

Sin Arancel de por Medio – Episode 1

Mexico between the United States and Europe: Trade Challenges and Opportunities

Full Transcript

Renata Zilli: Welcome to this first episode of Sin Arancel de Por Medio. To kick off this podcast, we've chosen a topic and a country that sometimes goes unnoticed but holds significant importance in the global economy—Mexico. And there are two recent events that highlight Mexico's strategic importance to the world. First, its relationship with the United States—we're recording this episode just days after Donald Trump's inauguration, where the relationship with Mexico was mentioned in his inaugural address. Additionally, last week saw the conclusion of the modernisation of Mexico's global agreement with the European Union, opening a new chapter in their relationship.

To discuss these two topics, we are joined by César Guerra, who has an extensive background and expertise in Mexico's trade relations with the world, particularly with the European Union. César worked for over 25 years in the international trade negotiations division of Mexico's Ministry of Economy, mainly focusing on agriculture, market access, rules of origin, and the WTO. He was also the chief negotiator for the modernisation of the agreement between Mexico and the European Union, as well as the Ministry's representative in Brussels to the European institutions. He currently lives in Brussels, where he founded Trade and Access Consulting, a consultancy specialising in trade and European affairs. Furthermore, he is a founding member and Secretary-General of the Mexico-European Union Chamber of Commerce (MexChamEU), a non-profit organisation that promotes trade and economic interests between Mexico and the European Union.

César, welcome to the podcast.

César Guerra: Thank you very much, Renata. It's a pleasure to be with you.

Oscar Guinea: César, let's start by discussing the relationship between the United States and Mexico. Apart from the renaming of the Gulf of Mexico as the "Gulf of America," what are the most significant policies announced by the new U.S. administration towards Mexico?

César Guerra: Thank you, Oscar. It's a pleasure to be here with you. From my perspective, there are three major issues, aside from the Gulf renaming, which we won't delve into now. These issues, stemming from the United States, are closely tied to Mexico. The first is migration, the second is fentanyl and the Mexican cartels, and the third is tariffs.

Based on Trump's recent statements as president, the first two seem to be the most prominent. Indeed, tariffs are highly concerning for value chains and consumers across the three USMCA member countries. President Trump consistently emphasises trade deficits and tariffs in his rhetoric, which fuels uncertainty. However, we need to assess whether the trade issue is genuinely a threat or merely a tool to pressure the Mexican government into addressing migration and organised crime, which, from the U.S. perspective, are the most pressing concerns.

Renata Zilli: César, Trump also announced that on 1 February, he would impose a 25% tariff on all imports from Mexico. It's still unclear whether this will be industry-specific or a general tariff. As you mentioned, it could be a form of leverage or bargaining chip. But wouldn't this violate the USMCA? After all, it's a treaty signed during Trump's first administration. I'd like you to explain whether Mexico has tools to respond to such measures and threats. We're talking about the United States, our largest trading partner, but also a major economy. You were involved in the Mexican government's creation of the so-called carousel of products, which targeted U.S. goods with retaliatory tariffs. Could you explain how this list works, how effective it is, and whether it's the only tool Mexico has to defend itself? What's your take?

César Guerra: Well, first, the fact that this announcement has been postponed suggests there is room for dialogue and a better assessment of the final measures. I believe this reflects a search for solutions regarding migration, fentanyl, and organised crime.

If the United States were to impose tariffs on 1 February, Mexico does have experience in implementing retaliatory measures. However, retaliation is highly complex. The first step any country would take is to demonstrate to the United States how counterproductive tariff increases would be for its own economy.

Nevertheless, the available weapon is to "drink the poison" by raising tariffs on U.S. imports, thereby impacting American business interests. However, this inevitably affects companies and consumers alike. While the benefits of free trade and market liberalisation are often championed, there is this paradox: tariffs must sometimes be increased, not only to reverse U.S. decisions but also while considering the costs for Mexico itself.

