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FEATURED Q&A

How Can Mexico Navigate Economic Headwinds?



Mexican President Claudia Sheinbaum has maintained high nationwide approval ratings amid economic uncertainty. She is pictured alongside supporters in early March. // File Photo: Mexican Government.

Q Mexico's economy in the first quarter is headed toward a technical recession, which is marked by two consecutive quarters of economic contraction, Reuters reported March 11, citing analysts. Mexico's gross domestic product shrank 0.6 percent in last year's fourth quarter as compared to the third, statistics agency INEGI said in February. The weak economic indicator comes amid uncertainty over U.S. tariffs. What are the strongest economic headwinds facing Mexico? How well are Mexico's president, Congress and central bank addressing ongoing economic concerns, and what more should they do? Which industries in Mexico are most vulnerable to economic contraction?

A Jonathan Heath, deputy governor of the Bank of Mexico: "The strongest economic headwinds facing Mexico at this moment are weak demand for exports stemming mostly from a stagnant U.S. industrial production, as well as an absence of investment related to extreme uncertainty. This year can be characterized by many risks and challenges, almost all coming from Trump's erratic and unpredictable behavior. Not only are we facing the menace of a global tariff war with an obvious 'lose-lose' outcome, but also the pending renegotiation of the T-MEC agreement, which could conclude with the need for significant structural changes to the Mexican economy. The most vulnerable sector is by far the automotive industry. For the moment, the non-confrontational approach of the Mexican president seems to be

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TODAY'S NEWS

ECONOMIC

Brazil Imposing 10% Foreign Dividends Tax

Brazil's government plans to raise the tax burden for corporate multinationals in a move intended to offset fiscal relief measures for low-income citizens.

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IN-FOCUS

Argentina Faces A New World Order: National Deputy

Argentine national deputy Daiana Fernández Molero wants the country to formalize ties with stable allies amid growing global tensions, she told the Advisor in an interview last week.

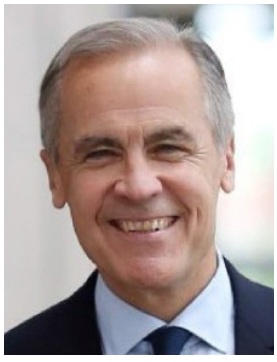
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POLITICAL

Carney Meets With Macron, Starmer

Canadian Prime Minister Mark Carney on Monday made his first international trip just three days after assuming office. Carney promoted Canada's ties with European countries in a one-day visit to France and the United Kingdom, where he met with those nations' leaders

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Carney // File Photo: LinkedIn Profile of Mark Carney.

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ECONOMIC NEWS

Canadian PM Touts Free Trade in Trip to France and U.K.

Canadian Prime Minister Mark Carney on Monday emphasized the importance of Canada's alliances with European countries during a one-day trip to London and Paris, the Associated Press reported. Carney, who assumed office on March 14, on Monday held separate meetings with French President Emmanuel Macron and United Kingdom Prime Minister Kier Starmer. Amid a brewing trade war with the United States—U.S. President Donald Trump has recently imposed tariffs on relevant goods including metals and agricultural products—Carney argued in favor of free commerce in his public remarks, the wire service reported. Carney's European counterparts on Monday echoed his sentiments in support of safeguarding trans-Atlantic partnerships. "I want to ensure that France and the whole of Europe works enthusiastically with Canada," Macron said at a joint press conference in Paris, Bloomberg News reported. "We both believe that a fair trade that respects international rules is a good thing for everybody's prosperity … it is certainly more efficient than tariffs that create inflation and damage production chains and the integration of our economies," Macron added. Canada aims to "maintain the most positive relations possible with the United States," Carney said Monday in Paris, the news service reported. Carney has no trips currently scheduled to Washington, the AP reported.

Brazil to Impose 10% Tax on Corporate Profits, Dividends

Brazilian President Luiz Inácio Lula da Silva is expected to propose later today a 10 percent tax on corporate profits and dividends sent abroad to offset new tax exemptions for low-income citizens, Reuters reported. Currently, multinationals with subsidiaries in Brazil benefit from exemptions under a 1995 income tax law, which would be amended if Lula's tax proposal is approved. Last year, total profits and dividends sent abroad from Brazil amounted to almost $70 billion; inflows were around $24 billion, according to central bank data, Reuters reported. The tax proposal is an attempt to halt Lula's decreasing popularity, the wire service reported. In February, Lula's approval rating hit an all-time low, according to

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the correct answer. Nevertheless, the inconsistency (with economic theory) of Trump's reactions and paranoias may eventually force the Mexican government into making much more difficult decisions. Regarding the central bank, most alternative scenarios involving the imposition of tariffs and other Trump threats show a significant slowdown in economic activity and a weaker peso. Less economic activity reduces inflation, while a higher exchange rate induces upward pressure on prices. These confronting results tend to cancel out significant changes for the forecast for inflation, calling for a continuation of the current cutting cycle for monetary policy, albeit, with a more cautious approach."

Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "In the fourth quarter of 2024, Mexico's gross domestic product growth had already slowed down to negative 2.4 percent with an annual growth rate of 0.9 percent. All three domestic components of GDP showed lower growth; consumption and investment grew slower in 2024 and government expenditure actually fell. Only the service sector pulled GDP up. Manufacturing, agriculture and construction barely grew, while mining and extractive industries fell in 2024. While

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NEWS BRIEFS

Sheinbaum Plans to Strengthen Missing Persons Commission

Mexican President Claudia Sheinbaum said Monday that she will sign a decree to empower the commission responsible for searching missing persons, Reuters reported, after a mass grave was discovered last week at a ranch in Teuchitlán, Jalisco state. Mexico has over 1240,000 missing people, according to government data. The president said she would send a reform to Congress on Thursday that would facilitate the process of identifying missing persons, organize information about them, and make missing people's information more transparent to the public.

Peru Declares State of Emergency in Lima After Singer's Assassination

Peruvian federal authorities on Monday announced a 30-day state of emergency allowing them to deploy military forces in the streets of Lima following the murder of a local musician last weekend, Infobae reported. Paul Flores, lead singer of cumbia band Armonía 10, was killed by gunmen in an orchestrated hit on Sunday morning, Infobae reported.

Brazil's JBS Moves Ahead With Plan to List Company on U.S. Stock Exchange

Brazilian meatpacking giant JBS took a step closer to listing itself on the New York Stock Exchange, according to a securities filing published on Monday, Bloomberg News reported. The filing showed that Brazilian state regulators refrained from voting on a plan to list JBS on the United States' largest stock market, which the company expects would increase its market value by $18 billion, according to Bloomberg News. A listing is possible by the end of September, people familiar with the matter told the news service.

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a survey by DataFolha. The number of people who consider his administration 'bad' rose from 34 percent to 41 percent, a record high for Lula. The government expects that the expansion of tax exemptions for citizens who earn up to 5,000 reais monthly—approximately $875—would have a fiscal impact of about 26 billion reais, around $4.5 billion, in 2026. Under current law, individuals who earn up to 2,824 reais, about $490, per month are exempt from income tax.

BUSINESS NEWS

PDVSA Making Plans for Chevron's Assets in Venezuela: Report

Venezuelan state-run oil and gas firm PDVSA has established a plan to keep oil production levels steady at its three joint ventures with Chevron, which must leave the country at the beginning of next month, according to a company document viewed by Reuters, the wire service reported on Monday. The administration of U.S. President Donald Trump earlier this month revoked Chevron's license to continue its projects in Venezuela—which accounted for more than 200,000 barrels of oil production per day in the first few months of this year—giving the company until April 3 to exit the country where it first began operating in 1926, Bloomberg News reported. While it's unclear the extent to which Chevron's departure will immediately affect its ventures with PDVSA, the state-owned oil firm has already begun making preparations to keep crude oil output as steady as possible, Reuters reported. PDVSA cannot market crude oil and refined products directly to U.S. markets, as Chevron has done, meaning any oil production from Chevron's soon-to-be-former assets would need to be re-routed to domestic consumption, or sent to non-U.S. markets that currently account for around 75 percent of Venezuelan oil exports, according to the wire service. PDVSA's primary goal is to maintain output at Chevron's ventures in Venezuela, avoiding the need for costly production pauses, a source close to PDVSA told Reuters.

IN FOCUS

Argentina at a Crossroads Amid Trade War and Pending E.U. Deal: Lawmaker

By Jack Quinn

WASHINGTON—Argentina should capitalize on current geopolitical tensions by formalizing trade ties with Europe and establishing itself as an independent player in an ever-changing multipolar world order, Daiana Fernández Molero, national deputy for the PRO party, told the Advisor in an interview last week.

"It's time to push for this agreement," Fernández Molero said regarding the free trade agreement between Mercosur and the European Union. The two blocs agreed to the deal in December, but it still awaits ratification amid pushback from European agricultural groups concerned about competition with South American producers.

