the US under Section 301 of the Trade Act of 1974. Notably, these allegations towards Mexico have come by both Democrat and Republican politicians, reflecting the bipartisan hostility in the US versus China.

Undoubtedly, there is a significant degree of political elements in Washington’s recent attitude towards Mexico. President Trump’s decision to impose 25% tariffs on goods imported from Mexico, plus the reimposition of Section 232 tariffs on steel and aluminum, not only reflect concerns over trade imbalances but they also serve as a means to pressure Mexico into aligning more closely with US interests, particularly in countering China’s growing presence in the region.

Concerns expressed in the US regarding Chinese investments in Mexico have also been particularly hostile in the automotive industry. Even before taking office, Trump falsely asserted that Chinese vehicle manufacturers were building plants in Mexico to enter the US market and that he would impose punitive tariffs on Chinese automobiles coming from Mexico[13] - something President Biden already did on May 14th, 2024.

These circumstances seem to be already influencing dynamics with the US (and Canada),[14] and will undoubtedly be present in the USMCA 2026 review. Although the topics to be addressed as part of this review are yet to be determined, the US will put forward its trade agenda to address issues related to China and its trade and

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[13] See Right Side Broadcasting Network, “FULL SPEECH: Pres. Trump Speaks at “Buckeye Values PAC Rally” in Dayton, Ohio – 3/16/24”, March 6, 2024. Available at: https://www.youtube.com/watch?v=tw6neh7WQnc&t=2055s.

[14] See, for example, US Department of the Treasury, “Secretary of the Treasury Janet L. Yellen and Mexico’s Secretary of Finance and Public Credit Rogelio Ramírez de la O Announce Intent to Establish Bilateral Working Group on Foreign Investment Review, December 7, 2023. Available at: https://home.treasury.gov/news/press-releases/jy1965, and South China Morning Post, “Trump pressures Mexico to impose tariffs on China to avoid US duties”, February 23, 2024. Available at: https://www.scmp.com/news/world/united-states-canada/article/3299781/trump-team-pressures-mexico-impose-tariffs-china-avoid-us-duties?module=perpetual_scroll_0&pgtype=article, and Crónica de hoy, “México propuso a EU igualar aranceles a productos chinos, asegura el secretario del Tesoro, March 1, 2025. Available at: https://www.cronica.com.mx/nacional/2025/03/01/mexico-propuso-a-eu-igualar-aranceles-a-productos-chinos-asegura-secretario-del-tesoro/

investment patterns in North America, as already exposed by President Donald Trump trade representative, Jamieson Greer, during his confirmation hearing before the Senate.[15]

As a result, Mexico is at the center of some of the allegedly most important, economically and politically motivated trade policy issues that the US has faced in recent years, particularly in the automotive and steel sectors. Consequently, the picture emerging from the policy environment coming from different stakeholders in the US with regard to China includes Mexico as an important piece in the puzzle to contain the growing presence of China in North America. This undoubtedly translates into pressure on Mexico to carefully consider its next steps with regards to its trade and investment regime towards China.

Conclusion

Although Chinese presence in Mexico is evident in the amount of imports that Mexican companies carry out, such prevalence is not as strong in investment flows, that are indeed small compared with the capitals invested by other countries into Mexico, notably the US.

Additionally, if we consider how certain US policies towards Mexico have clearly been designed to curb Chinese presence in the country, and how the imminent exercise of reviewing the USMCA will likely strengthen the requirements to grant duty free access to the US' market, we estimate that Chinese investment in Mexico will not increase significantly in years to come, and perhaps some of the existing flows could even leave the country, opening the space for other countries to increase their participation in Mexico.

3. There seems to be a relocation of US manufacturing facilities to Mexico given rising labor costs and human resource constraints in the US. Will the Trump administration represent an end to this?

The relocation of US manufacturing facilities to Mexico has been an ongoing trend for decades, driven by cost savings, geographical location, trade agreements, and supply chain efficiencies. In recent years, rising labor costs and human resource constraints in the United States have further incentivized companies to shift operations south of the border. The enactment of the USMCA, trade tensions with China, and geopolitical issues, have also reinforced the perception that Mexico represents an attractive option for US manufacturing companies.

[15] Jamieson Greer told the Senate Finance Committee that President's Trump administration would prioritize the negotiation of reciprocal trade deals with countries that maintain trade surpluses with the US, for them to ease their tariffs and other barriers to trade. Regarding the USMCA upcoming review, he said that President's Trump administration will revise the rules of origin set out in the agreement for automobiles and aerospace, as well as other industries, to determine the implementation of any kind of restrictions on content or value added from foreign countries of concern or non-market economies. See, The Union Herald, "Senate Confirmation Hearing of Jamieson Greer to be United States Trade Representative", February 6, 2025. Available at: https://www.youtube.com/watch?v=e2VCdZqiheQ

In particular, Mexico's geographical proximity to the US market has played a crucial role for global supply chains, as long distances and factors like fluctuating oil prices drive up both costs and risks. On average, shipments from China or Viet Nam take around 30 to 40 days to reach the US or Canada, costing approximately between $2,500 to $6,000 per container. In contrast, shipments from Mexico arrive within two days at a cost, often ranging from $750-$3,000 per container.[16] Moreover, a single shipping delay can disrupt entire supply chains, posing significant risks to manufacturing processes serving the North American market.

Ultimately, producing closer to the market reduces uncertainty. With a highly skilled workforce and direct access to the US, companies across various industries see benefits from manufacturing their products in Mexico.