I'm not suggesting that retaliatory measures shouldn't be taken. Rather, I'm highlighting the paradox and the trade policy dilemma. An effective retaliation strategy must be sufficiently painful for the offending country, encouraging affected parties to lobby their politicians to reverse the decision. If Trump imposes tariffs indiscriminately—whether 10%, 20%, 25%, or even 50%—on all products imported from Mexico, Mexico's trade surplus means that reciprocal tariffs alone would not suffice to offset the damage. Therefore, Mexico would need to target other areas, such as services, government procurement, or intellectual property.

In this context, the EU's anti-coercion instrument could serve as a useful source of inspiration. The challenge, however, is that the EU has yet to apply this tool against any country, making it difficult to assess its effectiveness beyond market access. We'll need to see the scale of the tariffs and whether the solution ultimately involves non-commercial issues like migration and cartel-related concerns.

In the past, when Mexico imposed retaliatory tariffs in response to U.S. violations concerning transport and steel, there was a panel that specified the permissible level of retaliation. In this case, the key issue is that Mexico would have to raise tariffs across all U.S. imports, which would be insufficient to fully compensate for the damage. This would also drive up consumer prices in Mexico and create problems for businesses reliant on U.S. inputs. Hence, navigating this situation is no easy task.

Oscar Guinea: Very well, César. If you agree, let's cross the Atlantic and move from the hypothetical to the concrete, from the negative to the positive. Let's talk about the relationship between the European Union and Mexico.

On 17 January, the agreement for the modernisation of the legislative framework governing trade and political relations between the European Union and Mexico—the so-called *Global Agreement*—was concluded. Can you explain how we reached this point, what the update entails, how businesses will benefit, and provide us with an overview of the agreement and its modernisation?

César Guerra: Well, the announcement came from the European Commission, marking the conclusion of negotiations. However, this is not the first time such an announcement has been made. The initial agreement in principle for this modernisation was reached in April 2018, with Mexico still needing to finalise specific market access offers for sub-federal government procurement. Although the general parameters had been agreed upon, the detailed work with Mexican states and their offers came a couple of years later.

When both sides seemed ready to proceed with translations and approvals, the European Commission requested that Mexico restructure the agreement, separating the trade aspects from the political and cooperation elements. This was aimed at avoiding the need for ratification by national parliaments.

However, there were differences in Mexico's response. It was not immediately positive, and reaching a solution took time. Once both sides found a way to present the agreement that met the European Commission's expectations and Mexico's needs, a new obstacle emerged—the shift in Mexico's energy policy from 2019 onwards. This policy change complicated matters, as the initial energy-related provisions had been settled in 2018. Following years of efforts to find mutually acceptable language, the final solution appears to have involved trade-offs, including adjustments to rules of origin and market access quotas for sensitive EU products, ensuring the energy issue was safeguarded in line with Mexico's interests.

Thus, the recent announcement suggests that both sides have agreed on how to rebalance the agreement. However, as of today, 23 January, a statement from President Sheinbaum raises some uncertainty. It is unclear whether Mexico fully accepts the current terms or if further revisions are underway. It is possible that Mexico prefers to announce the conclusion alongside progress in U.S.-Mexico relations, ensuring the timing aligns with broader diplomatic considerations.

In my view, the announcement of the negotiation's conclusion is excellent news. It suggests that previous obstacles have been overcome, leaving only a final legal review of the recent changes and translations, which were already quite advanced. The process will now move to the Council and the European Parliament, as well as the Mexican Senate.

The key benefits stem from the fact that the previous agreement, negotiated in 2000, primarily covered market access for goods. It liberalised trade in industrial goods but provided limited coverage for agricultural products. The modernised agreement incorporates the trade disciplines typically found in the EU's contemporary trade deals. It includes entire chapters on sanitary and phytosanitary measures, technical barriers to trade, services, investment, public procurement, intellectual property, and more.

