

Mexico Fears Loss of US-Canada Trade, Scrambles to Replace Chinese Parts

Natalie Venegas

Mexican officials fear that rising tensions with the United States and Canada, in which they allege are serving as a conduit for Chinese parts and products into North America, could jeopardize their nation's inclusion in the U.S.-Mexico-Canada Agreement (USMCA) as Mexico scrambles to replace the Chinese auto parts and products.

What Is USMCA?

The USMCA, signed in 2020 during Trump's first term, is the president-elect's replacement of the 25-year-old North American Free Trade Agreement (NAFTA) negotiated by President George H.W. Bush and pushed through Congress by President Bill Clinton in the mid-1990s. In his 2016 White House bid, Trump slammed NAFTA and promised to negotiate a better trade agreement. When signed, the deal required more car parts to be manufactured by workers in one of the three countries, which is a 13 percent increase from the previous rule. However, Mexico's concerns have been exacerbated by President-elect Donald Trump winning a second term and a politically struggling Canadian Prime Minister Justin Trudeau.

Trump has recently made a tariff hike the core of his economic policy during his 2024 campaign, proposing a 10 percent general rate for all countries. In addition, Trudeau, has recently faced political opposition from his own Liberal Party as several members have asked him last month not to run for another term. Three Liberal members of Parliament said they were among 20-plus lawmakers from the party to sign a letter **asking Trudeau to step down** before the next election, which can take place any time between this fall and October 2025. The letter has not been publicly released. While over two dozen lawmakers are enough to raise alarm it's on the lower end of the 153 Liberals in Canada's House of Commons.

What Are Mexican Officials Saying?

Mexican President Claudia Sheinbaum announced on Friday a campaign to reduce Mexico's reliance on Chinese parts, pushing for the **substitution of these imports with locally produced or North American-made components**.

"We have a plan with the aim of substituting these imports that come from China, and producing the majority of them in Mexico, either with Mexican companies or primarily North American companies," Sheinbaum said. *Newsweek* has reached out to Mexico's Foreign Affairs via email for comment.

Sheinbaum said this initiative traces back to the 2021 global supply chain crisis when factories around the world were stalled by a lack of parts. However, Mexico still faces challenges where efforts to localize semiconductor production have met with significant hurdles despite massive subsidies.

The concerns also come after **Mexico reaped substantial benefits under the trade agreement** as automakers shifted production southward to capitalize on lower wages. However, allegations of **Chinese components entering North America through Mexico have sparked outrage**, particularly in the U.S., where concerns over the erosion of domestic manufacturing jobs loom large.

In response, Mexican Economy Secretary Marcelo Ebrard highlighted Mexico's commitment to the effort, revealing plans to begin producing microchips in 2024 stating, "*Of course they're not yet the most advanced chips, but we are going to start producing them here.*" This comes as Mexican officials say they have fewer imports of Chinese parts and products than the United States does.

In an effort to safeguard its role in the trade agreement, Mexico's ruling Morena party, typically resistant to U.S. influence, is also eliminating a half-dozen independent regulatory and oversight agencies that were established by former presidents. Recent moves include restructuring regulatory bodies and **revising laws to ensure compliance with the USMCA's provisions on foreign investment and competition**.

"What is being done is to create a reform so that its almost exactly equal to what exists in the United States, so we can clear that up," Ebrard said.

This comes as Mexico hopes the rules of the agreement would prevent the U.S. or Canada from walking away when the trade pact comes up for **review in 2026**.



Mexico's President Claudia Sheinbaum is seen in Rio de Janeiro on November 18. Mexican officials fear that rising tensions with the United States and Canada, in which they allege are serving as a conduit for... Mauro PIMENTEL / AFP/Getty Images

What Are Experts Saying?

While experts say that abandoning the accord is unlikely, they warn that maintaining the trade agreement's integrity will require navigating political and economic minefields. According to the Associated Press, Gabriela Siller, an economist with Banco Base, highlighted that the pact's review in 2026 could bring renewed scrutiny stating that if a country is dissatisfied with the trade agreement during the periodic reviews, like in 2026, there is a clause in the pact that says they can ask for a review each year to work out a solution.

"I think they will play hardball with Mexico in the 2026 review," she

added.

The prospect of a U.S. withdrawal or prolonged stalemates remains unlikely, according to former U.S. trade official C.J. Mahoney under the Trump administration. Speaking at the Baker Institute, Mahoney suggested that critics of the agreement might push for ***delays in renewal rather than outright termination***.

"The costs of not renewing immediately are actually quite relatively low," Mahoney said. *"I think the inclination to just kick the can down the road will be pretty strong."* However, uncertainty over the pact's future could deter investment, striking a significant blow to Mexico's economy.

Meanwhile, according to José María Ramos, a professor of public administration of the Colegio de la Frontera Norte in Tijuana, ***reducing reliance on Chinese imports will be challenging***.

"Reducing the dependence on Chinese imports is not going to be achieved in the short or medium term," Ramos told the Associated Press, emphasizing the complexity of overhauling supply chains.