Despite the FDI trends into Mexico coming from the US in the past few years, with the second Trump administration's emphasis on economic nationalism and security, the imposition of tariffs, and the policy signaling in favor of revamping the multilateral trading system to rebalance US trade in goods flows in favor of more reciprocal terms of exchange with the world, the issue arises whether this US administration's policies will put an end to US manufacturing relocating to Mexico.

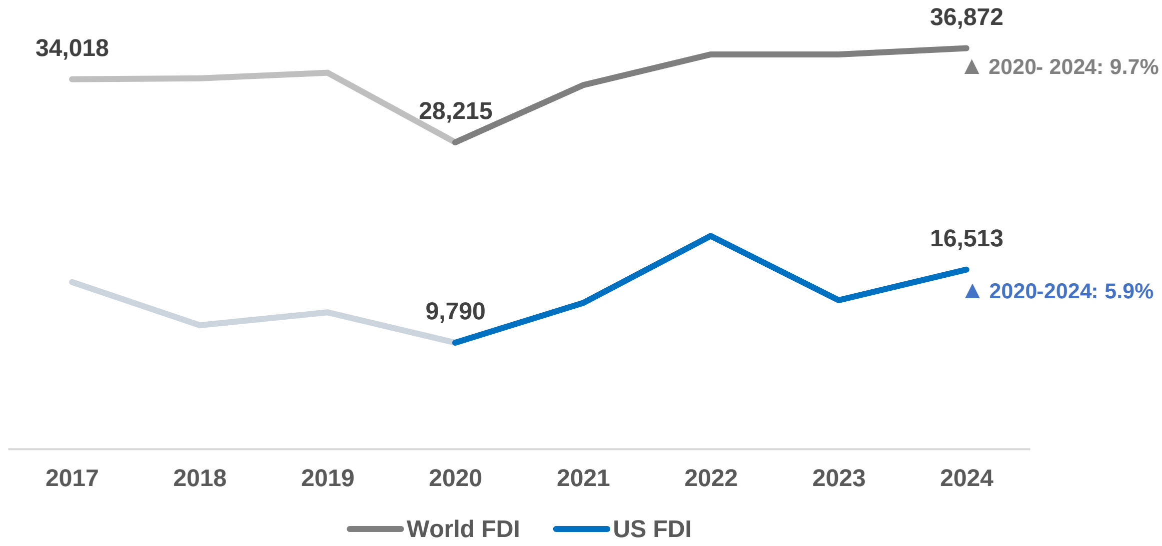
To assess the above, several key factors such as trade policies under a second Trump administration, corporate cost-benefit analyses, labor market realities, and the broader economic landscape, must be considered.

a) *Trade and Tariff Policies*

One of the landmark policies of the first Trump administration was the renegotiation of the NAFTA from 2017 to 2019, which resulted in the USMCA. While the USMCA preserved the preferential, duty-free access into the US market, it notably introduced provisions that increased regional content requirements for automobiles, including a novel requirement linking a certain percentage of auto production with specific minimum wage levels, and strengthened labor protections in Mexico. While these measures were intended to discourage companies from offshoring into Mexico, they have not entirely eliminated the incentives for manufacturers to relocate, as can be deducted from Figure 2.

[16] Freightos, "Shipping from China to the US. Shipping Times and Freight Costs". Available at: https://www.freightos.com/shipping-routes/shipping-from-china-to-the-united-states/#:~:text=Each%20shipping%20mode%20has%20its,Air%20Freight. Interworld freight, "Shipping container to the US". Available at: https://interwf.com/services/shipping-container/usa/

Figure 2. FDI inflows from the world and the US into Mexico since the USMCA entered into force
(billion dollars)



Source: own elaboration based on Ministry of Economy data.

In addition to the USMCA, the first Trump administration aggressively imposed tariffs on goods from China and other countries, aiming to encourage domestic production. While this protectionist approach sought to bring manufacturing back to the US, it did not directly hinder Mexico's competitive features. In fact, companies facing higher import costs from Asia still find Mexico an attractive alternative due to its cost advantages, and the proximity to the US.

Moreover, certain policies introduced during the Biden administration actually increased incentives to invest in Mexico. For example, the Inflation Reduction Act (IRA) provides that certain subsidies are open for companies conducting businesses in North America, hence making Mexican operations eligible for these incentives.

The second Trump administration has continued to send strong indications regarding trade relations with Mexico. As discussed previously, the threat of imposing tariffs against Mexico, the release of the *"America First Trade Policy Memo,"* and a renewed push to rebalance trade to more reciprocal terms have all introduced uncertainties for manufacturers considering relocation.[17] These measures suggest a more aggressive stance on ensuring that US manufacturing remains within domestic borders, increasing the potential costs and risks associated with moving operations to Mexico.

However, despite these policy shifts, Mexico's enduring advantages continue to make it a competitive destination for manufacturers. Its lower labor costs, proximity to the US market, strong industrial fabric in several sectors, and participation in

[17] The White House, op cit.

USMCA ensure that companies can still achieve significant cost savings and supply chain efficiencies. Moreover, the availability of a skilled workforce, a growing technology and innovation ecosystem, and strong trade relationships with other global markets further solidify Mexico's position as an attractive manufacturing hub. Even with potential tariffs or policy adjustments, the economic benefits of operating in Mexico may outweigh the risks for many businesses, ensuring that its role in North American supply chains remains strong.

b) Corporate Decision-Making and Labor Market Realities

Despite policy pressures, businesses make location decisions based on economic feasibility. Mexico offers significantly lower labor costs compared to the US, with average manufacturing wages being a fraction of those in American facilities. Additionally, Mexico has established itself as a critical player in the automotive, aerospace, and electronics industries, boasting skilled labor pools and specialized supply chains that further enhance its attractiveness.