This update also expands agricultural market access while protecting sensitive products—dairy for Mexico and beef and poultry for the EU. In addition to market access and trade disciplines, the agreement updates rules of origin, which had not been revised for around 25 years. As a result, two-thirds of products at the subheading level will now follow updated rules of origin, aligning with current industry and production needs.

On intellectual property, the EU—widely regarded as a leader in this field—secured Mexico's protection for over 500 European products in the Mexican market. In return, the EU committed to protecting just under 40 Mexican products.

The agreement also introduces disciplines on trade and sustainable development, a crucial issue for European civil society and the European Parliament. These provisions, absent from the previous agreement, will require Mexico to meet certain environmental and labour standards. However, the model used for Mexico differs from the EU's more stringent approach adopted in its recent agreement with New Zealand.

For many reasons, this is an excellent deal for the European Union. The sub-federal procurement chapter, which I previously mentioned, is particularly significant. It marks the first time Mexico has offered market access for procurement to a group of countries under a trade agreement. This aligns with the EU's longstanding negotiation strategy, successfully implemented with Japan, Canada, and now Mexico.

The EU can present this agreement to its member states and the European Parliament as a significant achievement. From Mexico's perspective, sensitive sectors were protected through limited concessions, often via quotas. In terms of rules of origin, one of Mexico's key concerns was the automotive sector. While the EU granted certain facilitations close to Mexico's requests, they remain temporary. Ultimately, the agreement adopts a horizontal rule of origin consistent with the EU's other trade agreements.

Oscar Guinea: A few years ago, César, you led Mexico's technical negotiations for this agreement. In what you've just explained, you've highlighted how both Mexico and the European Union had to adapt to each other's needs to reach a deal.

Given your experience at the negotiation table with European counterparts, how challenging is it to negotiate with such a powerful yet heterogeneous trading bloc as the European Union? What was your experience like?

César Guerra: It is indeed highly complex. Negotiating with the European Union is unlike any other negotiation process. From my experience negotiating with Latin American countries, Asian countries, the United States, and Canada, the dynamics are entirely different when dealing with the EU.

I've had the opportunity to build strong relationships with officials from the European Commission across several directorates-general. They are all highly competent and well-prepared. However, the EU's unique structure, with member states setting mandates and the European Parliament scrutinising every detail, makes negotiations particularly intricate. Moreover, the EU's extensive network of trade agreements creates a precedent effect. Once the EU negotiates a particular provision, replicating or amending it in another agreement becomes exceedingly difficult.

This complexity often frustrated my colleagues at the time, as it was challenging to comprehend the EU's rigid stance. Negotiating with the European side demands resilience, patience, and a high tolerance for frustration. European negotiators rarely deviate from their script. There is little flexibility to accommodate the counterpart's concerns because it is often easier for the EU negotiators to push the counterpart than to return to their member states and renegotiate the mandate.

The EU's negotiation style involves limited technical-level flexibility. The expectation is that the counterpart adapts to the European model. Closing a deal with the EU requires whittling down the outstanding issues to just two or three crucial points. Only when this happens can higher-level decision-makers get involved to finalise the agreement.

Thus, the real challenge lies in shifting the EU's position at the technical level. It is essential to identify and focus on the most critical issues requiring adjustment to strike a balance. In Mexico's case, rules of origin were one such issue. Once a genuine problem is identified, solutions can be found—but identifying those key issues takes considerable effort.

Keeping the EU engaged in negotiations requires constant movement, demonstrating a willingness to make progress. Otherwise, as seen in many EU negotiations, talks can stagnate indefinitely, with neither side making meaningful progress. When this happens, negotiations may escalate from technical-level discussions to senior officials or even lead negotiators. Yet, real progress only occurs when the number of outstanding issues is reduced to two or three, allowing the EU to thoroughly examine the remaining concerns, propose concrete solutions, and ultimately finalise the agreement.

