The Future of USMCA

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Will there be a USMCA 2.0?

Yes, given the following:

- Public statements of different members in the US administration that Mexico is important. Security and immigration are major topics; complement vs China
- In USMCA 1.0, personal relationships were very important. President Sheinbaum has established a good relationship with President Trump
- Both administrations "speak" a similar language, with a lot of emphasis on messages and symbols
- Tariffs against countries without trade treaties approved in Mexico suggests there is a high degree of communication
- Will there be one three-party agreement, or three bilateral agreements? In USMCA 1.0, Mexico insisted on one three-party agreement, but the relationship is not as strong and there has been more visible tension between the US and Canada

From a static point of view, the current situation regarding tariffs seems workable for Mexico

- US tariff of 25% on Mexican imports that don't comply with USMCA and add-on tariffs on other products such as steel and aluminum (and products containing those such as autoparts)
- However, the effective average tariff is much lower than that. Mexico should try to negotiate lower rates on the add-ons if they comply with USMCA (steel, auto-parts, tomatoes, among others)

Effective average tariff rates on Mexican exports to the USA

	Under USMCA (%)	Weighted tariff (%)
Observed 2024	48.9	15.5
Increased use of USMCA	80.0	9.2
Observed mar-jul 2025		4.2

Source: Citi Research

Authorities in the USA have a concern that Chinese companies may be using Mexico to avoid tariffs

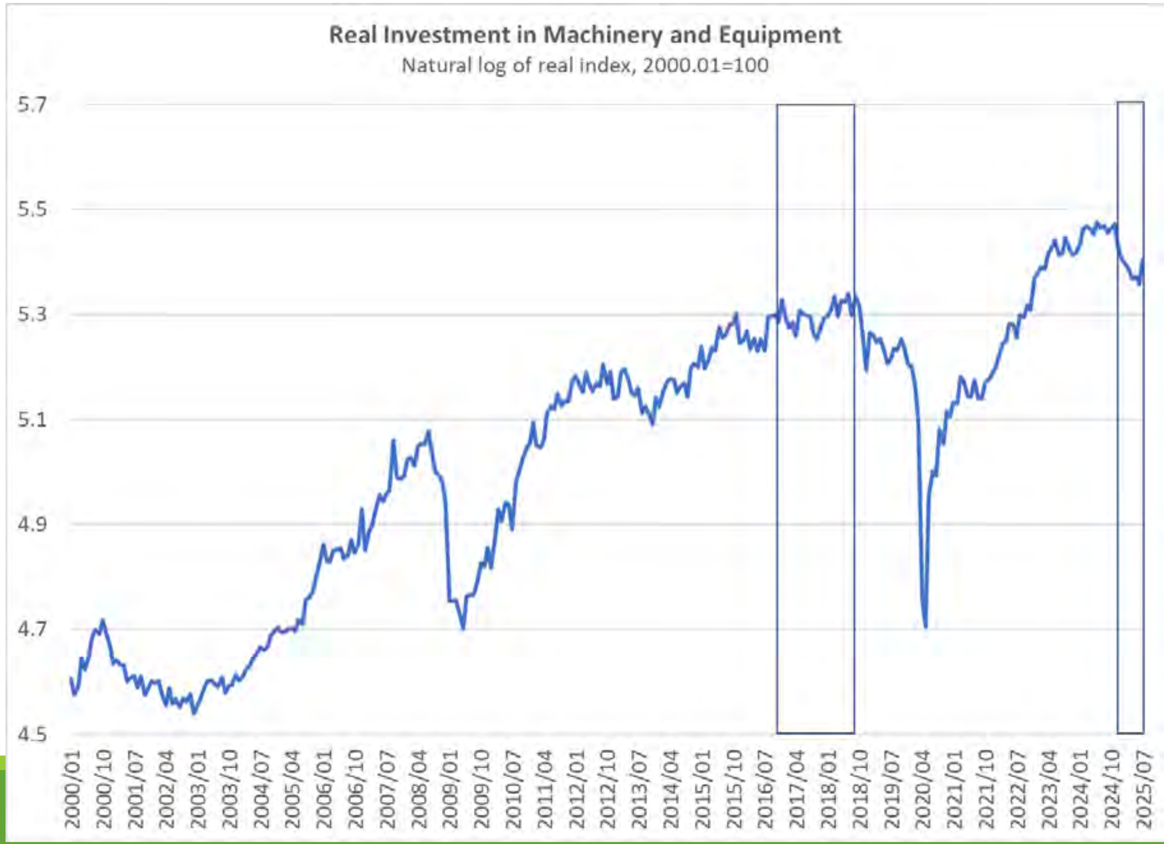
- While the data does not support that a lot of this is going on, perceptions are very relevant in politics
- The unilateral increase in tariffs is a very strong signal that the current administration is willing to assuage these concerns and go full-in with the US
- Mexico will surely be willing to include stronger restrictions on rules of origin and limits on FDI in certain sectors in USMCA 2.0

Other topics of concern for the US

1. Strengthen the “labor sector” in Mexico, something with which the current Mexican administration is very sympathetic, though margins have come down given minimum wage increases and changes in labor laws and their application
2. USMCA 1.0 includes a mechanism to assess if interventions in exchange rate markets are leading to competitiveness problems. More of a demonstration effect rather than a major concern with Mexico
3. Might there be a requirement that Mexico spends X% of GDP on security to combat drug trade and limit migration? This is akin to expenditure requests for NATO members
4. Might there be a requirement of investment by Mexico in the US? No detail in arrangements with other countries, but can this be done by restructuring the portfolio of international reserves? Would this be taken as a weakening of the autonomy of the Central Bank?
5. Openness to foreign investment in the energy sector?
6. Concerns about tax administration and the new judicial system?

Independently of the details, the positive effects of the treaty might be more limited

- The most important positive dynamic effect from trade treaties is lower uncertainty for fixed investment
- The use of trade policy to negotiate with Canada and Mexico on other issues in spite of USMCA 1.0 limits that effect



Source: INEGI

Some suggestions for the Mexican government

USMCA 2.0 will have higher tariffs and tighter rules of origin, and a weaker effect on investment. Mexico is going full-in with tariffs on third parties without FTAs.

Some ideas for Mexico to compensate:

1. Security and migration will continue to be major issues of concern for the US.
   a) Mexico should try to change this from a source of friction to a source of certainty by becoming an "indispensable" partner of the US in these topics
   b) If this partnership becomes a geopolitical reality, this could even compensate for a weaker effect on investment from the treaty *per se*
2. Carry out actions to reduce uncertainty from local sources. Several recent legal changes have gone in the opposite direction, at least in the short term until their implementation becomes clearer
3. Explore options for temporary workers. The US is likely to need workers for nearshoring and to compensate for demographic change. The bracero program was fairly successful and could be taken as a template