In contrast, the US labor market has experienced persistent shortages in manufacturing-related jobs. The aging workforce, declining interest in skilled trade careers, and constraints and rhetoric on immigration have exacerbated these issues. Even with tax incentives and reshoring initiatives, companies struggle to find sufficient labor at competitive wages within the US.

c) Broader Economic Considerations

While the second Trump administration will keep efforts to deter offshoring, structural economic forces continue to keep companies' interest toward Mexico. Beyond wages, factors such as industrial infrastructure, geographical proximity, and preferential market access advantages to other important markets in Europe, Latin America and Asia make Mexico an appealing manufacturing hub. Additionally, events like the COVID-19 pandemic underscored the need for supply chain resilience, leading some firms to favor nearshoring to Mexico rather than reshoring to the US.

However, with the second Trump administration's heightened focus on trade enforcement, increased tariffs, and efforts to ensure more balanced trade agreements, companies may face greater challenges when planning relocations. Some manufacturers might put on hold their investments until further long-term clarity is gained or may even reconsider moving operations to Mexico due to the risk of punitive tariffs or regulatory barriers imposed by the US government.

Conclusion

The Trump administration's policies may aim, among other efforts, at curbing US manufacturing relocation to Mexico, primarily through trade renegotiations and tariffs. However, economic realities—such as labor market constraints and cost efficiencies—suggest that this relocation trend to Mexico will not entirely end. While reshoring into the US has occurred, Mexico remains an attractive destination for manufacturers seeking a balance between cost savings and logistical advantages. Ultimately, US manufacturing relocation to Mexico is likely to persist, though the second Trump administration's trade policies and threats of tariffs may introduce new challenges that companies will have to carefully navigate.

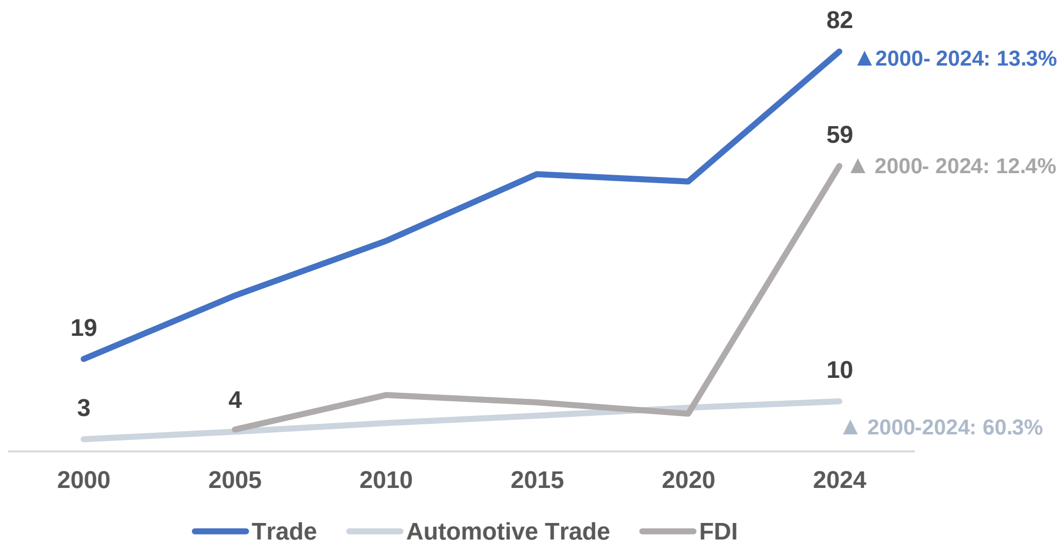
Despite the potentially disruptive policy shifts, Mexico remains a competitive manufacturing destination due to its lower labor costs, proximity to the US, strong industrial infrastructure, skilled workforce, and trade agreements, ensuring continued economic advantages notwithstanding potential tariffs or regulatory challenges.

An additional relevant factor to consider in the medium to long term is Mexico's high complementarity with the US agricultural, manufacturing and services sectors, as it strengthens North American supply chains, making the region more competitive against China in key industries such as livestock, produce, processed foods, automotive, electronics, pharmaceutical, aerospace, IT and engineering services, among others. To fully capitalize on these advantages, Mexico will have to strengthen its own capabilities in areas such as rule of law, security, energy supply, and infrastructure to provide a stable and predictable environment for long-term investment.

4. Considering the existing rivalry between Trump and the Mexican government, would Mexico bring its trade links with the European Union closer? Would Mexico resume trade negotiations of the EU-Mexico Free Trade Agreement 2.0?

The Free Trade Agreement between Mexico and the EU entered into force in July 2000. Such agreement liberalized all trade in non-agricultural products between the Parties and included limited liberalization for trade in agricultural products. As a result, trade between the Parties has grown substantially, from 19 billion dollars in 2000, to 82 billion dollars in 2024. Particularly, trade in the automotive and auto parts sector rose from 2.5 billion dollars in 2000 to 10.3 billion in 2024, with Mexican exports in that sector jumping from 700 million dollars to 4.1 billion dollars. The stock of foreign direct investment from the EU into Mexico increased from 1.2 billion dollars to 58.7 billion dollars (Figure 3).

Figure 3. Trade, automotive trade, and FDI stock between the EU and Mexico
(billion dollars)



Source: own elaboration based on Ministry of Economy data.

