SMARTER PERSPECTIVE: TARIFFS

The Motivations and Implications Surrounding U.S/ Mexico Tariff Developoments

By Samuel Suchowiecky

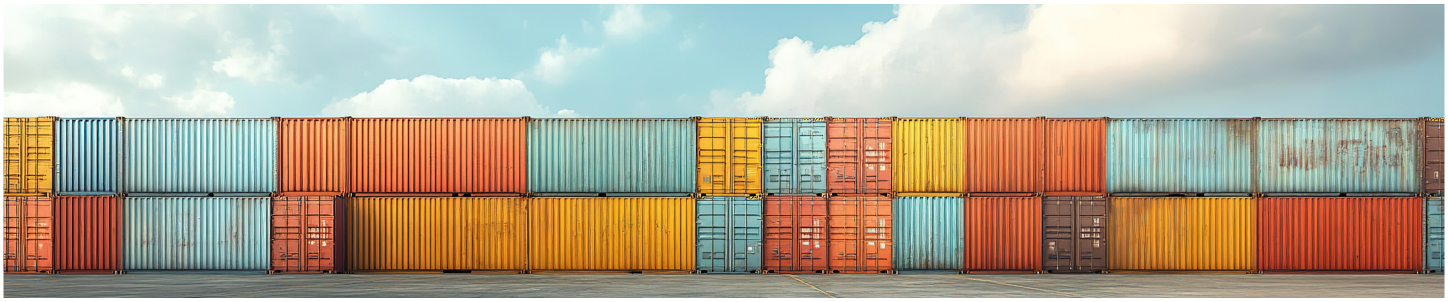
March 2025 The relationship between the United States and Mexico is deeply intertwined, both economically and politically. For decades, trade between the two nations has fueled economic growth on both sides of the border, creating a dynamic and interdependent supply chain. With the recent announcement of new tariffs by the U.S. on Mexican goods, concerns about economic disruption and geopolitical tensions have resurfaced. While these tariffs have yet to be fully implemented, their potential impact on industries, businesses, and consumers has already rattled the markets and fueled political and economic debate.

Trade between the United States and Mexico has evolved significantly over the past few decades. The North American Free Trade Agreement (NAFTA), implemented in 1994, played a crucial role in fostering economic integration between the two countries. Under NAFTA, tariffs on most goods were eliminated, leading to a surge in cross-border trade and investment. In 2020, under the former Trump presidential term, NAFTA was replaced by the United States-Mexico-Canada Agreement (USMCA), which was intended to modernize trade rules while maintaining many of the benefits of its predecessor. At the time, President Trump declared it to be "the fairest, most balanced and beneficial trade agreement we have ever signed into law." Significantly, the USMCA includes a sunset clause and will expire if not renewed in late 2026. Mexico has now surpassed Canada and China to become the United States' largest trading partner. The country has also become the world's leading exporter of auto parts, vehicles, electronics and a major supplier of durable goods to the U.S. market.

Co-dependent trade is an unavoidable reality for both nations. The interconnected nature of supply chains means that businesses and consumers in the United States depend heavily on goods produced in Mexico. Retailers, manufacturers, and the automotive industry all rely on Mexico's production capabilities to maintain competitive pricing and efficient operations. When the U.S. government announced plans for new tariffs on Mexican imports, companies such as Target Corporation responded immediately by signaling that price increases would follow. This reaction underscores the reality that tariffs ultimately lead to higher costs for American consumers, as businesses have little choice other than passing along the increased expenses.

The question now is how both nations should proceed. Should the U.S. move forward with the tariffs despite the economic repercussions? Should there be mechanisms in place to resolve disputes and mitigate the impact of trade conflicts? Policymaking in this arena is often clouded by political rhetoric. Although the Trump administration has so far announced five distinct tariffs that may impact Mexico, these tariffs have not been implemented fully and are unlikely to become a permanent fixture in trade between the two nations. In fact, many experts believe that the tariff talk is not only a convenient part of the current political discourse in the U.S. but is also being used to foster cooperation by the Mexican Government in fighting illegal immigration and the fentanyl epidemic, while also positioning the U.S. government to negotiate new features in the USMCA to 1) strengthen country of origin rules and 2) improve dispute resolution mechanisms in the USMCA that could greatly benefit U.S. investors.

In the United States, Mexico is frequently criticized in public discourse for issues related to immigration, drug trafficking, corruption, and cartel activity. Conversely, Mexico points to U.S. firearms and drug demand for fueling those same criminal networks. Despite these tensions, economic cooperation remains essential. Mexico is not just a trade partner; it is a key ally for the United States in global trade, security, and geopolitical strategy, particularly in countering economic competition from China, Russia, and the European Union.



With trade between the U.S. and Mexico so vital, the actual motivation behind these proposed tariffs deserves careful examination. While some sectors, such as steel, aluminum, and agriculture, may warrant protective measures, the broader imposition of tariffs appears less economically justified. Mexico, for its part, does not impose similar tariffs on U.S. goods. It is logical, therefore, to assume that the true driver behind these policy moves is more likely the broader U.S. strategy to shield North America from China's economic influence.

Mexico, of course, has already begun imposing significantly higher tariffs on Chinese imports. This development raises important questions about how these actions are already, and will in the near future, impact Chinese banks and firms that have to-date invested heavily in Mexico. Many Chinese companies, for example, have established production facilities in Mexico to take advantage of its proximity to the U.S. market, and country of origin rules under the USMCA will certainly affect these investments. Chinese car companies already account for about 30% of new car sales in Mexico. Increased tariffs on Chinese goods could disrupt supply chains, impact financing agreements, and alter investment strategies for these firms moving forward.

While the current trade tensions pose challenges, they also present opportunities for Mexican and U.S. investors. With potential disruptions to Chinese businesses operating in Mexico, there is room for local and regional enterprises to fill the void. The reshaping of these trade dynamics could lead to greater investment in Mexican manufacturing and infrastructure, benefiting both economies. Additionally, Mexico's internal market is undergoing significant change. The country is experiencing a demographic shift, with the equivalent of a baby boom that is expanding the consumer base. Unlike in past decades, when Mexico was primarily viewed as an export-driven economy, its own growing domestic demand is now positioning the country as an emerging consumer powerhouse. Other factors, such as abundant access to natural resources also stand to further strengthen Mexico's potential for sustained economic growth.

As the U.S. moves closer to implementing tariffs on Mexican goods and the two nations continue to negotiate changes to the USMCA, it is essential to separate political noise from economic reality. The business community and the markets will push to have more certainty as these complex negotiations continue to evolve. While political considerations often drive trade policy decisions, the long-term implications of such moves must be carefully evaluated by businesses in the market and their advisors, with a focus on ensuring their continued operation and success. We encourage you to reach out to our team at Hilco Global Mexico to discuss this evolving situation and any questions or concerns you may have about your business or a business in your portfolio. We are here to help.

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He has vast expertise in delivering valuation, monetization and advisory services for companies conducting business in Mexico and across Latin America. Samuel's deep understanding of the nuances associated with managing the affairs of both distressed and healthy businesses with locations within the borders of Mexico and across South America has been instrumental in delivering optimal outcomes for a multitude of companies, lenders, investors and other creditors. From engagements including master and substitute servicing roles to those focused on the liquidation of large industrial facilities involving thousands of assets and many others, Samuel has gained a reputation in the market for expertly guiding Hilco Global Mexico's management and hands-on field teams to deliver innovative, timely and successful results for a wide range of clients.

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