In Mexico's case, it took around 18 months from the start of the first round to the initial announcement of an agreement in principle for the modernisation. Initially, the EU believed that two or three negotiation rounds would suffice. However, once they realised Mexico's commitment and capacity to advance, negotiations accelerated, with rounds held more frequently. During the final six months, rounds occurred almost monthly.

In short, negotiating with the EU is a formidable challenge. Yet, I must acknowledge that, despite the lack of flexibility at the technical level and the frustration it causes, a deal can be reached with the right approach, focus, and persistence.

Oscar Guinea: You're now in a different professional role, which I imagine is less frustrating. You're the Secretary-General of the Mexico-European Union Chamber of Commerce (*MexChamEU*). Can you briefly tell us about this initiative?

César Guerra: Of course. We observed that while Mexico's primary export destination is the United States, the European Union also plays a significant role. However, there was no dedicated chamber of commerce in Belgium representing Mexico's interests. We also noticed that European stakeholders in Mexico lacked a platform to voice their concerns.

This led a group of Mexicans living in Belgium to establish *MexChamEU*, aiming to cover all 27 EU member states. While strong bilateral chambers exist in some countries, our goal is to address the broader EU landscape. We also aim to navigate the EU's complex regulatory environment—after all, the European Union is the world's leading regulatory power.

We found that Mexico received little information about initiatives like the *Green Deal* and the potential trade barriers resulting from environmental policies. Moreover, when the EU invites public comments on future regulations, input typically comes from European associations, companies, academics, and some non-EU countries. However, Mexican voices were noticeably absent.

Therefore, our mission is to promote Mexico's interests in the EU from a business perspective, facilitate the modernisation of the free trade agreement, and engage with EU member states and the European Parliament. Like any chamber of commerce, we also focus on fostering business ties between Mexican and European entrepreneurs, promoting trade and investment. Our activities rest on three pillars: the trade agreement, regulatory issues in both Mexico and the EU, and strengthening business connections.

Renata Zilli: César, as we wrap up this fascinating conversation, I'd like to return briefly to Mexico and its current global outlook.

Claudia Sheinbaum is Mexico's first female president. She holds a PhD in environmental engineering and a physics degree, alongside an active political career and involvement in left-wing student movements. How do these diverse experiences shape her worldview, and how would you characterise Mexico's global outlook under her leadership? While there's continuity within her party, are there any notable distinctions between Sheinbaum and her predecessor? What can we expect from Mexico in the coming years?

César Guerra: I agree with you—it's the same party, but there are clear differences. Since Sheinbaum assumed office, Mexico appears more outward-looking. During the previous administration, Mexico's global presence significantly diminished, including its engagement in international forums like the United Nations, the G20, and the WTO. Now, it seems Mexico is reclaiming its place on the world stage, showing renewed interest in international affairs.

Although the Mexican government hasn't officially announced it, the fact that Mexico remains committed to dialogue with the European Union regarding the modernised agreement is a positive sign. It indicates Mexico's return to the global trade negotiation agenda.

I also see a shift—not entirely radical, as state-owned enterprises like PEMEX and CFE still enjoy preferential treatment. However, there's now more emphasis on non-traditional energy sources. This reflects Sheinbaum's scientific background and her recognition that while oil and energy sovereignty remain important, Mexico must transition towards cleaner energy solutions.

These early signals—just months into her presidency—suggest that, while the ruling party remains the same, policy priorities are evolving, with a stronger focus on environmental goals and international engagement.

Oscar Guinea: César, we'll finish with the final question we ask all our podcast guests: If you could implement one public policy to boost Mexico's economic and social development, without any economic or political constraints, what would it be?

César Guerra: That's a tough question because Mexico has room for improvement across many areas. However, if I had to choose one policy with far-reaching impacts—both social and economic—it would be strengthening the rule of law.