During the period 2016-2018, and with the uncertainty about the outcome of the NAFTA renegotiation looming parallelly, Mexico and the EU embarked on a process of modernization of the bilateral agreement. Having reached an agreement in principle, both Parties announced the conclusion of such process on April 21, 2018.[18]

At the time, the modernization of the Mexico-EU FTA consisted of expanded market access concessions, especially in agriculture, and the inclusion of new trade disciplines in services, investment protection and intellectual property, among others. Notably, the agreement in principle reflected Mexico's energy reform of 2013, which provided with market access in services and investment in the sector, putting the EU on equal footing with Mexico's partners under the Comprehensive and Progressive Transpacific Partnership Agreement (CPTPP), and the USMCA.

As a follow up commitment, Mexico and the EU concluded, on April 2020, the negotiation of Mexico's additional market access for government procurement at the sub federal level, the first time such concessions were granted by Mexico under any FTA.[19]

Despite the fact that the modernization of the Mexico-EU FTA had been substantially completed, and that the benefits for both sides are evident, the agreement to date has not been signed, and thus has not been submitted for ratification by the Parties.

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[18] Press release, European Commission, "EU and Mexico reach new agreement on trade", April 20, 2018. Available at https://ec.europa.eu/commission/presscorner/detail/en/ip_18_782.
[19] Press release, European Commission, "EU and Mexico conclude negotiations for new trade agreement", April 28, 2020. Available at https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_20_756/IP_20_756_EN.pdf.

Indeed, the confirmation of the modernization of the FTA has faced years of delay to be signed, due to a combination of mostly political and policy-related factors, of which the salient elements are:

a) *The energy sector reform in Mexico*

Mexico conducted an ambitious energy reform in 2013, which allowed important participation of private capital in the hydrocarbons and electricity supply chains. The features of such legislation were included in the CPTPP and the USMCA, agreements that were implemented by the López Obrador administration. Despite this, then-president López Obrador, whose administration took over after the modernization process with the EU had been concluded, affirmed that the energy sector had been excluded from the USMCA, and that as such, there were no limitations for Mexico to implement, in practice and through secondary legislation, restrictions to private participation in these sectors. The position of the president, and the fact that this triggered formal consultations under dispute settlement procedures requested by the US against Mexico arguing violations under the USMCA,[20] turned into an important obstacle to move forward with the signature and ratification of the modernization of the FTA between Mexico and the EU, given that such understanding also included the same features of the 2013 energy reform, and thus are politically difficult for Mexico to accept.

b) *The EU Commission and National authority debate*

Once the modernization of the Mexico-EU FTA was reached, the main issue for the EU regarding investment provisions was the division of competencies between the EU and its member states. This led to delays in seeking to move the process of signature and ratification on the EU side as investment protection rules requires approval from all 27 EU member states (including national and sometimes regional parliaments).[21]

In fact, at some point in the past few years, the Commission suggested that the agreement needed to be partitioned in two separate vehicles: one, including all the matters for which the Commission had full authority to negotiate, and that could be implemented relatively quickly; and another, housing all the elements where national decisions by each member state was necessary.

c) *Domestic political priorities*

Under the Lopez Obrador administration, Mexico's political focus prioritized mostly the domestic agenda, including proposed reforms in areas such as the hydrocarbons

[20] Office of the United States Trade Representative, "United States Requests Consultations Under the USMCA Over Mexico's Energy Policies", July 20, 2022. Available at https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/july/united-states-requests-consultations-under-usmca-over-mexicos-energy-policies.
[21] See Financial Times, "Mexico resists EU pressure to approve trade deal after legal changes", January 7, 2023. Available at https://www.ft.com/content/c692fc26-602c-4318-a299-8fadc973b482.

and electricity sectors, the judicial branch, the security and national guard reform, as well as infrastructure projects, among other political priorities. When it came to international issues, the emphasis was place mostly on managing relations with the US. Thus, the focus on the domestic agenda often took precedence over international trade negotiations, affecting the pace of the modernization of the FTA with the EU.

Nonetheless, once the new administration of President Claudia Sheinbaum set in as of October 2024, Mexico and the EU undertook to resume the process and explore ways to swiftly conclude the negotiations. On the Mexican side, this would only be possible as long as Mexico's concerns regarding the energy sector were taken care of, more so considering that new constitutional changes for the sector, with the aim to reverse the 2013 reform, were enacted.[22]

Mexico's interest in aiming at a speedy process related to the fact that, as of late January 2025, its attention most likely would be entirely focused in managing the relationship with President Trump's trade policies, and in gearing up for the USMCA review process, initially envisioned for July 2026.[23]

In light of the above, significant progress was made, culminating in the conclusion of the modernization process on January 16, 2025, as announced by the EU.[24] Notably, despite that the conclusion of the agreement has been confirmed by the EU in subsequent opportunities, and that it has even announced that the official documents will be published online soon, Mexico has decided, to date, not to provide any formal indication of such conclusion. Most likely, Mexico's decision to refrain so far from announcing the definitive conclusion of the modernization process relates to a judgement to be cautious in relation to President Trump's multiple threats to impose tariffs.

Regardless, the completion of the modernization process seems to be a foregone conclusion, and it would seem only a matter of time for Mexico to make it formal and proceed with next steps (i.e. conclusion of legal drafting, signature, ratification, and implementation).

Seemingly, the final agreement would have included, among others, the elimination of the energy aspects of chapter 5 of the original modernization understanding, to address Mexico's concerns; certain reductions of concessions originally granted to Mexico, on sensitive EU agricultural products such as beef and poultry; and the elimination of a transition period to gradually increase the use of originating materials in the manufacture of electric vehicle batteries.