"We should explore whether [the Europeans] are more willing to sign the agreement, because they are in a different position now—they need to show that they are leading the West," Fernández Molero said.

With U.S. President Donald Trump starting a trade war in recent weeks against longstanding allies including Canada and the European Union, Argentina has an opportunity to forge significant, lasting new alliances with other countries reeling from the sudden international realignment, Fernández Molero told the Advisor.

Fernández Molero praised Argentine President Javier Milei's handling of domestic issues including inflation, but she said the president's warm personal relationship with the current U.S. administration could represent a long-term miscalculation, considering the United States is "a partner that is not very reliable right now."

Argentina "needs other allies ... what we are doing is completely the opposite," Fernández Molero said.

The centrist PRO party is a member of the governing coalition in Argentina's Congress along with Milei's libertarian La Libertad Avanza party.

A proposal for a trade agreement with the United States would be dead on arrival in Argentina's Congress, Fernández Molero said, referencing speculation of such a deal during Milei's most recent trip to Washington earlier this month.

"You cannot do that by yourself," she said, adding that Argentina would need to formally exit Mercosur before it can agree to bilateral tariff adjustments.

The South American country's foreign policy should "focus on what is best for Argentina in the long term and not just in these next few years," said Fernández Molero.

Especially considering Argentina's close relationship with China—its largest trading partner outside of Mercosur—it is in Argentina's best interest to balance competing interests to the greatest extent possible, Fernández Molero said.

Brazil has been "on both sides" of nearly every major geopolitical issue in recent years; Argentina could also "assume this role of leading the region," she said.

"The world has changed" and Argentina's role in it should change accordingly, Fernández Molero argued.

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the average growth of jobs in Mexico over the decade of 2014 to 2024 was 3 percent monthly in the formal sector, all of 2024 showed very little growth in employment in the formal sector. One silver lining of the deceleration of the economy was falling core inflation: it went from more than 8 percent to 3.6 percent over a year. Uncertainty about exports looms large. 90 percent of Mexican exports go to the United States. With the possible trade sanctions and the threat of deportation of a large number of Mexicans living in the United States produced more uncertainty. The Mexican peso fell from 17 pesos to the U.S. dollar to more than 20 pesos per dollar. It is instructive to keep in mind how things have changed in the past quarter of a century. Between 1968 and 1996, every change of government in each sexenio (six year presidential term) brought in a huge drop in GDP. This has not happened in the 21st century–so far. There is fear in the Mexican market that 2024 may not be that lucky."

Ruben Olmos, chief executive officer of Global Nexus LLC: "Despite being the United States' closest partner, Mexico has had to deal with an adverse scenario when it comes to trade and migration-security policies imposed by the Trump administration. However, Mexican President Claudia Sheinbaum has maintained a cool head but a firm stance, earning her a historic approval rating of above 80 percent in her first few months in office. In fact, her government has done its part, reducing migrant flows, mobilizing 10,000 National Guard soldiers on the border, handing 29 top drug traffickers over to U.S. authorities and proposing to match U.S. import tariffs on Chinese goods. On the economic front, Mexican markets have proved relatively stable, with the peso even appreciating slightly, regaining some of the value it had lost since the U.S. election. This reaction reflects the perception that these measures would be temporary and transactional in nature. The latest one-month tariff extension has confirmed this view. Although this new truce offers some breathing space, the persistent threat of import tariffs is creating uncertainty that is costly for Mexico. Mexico's high degree of integration of production chains between its two northern partners suggest that there is hope for a final deal in the form of a revised USMCA. In the meantime, uncertainty is punishing an economy that is slowing sharply; the OECD said this week that Mexico would be hit hardest by the tariff hikes, contracting 1.3 percent this year and a further 0.6 percent next year, instead of growing 1.2 percent and 1.6 percent as previously expected. The slowdown in the primary and secondary sectors was exacerbated by weak activity in the tertiary sector, which had previously been supporting growth. The economic uncertainty is hitting investment particularly hard. Doubts over the future of the USMCA, a controversial judicial reform and high real interest rates are all having a severe impact. Imports of capital goods have declined, as has foreign direct investment, which is increasingly dominated by reinvestment rather than new investments. This highlights a degree of caution on the part of investors who continue to value the idea of nearshoring, but are aware of future risks."

Upcoming Event

ONLINE EVENT: Launch of the Regional Repository of Chinese Investments in Latin America
March 25, 2025 | 10:00 a.m. ET

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