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LATIN AMERICA

Mexican Business Leaders Express Relief at Deal to Avoid Tariffs

U.S. threat, however, leaves open the possibility of similar ones in the future and could discourage investment

Trucks wait to cross the border with the U.S. in Ciudad Juarez, Mexico. More than 80% of Mexico's exports go to the U.S. PHOTO: CHRISTIAN TORRES/ASSOCIATED PRESS

By Robbie Whelan

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Mexico's business leaders breathed a sigh of relief after the Trump administration dropped its threat to impose tariffs, avoiding an immediate big risk to an economy that was already showing signs of fragility.

But though tariffs have been avoided, the threat of the past week isn't expected to be without repercussions for the Mexican economy, as it leaves open the possibility of similar threats in the future and could discourage investment.

"Good news for Mexico and for the competitiveness and commercial integration of North America," Gustavo de Hoyos, head of Coparmex, Mexico's largest employer confederation, wrote on Twitter. Other top business groups celebrated the announcement as well.

After intense negotiations, senior officials from the two countries reached an agreement on measures that seek to contain a surge in migration from Central America. President Trump said on Friday his threat of tariffs on all Mexican goods, slated to begin Monday at 5%, had been suspended indefinitely.

Mexico's currency sank as much as 3.7% against the greenback in the days after Mr. Trump announced the planned tariffs, reaching its weakest level since December, but recovered some ground as negotiations progressed, ending active trading Friday around 19.62 to the dollar.

More than 80% of Mexico's exports go to the U.S. Large industrial hubs developed in recent years depend on cross-border supply chains to manufacture auto parts and other industrial components.

Sergio Gómez Lora, an official with Mexico's Business Coordinating Council, a private sector group that consulted with the Mexican government delegation during talks, described the mood among the Mexican team late Friday night as happy and proud of their efforts. "Our view is that tariffs and migration are two very important issues, but two very different issues that should not be linked," Mr. Gómez said.

Mexican business groups worried that escalating tariffs, combined with a steep depreciation of the peso, would tip Mexico's already-fragile economy into recession. The Mexican economy contracted in the first quarter from the previous quarter, and the central bank and private economists have cut their growth projections for this year to just 1.3%.

Adding to the pain, Fitch Ratings this week lowered Mexico's sovereign credit rating by a single notch to its second-lowest investment grade, and cut state oil company Petróleos Mexicanos to below investment grade.

Even if tariffs weren't imposed, the threat of using them to address non-trade issues such as immigration "severely undermines the effectiveness of a rules-based trade system," Bank of America Merrill Lynch said in a report to clients before the agreement.

One of the largest benefits to Mexico of the North American Free Trade Agreement was to give investors certainty, creating the conditions for deep integration of cross-border supply chains in the region, so "real investment and growth would be hurt if trade certainty erodes," they said.

Both sides agreed to review Friday's deal after 90 days, and "in the event the measures adopted don't have the expected results, they will take further actions."

Daniel Ujczo, an Ohio trade lawyer who represents dozens of companies in the auto parts, medical devices and aerospace industries with major investments in Mexico, said that the threat of tariffs, even if not enacted, would “send a chill through the whole system” of cross-border trade and discourage future capital expenditures.

“In a world of uncertainty, North America was the safe harbor for trade investment, and the U.S. just created a higher risk profile for Mexico,” Mr. Ujczo said. “If tariffs are going to be an ongoing tool of this administration, you’re going to end up with a lot of companies sitting on their hands, and that’s a recipe for an economic slowdown.”

Investment in construction, equipment and machinery has barely grown in Mexico in recent years, and in the first quarter of this year was down 0.9% from a year earlier.

Several Mexican business groups cheered Friday’s deal as a way of clearing a path to ratify the new U.S. Mexico Canada Agreement, the trade deal signed last year by all three countries to supersede Nafta.

In April, Mexico’s Senate passed a key bill to overhaul Mexico’s weak labor regulations that Democratic lawmakers said was necessary to pave the way for the U.S. Congress to ratify the USMCA. And on Saturday morning, President Trump jeered congressional Democrats and House Majority Leader Nancy Pelosi for “getting nothing done.”

Luis Ramirez, a consultant in Phoenix who advises local governments on how to streamline cross-border trade, said the impact of the proposed 5% tariffs was less worrisome than the impact they might have had slowing the ratification of the new trade deal.

“Most companies would absorb a 5% tariff, and others will pass it on, but ultimately the big concern for us is the impact of any tariff on the USMCA ratification,” Mr. Ramirez said.

—Anthony Harrup contributed to this article.

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