[22] Published in the Diario Oficial de la Federación, October 31, 2024. These reforms took effect on November 1, 2024. Available at https://dof.gob.mx/nota_detalle.php?codigo=5742012&fecha=31/10/2024#gsc.tab=0.
[23] According to article 34.7 of the USMCA, a joint review process has to be conducted on the sixth anniversary of the entry into force of the Agreement. The USMCA was enacted on July 1, 2020.
[24] Press release, European Commission, "Negotiators conclude on modernized Global Agreement with Mexico", January 16, 2025. Available at https://ec.europa.eu/commission/presscorner/detail/en/ip_25_248.

Conclusion

Overall, in light of the current international uncertainties, Mexico has decided to move closer to EU by striking a presumably balanced deal, both at the political and technical level, on the modernization of their bilateral FTA. Mexico's interest in moving forward with a modernized FTA with the EU has the strategic objective of providing with expanded access to its exporters, and with a revamped set of trade and investment rules that would seek to diminish the gloomy perceptions setting in the domestic economy derived both from Mexico's controversial domestic judicial reform and elimination of independent bodies (competition, telecommunication, transparency); and to a certain degree, to shield the country from President Trump's threats to impose tariffs on imports coming from Mexico.

In other words, the agreement with the EU is expected to signal a source of certainty, within the larger uncertain context. Within this strategic context, and considering that Mexico has invested a substantial amount of time and capital on this endeavor, it would only be a matter of time for the Sheinbaum administration to formally move forward with the next steps to eventually implement the results with the EU.

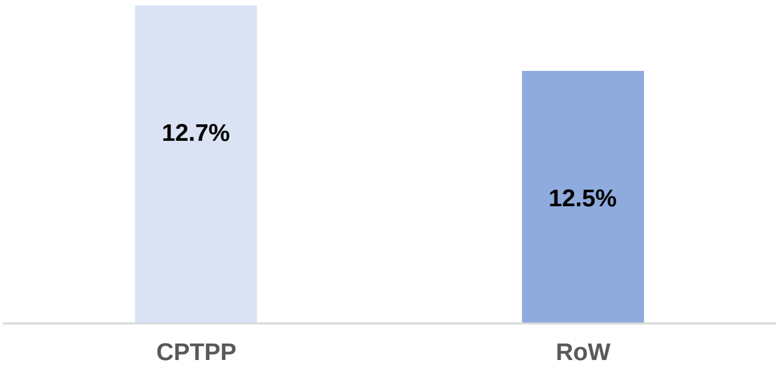
5. Under the Trump administration, which is the Mexican government's position regarding the accession of other countries to the CPTPP, such as the UK's recent incorporation?

With the return of Donald Trump to the White House, common sense indicates that Mexico's trade strategy would in principle prioritize the preservation, updating and modernization of the CPTPP as a key pillar for trade stability and diversification. Given Trump's history of protectionist policies, potential tariff threats, and even a more unpredictable approach to trade agreements like the USMCA, Mexico would have to reinforce its position within the CPTPP to safeguard access to global markets. Strengthening the agreement would ensure that Mexico remains competitive in the Asia-Pacific region, allowing it to diversify its trade relationships, attract investment, and mitigate risks associated with possible US trade disruptions.

In particular, for bilateral trade between Mexico and Japan, the CPTPP also provides additional, expanded market access in goods, services, financial services, investment, and government procurement, in relation to that contained in the Mexico-Japan Economic Partnership Agreement, in force since 2005.

Indeed, since its entry into force in December 2018, the CPTPP has become a cornerstone for Mexico's FTA network, contributing with dynamic, complementary markets for Mexico in the Asia-Pacific (Figure 4), grouped under the most modern set of trade and investment disciplines of any FTA around the world (Table 2).

Figure 4. AAGR of Mexican exports to the CPTPP and rest of the world, 2020-2023



RoW: Rest of the World.
Source: own elaboration based on Banxico.

Beyond lowering tariff barriers among participants, there are other no less important strategic implications of being part of the CPTPP, such as added certainty for investors in the region through regulatory and policy alignment[25], and geopolitical positioning to hedge against US and China trade policies. These elements turn this agreement into a stable, plurilateral alternative running counter to trade fragmentation, in that it promotes open trade and shared high-level standards among countries sitting in Asia, Oceania, North America, South America, and Europe.

Table 1. CPTPP, outstanding innovative areas

Innovative areas
Chapter 13. Telecommunications
Chapter 14. E-commerce
Chapter 16. Competition Policy
Chapter 19. Labor
Chapter 20. Environment
Chapter 25. Regulatory Coherence
Chapter 26. Transparency and Anticorruption

After it was put into force, the ambition and high standard of CPTPP's rules, and its strategic value, have made it appealing to a considerable number of aspirant economies wishing to accede to the Agreement. After the United Kingdom, who has already acceded to CPTPP, seven additional aspirant economies have formally indicated their interest to join. In fact, current CPTPP participants, Mexico included,

[25] Regulatory alignment in areas such as sanitary and phytosanitary measures, Technical Barriers to Trade, and Regulatory Coherence; policy alignment in areas such as Labor, Environment, State-Owned Enterprises, and Transparency and Anticorruption.

have already endorsed the establishment of a working group to assess Costa Rica's candidacy.[26]

In principle, Mexico has also decided to move forward with its domestic ratification process of the United Kingdom's accession to CPTPP, as in July 2024, the Lopez Obrador administration submitted to the Mexican Senate, for consideration and approval, the UK's Accession Protocol. Therefore, such discussion could be scheduled at some point in the near future.[27] An important aspect for Mexico of approving the Accession Protocol is that it would put its bilateral trade and investment relationship with the UK on a more solid footing, as it would provide a new, more ambitious coverage than the current bilateral Trade Continuity Agreement.