Simply enforcing existing laws effectively would provide certainty for economic operators. Economists, including Nobel laureates, have written extensively about the importance of property rights and institutional integrity. Moreover, ensuring everyday security through consistent law enforcement would not only protect citizens but also enhance economic stability.

Mexico has already begun judicial reforms, but much more is needed, including educational programmes and initiatives to tackle poverty. Ultimately, establishing the state as a reliable enforcer of the law would profoundly benefit both people's livelihoods and their peace of mind.

Renata Zilli: Thank you very much, César. I completely agree with your insights. Thank you for sharing your expertise here on *Sin Arancel de Por Medio*. Where can our audience follow you on social media?

César Guerra: Thank you, Renata. You can find me on X at @cesarguerragro, and *MexChamEU* also has accounts on X and LinkedIn.

Renata Zilli: Thank you so much, and best of luck with all your projects.

César Guerra: Thank you very much.

Oscar Guinea: Thank you, César.

Renata Zilli: Oscar, what were your main takeaways from this conversation with César?

Oscar Guinea: Three points stood out to me. First, how Trump uses trade policy to achieve non-trade objectives, such as tackling fentanyl and migration. We've seen this recently with his threat to impose tariffs on Colombia if President Petro refused to accept the resettlement of undocumented migrants.

Second, the challenges of negotiating with the European Union. César explained how the European Commission leverages its negotiation mandate from the Council—representing all 27 member states—as a bargaining tool. This dynamic was evident during the Brexit talks and, as César highlighted, is equally relevant to the EU-Mexico agreement.

Third, the lack of respect for the rule of law in Mexico. As César rightly pointed out, strengthening legal certainty and judicial integrity would be the single most impactful policy for improving Mexicans' well-being.

On a lighter note, I recently finished reading *Los Muertos de Río Grande* by Santiago Mazarro. It's set in 1820 and follows two soldiers—one Spanish and one Mexican—investigating a crime in northern Mexico. Throughout the novel, locals frequently lament the state's neglect. Interestingly, the Spanish soldier is repeatedly called *gachupín* and *chapetón*. Is that really how Spaniards are known in Mexico, Renata?

Renata Zilli: Yes! *Gachupín* is a term dating back to colonial times, used to describe peninsular Spaniards during the independence era. It was often shouted in protest: *¡Fuera los gachupines!* (*Out with the Spaniards!*). It's quite an intense expression. I'd also be curious to know how Mexicans are referred to in Spain. You'll have to tell me sometime.

But back to your earlier points. Trump's use of tariffs as a coercive tool stood out to me as well. I found it particularly interesting when César mentioned whether Mexico could adopt an anti-coercion instrument like the EU's. However, it's hard to say how effective such a tool would be—after all, the EU itself has never fully tested it. Realistically, implementing something similar against the United States would be incredibly challenging.

Regarding EU negotiations, I agree that many countries, especially in the so-called "Global South"—a label I find problematic—often express frustration about negotiating with the EU. The difficulty stems from aligning diverse perspectives across member states while addressing the specific needs of third countries. César's point about the EU's approach—essentially expecting the

counterpart to adopt European regulations—resonates with what I've heard from other Mexican colleagues. They often feel that local realities in third countries are overlooked.

Finally, I fully agree with César that the rule of law remains Mexico's most significant unmet challenge.

Oscar Guinea: Well, thank you, Renata. And thanks to everyone who's listened this far—from the *gachupín* that I am, Oscar.

Renata Zilli: How do Spaniards refer to Mexicans in Spain?

Oscar Guinea: To be honest, Spaniards aren't particularly creative in this regard—we simply call them *mexicanos*. Or, at least, I can't think of any other common term. *Gachupín* and *chapetón*, on the other hand, are quite distinctive!

Renata Zilli: Well, we Mexicans do have a knack for inventing nicknames—that's our comparative advantage!

Oscar Guinea: Thank you all and see you in the next episode!