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## Recent Developments in U.S. Tariff Policy and Mexico's Strategic Opportunities

In March 2025, the United States, under President Donald Trump, implemented significant tariff measures affecting imports from Canada, Mexico, and China. These actions have profound implications for global trade dynamics and present both challenges and opportunities for Mexico.

### I. Legal Grounds for Imposing Tariffs

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President Trump justified the imposition of a 25% tariff on imports from Mexico by invoking national security concerns under the International Emergency Economic Powers Act (IEEPA) and the National Emergencies Act (NEA). On January 20, 2025, the President declared a national emergency concerning the influx of illegal immigration and drugs across the southern border (Proclamation 10886). This was later expanded on February 1, 2025, through Executive Order 14194, which cited Mexico's alleged failure to curb drug trafficking, particularly fentanyl, as an unusual and extraordinary threat to U.S. national security, foreign policy, and economy. To address this issue, the administration imposed an additional 25% ad valorem tariff on Mexican imports, effective March 4, 2025, through modifications to the Harmonized Tariff Schedule of the United States (HTSUS) under heading 9903.01.01.

### II. Campaign Promises and Economic Strategy

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During his campaign, President Trump indicated his intention to adjust the corporate tax rate by increasing tariffs on imports. This strategy aims to protect domestic industries and reduce trade deficits by making imported goods more expensive, thereby encouraging the consumption of domestically produced products.

### III. Possible Scenarios Following Tariff Imposition

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We foresee, among others, three potential future scenarios with respect to the U.S. tariff policy:

- i) **Short-Term Applicability:** It is probable that the Trump administration will maintain the new tariffs only for a short-term period to increase leverage and pressure on Mexico and Canada. Specifically, with respect to Mexico, this could be to gain further cooperation in:
  - » Border security
  - » Immigration
  - » Fight against cartels that were determined as terrorist organizations
  - » In the short-term, assess the tariffs' immediate impacts

In this regard, Commerce Secretary Howard Lutnick stated that the U.S. may finalize a trade deal with Mexico and Canada by Wednesday, March 25, following the recent 25% tariff imposition. He also indicated that President Trump is considering a tariff reduction, signaling a potential compromise.

- i) **Adjust Tariffs on Specific Products:** In the medium-to-long term, reducing tariff rates on certain goods while maintaining higher rates on others could help mitigate adverse economic effects while still protecting key industries.
- ii) **Permanently Impose Tariffs:** If deemed beneficial for national interests, the tariffs could become a long-term fixture in U.S. trade policy, specifically to finance the internal tax cuts that are being promoted.

#### **IV. Mexico's Response: Aligning Tariffs with the U.S.**

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In response to the U.S. tariffs, Mexican President Claudia Sheinbaum has proposed aligning Mexico's tariffs on Chinese imports with those imposed by the United States. This move aims to maintain competitiveness within the North American trade bloc and prevent Chinese goods from circumventing U.S. tariffs by entering through Mexico.

#### **V. Opportunities Arising from U.S. Tariff Imposition**

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##### **1. Growth of Nearshoring**

The U.S. protectionist measures have prompted companies to reconsider their global supply chains, leading to a potential increase in nearshoring to Mexico. Mexico's proximity to the U.S., competitive manufacturing costs, and benefits under the United States-Mexico-Canada Agreement (USMCA) make it an attractive destination for companies relocating operations. However, to fully capitalize on this opportunity, Mexico must address challenges related to its electrical infrastructure and transportation security concerns. Additionally, if the U.S. imposes additional tariffs on European goods, Mexico could become an even more attractive trade partner for the EU.

##### **2. Market Expansion and Trade Diversification**

The uncertainty in U.S.-Mexico trade relations underscores the need for Mexico to diversify its export markets, providing opportunities for Mexican companies to expand their global presence and reduce dependence on the U.S. market. Existing agreements with key regions include:

- Europe (via the EU-Mexico Free Trade Agreement)
- Asia-Pacific (through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership)
- Latin America (via the Pacific Alliance)

If the U.S. imposes additional tariffs on European goods, Mexico could become an even more attractive trade partner for the EU.

##### **3. Strengthening Local Supply Chains**

The enforcement of stricter rules of origin under the USMCA and potential restrictions on Asian imports present an opportunity for Mexico to bolster its local supply chains. By developing domestic industries in sectors like auto parts, textiles, electronics, and plastics, Mexico can enhance its role in regional value chains and attract further investment.

## VI. Mexico's Retaliatory Measures Announced by President Claudia Sheinbaum

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On March 4, 2025, Mexican President Claudia Sheinbaum announced that Mexico would impose retaliatory tariffs in response to the U.S. administration's 25% tariffs on Mexican goods. Sheinbaum condemned the U.S. tariffs as unjustified and harmful to both nations, stating that "nobody wins" in such trade conflicts. She also rejected accusations from the U.S. administration regarding Mexico's alleged ties with drug trafficking organizations, labeling them as "offensive, defamatory, and unsubstantiated." The specific U.S. products targeted by Mexico's retaliatory tariffs are to be detailed by President Sheinbaum on March 9, 2025, during a public event in Mexico City's central plaza.

### Conclusion

The recent U.S. tariff impositions present both challenges and strategic opportunities for Mexico.

To mitigate potential negative impacts and position itself as a more robust player in the global economy, Mexico must:

- Address internal infrastructure, energy demand, and security issues.
- Diversify trade partnerships.
- Strengthen local industries.

Additionally, Mexico's measured and strategic response to the U.S. tariffs, as outlined by President Sheinbaum, reflects a commitment to defending national interests while seeking to maintain constructive international trade relations.

For more details or assistance, our Foreign Trade and Customs team at **Pérez-Llorca Mexico** is at your disposal.

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