However, reportedly, a larger internal evaluation regarding the convenience of Mexico remaining as part of the CPTPP could be taking place, given the sensitivities expressed by certain sectors, as a result of a surge of imports coming from Malaysia and Viet Nam,[28] especially in sectors that have traditionally been sensitive in Mexico, including steel, textiles and apparel, and footwear. Indeed, when the CPTPP was approved by the Mexican Senate, special follow-up arrangements were made for some of these sectors.[29]

Whether this is actually being seriously considered by Mexico remains to be seen, since the larger, strategic implications of leaving an agreement that will only grow in membership, would seem more costly and extravagant than whatever potential relief for a few sectors Mexico could provide. In fact, whatever potential concerns of Mexico, probably they could most efficiently be addressed within the current CPTPP rulebook, then outside of such framework.

Conclusion

In an era of global uncertainty, Mexico would be expected to actively support the expansion and modernization of the CPTPP to enhance its economic resilience. Encouraging new members, optimizing trade facilitation mechanisms, and updating

[26] The date of formal accession of the UK was on December 15, 2024; see https://www.gov.uk/government/news/uk-to-join-cptpp-by-15-december. On Costa Rica's accession process, see https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/decision-accession-costa-rica-decision-adhesion.aspx?lang=eng, November 28, 2024. The rest of aspirant economies, by order of application, are China (September 16, 2021); Taiwan (September 22, 2021); Ecuador (December 13, 2021); Uruguay (December 1, 2022); Ukraine (May 5, 2023); and Indonesia (September 25, 2024).

[27] Gaceta del Senado, "Oficio con el que remite del Ejecutivo Federal, el Protocolo de Adhesión del Reino Unido de Gran Bretaña e Irlanda del Norte al Tratado Integral y Progresista de Asociación Transpacífico, hecho en Auckland y Bandar Seri Begawan, el dieciséis de julio de dos mil veintitrés"; July 17, 2024. Available at https://www.senado.gob.mx/66/gaceta_del_senado/documento/143357.

[28] See, for example, El Universal, "Aranceles de EU al acero mexicano se justifican por China", February 12, 2025, and Reforma Sección Negocios, "Van contra pacto con Asia", February 13, 2025.

[29] Sistema de Información Legislativa, 2018. Available at: https://sil.gobernacion.gob.mx/Archivos/Documentos/2018/11/asun_3772704_20181108_1541677222.pdf#:~:text=que%20se%20integr%C3%B3%20en%20el%20marco%20de,la%20Secretar%C3%ADa%20de%20Econom%C3%ADa%2C%20la%20Secretar%C3%ADa%20de.

provisions to reflect shifts in global supply chains would enable Mexico to remain a central player in international trade, and would add certainty and enhance investment attraction. By leveraging the CPTPP as a counterweight to US volatility, Mexico can reinforce its strategic autonomy while securing stable, long-term trade partnerships that reduce its dependence on any single market

6. Under a potential increase in tariffs on imports from Mexico during the Trump administration, which would be the changes in Mexico's trade policy towards Brazil and Argentina? Would Mexico import food products from these countries and resume trade negotiations under the ACE 53 and ACE 55 agreements?

Mexico's current trade relationship with Argentina and Brazil is underpinned by the ACE 6, ACE 53, and ACE 55 Economic Complementation Agreements, embodied in the ALADI (Latin American Integration Association, by its acronym in Spanish) institutional framework (Table 3). Despite the fact that the scope and coverage of such agreements is limited, they have been painstakingly constructed, and have suffered modifications over the past 25 years, often times in the context of setbacks and advancements. In particular, the ACE 55 has featured prominently in the bilateral relationship of Mexico with Argentina and Brazil, as it encompasses preferential trade in the automotive sector.

Indeed, Mexico, Argentina and Brazil have gone through several negotiation processes with the purpose of achieving trade integration that elevates their respective bilateral relationships to the potential that each country has. The progress to achieve this objective has been affected by the level of ambition of each negotiation process, the political and economic context, the vision of each government's own trade policy, and the interests of the productive sectors.

Under the ACE 55, for example, despite that free trade for automobiles was agreed upon, both Brazil and Argentina negotiated to bring back quotas in their trade with Mexico, arguing an unbalanced trade relationship in favor of the latter. To date, free trade in autos has been resumed with Brazil, but quotas still prevail for trade with Argentina.

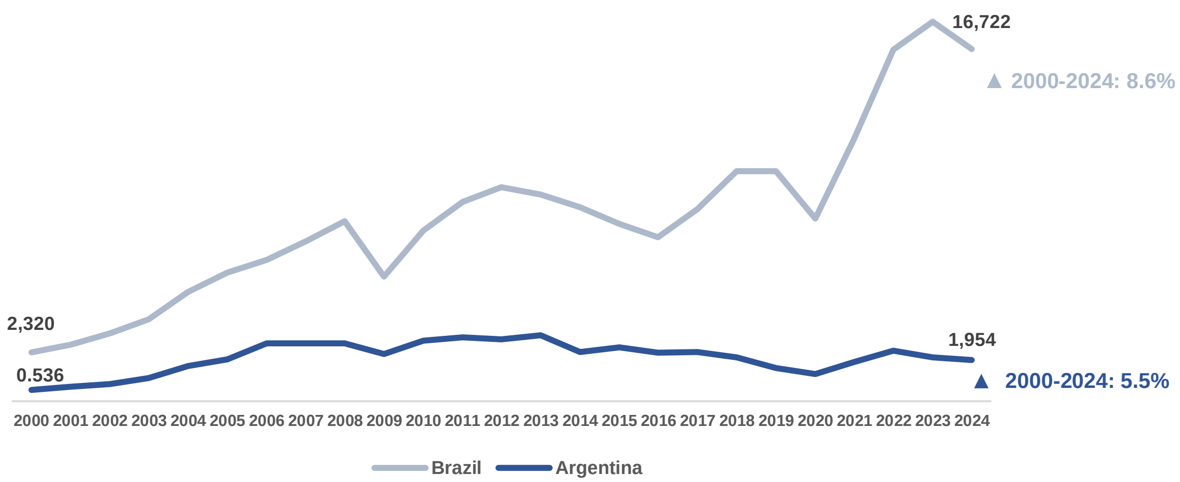
Table 2. Agreements of Mexico with Argentina and Brazil

ALADI Agreement	Countries	Coverage	Validity
ACE 6	Mexico-Argentina	Certain products in agriculture, chemicals, cosmetics, glass, steel, metallurgical, electric machinery, electronics.	As of October 1986.
ACE 53*	Mexico-Brazil	Certain products in agriculture, chemicals, cosmetics, photography, plastics, textile, glass, copper, machinery, electronics, optics equipment.	As of February 2003.
ACE 55	Mexico-Mercosur	Auto parts, light and heavy vehicles.	As of January 2002.

**Before the ACE 53, the ACE 9 provided with preferences for the bilateral relationship; Brazil denounced such agreement in January 1997.*

Part of the complexity in the past to widen the preferential treatment between Mexico and either Argentina or Brazil, lies in the difficulties to overcome sensitivities and agree on complementarities: Mexico has traditionally expressed high reservations to provide preferences in the agricultural sector, whereas Brazil and Argentina have been reluctant to liberalize diverse industrial sectors. In spite of the abovementioned complexities and limitations, trade between Mexico and Argentina, and Mexico and Brazil, has grown consistently over the past couple of decades (Figure 5).

Figure 5. Trade growth between Mexico and Argentina, and Mexico and Brazil
(billion dollars)



Source: own elaboration based on Banxico.

Nonetheless, it is likely that if the new Trump administration were to impose higher tariffs or other restrictions on Mexican imports or were to persist over time with its threats to impose them, even in the context of the coming USMCA review process, Mexico could consider adjusting its trade policy to mitigate economic risks and to diversify, to the extent possible, its trade patterns. In this scenario, Brazil and Argentina—the two largest economies in South America—would become more relevant trading partners.

In fact, there are a couple of elements that signal that Mexico could be amenable to the possibility of enhancing trade and investment links with Brazil and Argentina. The first dates back to May 2022, when with the aim of combating inflation, Mexico announced that it would unilaterally implement a number of import liberalizing measures under so-called *Paquete Contra la Inflación y la Carestía* (PACIC) program, a set of measures design to counter inflation and shortages in basic foodstuff, which included products of high exporting interest of Brazil and Argentina, such as beef, pork, poultry, milk, rice and seed oils, among others.[30] To date, those measures remain in place, and could attest that some of the sensitivities in agriculture, when faced with particular circumstances, could be overcome.

A second element is that, reportedly, Brazil remains an option to deepen Mexico's web of trade agreements. In declarations last September, Marcelo Ebrard, who shortly after took over as Secretary of the Economy, indicated that Mexico would seek to strengthen trade relations with Brazil, stressing that the current agreements fall short of the potential for growth.[31]

In light of the potential US trade restrictions and considering the possibly pervasive uncertainty in the trade relationship with the US under President Trump, Mexico could take a step further and seek to diversify its food supply by increasing imports of grains, meat, and dairy products from Brazil and Argentina. The country already relies on imports of corn and soybeans from the US, but higher tariffs or supply chain disruptions could push Mexico to source these products from South America. Brazil and Argentina, as global agricultural powerhouses, could offer Mexico alternative suppliers at competitive prices.

Mexico could consider deepening relations with both countries as part of a broader strategy to hedge against US trade risks, as President Sheinbaum has declared.[32] In addition, a renewed, long-term approach with Argentina and Brazil could go beyond trade in goods, and include other areas such as industrial cooperation, particularly in automotive and machinery sectors, given Argentina and Brazil's manufacturing base, and collaboration in the energy sector, particularly in oil and biofuels, as Brazil is a major player in ethanol production.

In fact, given that there seem to be closer political linkages with the government of President Lula da Silva, it is likely that if the Sheinbaum administration decides to attempt to widen its relationship with South America, the obvious choice would be Brazil.

Conclusion

While attempts to obtain greater preferences to grow existing bilateral trade between Mexico, Brazil and Argentina have spanned for decades, interest would emerge with relative ease, both from the political and economic angles, to pursue an expansion

[30] See Diario Oficial de la Federación, "Decreto por el que se exenta el pago de arancel de importación y se otorgan facilidades administrativas a diversas mercancías de la canasta básica y de consumo básico de las familias", January 6, 2023. Available at https://www.dof.gob.mx/nota_detalle.php?codigo=5676565&fecha=06/01/2023#gsc.tab=0.

[31] See El Financiero, "México buscará ampliar acuerdo comercial con Brasil en nuevo gobierno de Claudia Sheinbaum: Ebrard", September 30, 2024. Available at: https://www.elfinanciero.com.mx/economia/2024/09/30/mexico-buscara-ampliar-acuerdo-comercial-con-brasil-en-nuevo-gobierno-de-sheinbaum-ebrard/

[32] El Financiero, "Sheinbaum advierte alianzas con otros países por aranceles de Trump: 'Se buscarán socios comerciales'"; March 5, 2025. Available at https://www.elfinanciero.com.mx/nacional/2025/03/05/sheinbaum-advierte-alianzas-con-otros-paises-por-aranceles-de-trump-se-buscaran-socios-comerciales/

of trade and investment relations with both countries, if disruptive circumstances affect Mexico's relationship with the United States. Particularly, if President Trump raises tariffs, or other restrictions on Mexican imports, Mexico will likely accelerate its trade diversification efforts, including to strengthen its economic ties with Brazil and Argentina. Increased agricultural imports, and a revival of trade talks under ACE 6, ACE 53 and ACE 55 would be the most immediate responses, while broader industrial and energy cooperation could follow.

III. The USMCA review

Provided that the current challenges posed by the US decision to implement tariffs[33] to its two largest preferential trading partners can be overcome, the upcoming USMCA review process, scheduled for July 1, 2026, is expected to be a pivotal moment for North American economic relations. As Mexico, the US and Canada evaluate the agreement's effectiveness, discussions will likely intensify around key concerns, particularly those related to trade imbalances, regional and domestic content requirements, supply chain resilience, and labor provisions. Given the evolving global landscape, the US is also expected to emphasize the need for stricter regulations in security-sensitive sectors, particularly to address growing concerns over China's economic influence in North America. This scrutiny will likely focus on industries such as technology, telecommunications, and manufacturing -including automobiles-, where national security considerations intersect with trade policy.

For Mexico, these pressures could translate into complex policy decisions regarding its most-favored nation regime and foreign investment strategy. The country has actively sought to attract investment in high-tech industries, automotive production, and semiconductor associated manufacturing processes, sectors in which Chinese firms have also shown strong interest. Stricter US regulatory requirements aimed at limiting China's roles in these industries may force Mexican policymakers to reassess the extent to which they welcome Chinese capital while maintaining favorable trade relations with the US and Canada. In addition to the mounting challenges regarding unilateral tariffs by the US against its USMCA partners, and provided such challenges are sorted out, striking the right balance in the review process will be crucial to ensuring continued access to North American markets while preserving Mexico's attractiveness as a global investment destination.

Additionally, the USMCA review will likely bring renewed attention to broader supply chain security concerns and regional content requirements under the agreement, particularly in the context of nearshoring trends. As companies look to relocate production closer to North America to reduce reliance on Asian markets, US policymakers may push for enhanced oversight mechanisms to prevent indirect China's participation in strategic sectors. This could lead to new regulatory requirements for transparency and origin content in supply chains, investment screening measures, or even restrictions on joint ventures with Chinese entities.

[33] The White House, op cit.

Mexico will need to carefully navigate these shifts, ensuring that its regulatory framework aligns with evolving North American security priorities while safeguarding its sovereign right to define its own industrial policies.

Ultimately, and again, as long as tariff challenges against Mexico and Canada preceding the 2026 USMCA review can be surmounted, such review will serve as a test of North American cooperation in an era of shifting geopolitical and economic dynamics. Mexico's ability to negotiate a balanced approach -one that reassures its partners while preserving its economic flexibility- will be key to maintaining stability in regional trade and investment relations.

One additional issue looming the review process could be the coming election in Canada in the course of 2025, which may pose an additional challenge in seeking to align each country's national policies to ensure continuity of the agreement.

Given the context, proactively engaging in dialogue and proposing solutions that address security concerns without stifling investment will be essential for ensuring that the benefits of the USMCA remain robust and mutually beneficial for all parties involved.

IV. Final considerations

In light of President Trump's second presidency, Mexico's trade policy response will need to balance defensive strategies with proactive adjustments to safeguard its trade and investment interests. Given Trump's historical emphasis on protectionist measures, Mexico will face sustained pressure to comply with harsher US trade demands, including through the coming USMCA review. The tariff threats, now in motion under border security grounds, have introduced increased levels of uncertainty and heightened costs to businesses in the North American region. Whether the implemented tariffs are temporary remains an open question. However, additional measures could include amplified scrutiny on Chinese investment in Mexico, increased labor and environmental enforcement under the USMCA, and potential tariff disputes.

In response, Mexico will need to reinforce diplomatic and trade negotiations to maintain, or even recover, stable access to the US market while simultaneously accelerating its diversification strategy. Strengthening trade partnerships with Europe, Asia, and Latin America through agreements like the CPTPP and the EU-Mexico FTA is essential in mitigating the risks of overreliance on the US. Moreover, Mexico should explore additional policies aimed at reducing the cost of doing business in the country, including unconventional measures such as substantially reducing tariffs on inputs imported from countries outside of North America, to retain and even attract nearshoring investments from the US and allied nations, leveraging its strategic, enduring geographic position to maintain competitiveness in global supply chains despite rising protectionist pressures north of the border.

Navigating the challenges of a Trump presidency will require consistent and strategic engagement throughout his administration. Therefore, in seeking to preserve its advantages as an investment destination, or at least to sustain an attractive enough business environment, Mexico's success in articulating policy responses to the questions in this report will largely depend on how effectively it allocates its political priorities and diplomatic resources over the next four years. Mexican leaders must carefully choose their battles, concentrating efforts on issues where meaningful progress can be made, or substantial risks can be mitigated. Spreading resources too thin or adopting a scattered approach could weaken Mexico’s ability to address emerging challenges effectively.