



Viva Mexico: Why U.S. Employers are Now Spreading Their Wings in Mexico

Insights

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Mexico has gone through such sweeping labor reforms in the past few years that it now ranks as one of the best places for outsourcing and expansion. You may still be dissuaded from cross-border operations due to old misconceptions or outdated notions about what it's like to do business down there, especially as an employer. It's time to rethink everything. This Insight quickly summarizes what's changed and outlines the reasons Mexico is now a more attractive place to operate.

New Cross-Border Treaty Changed Everything

You can be forgiven for not paying attention to sweeping legal changes that now make it far easier for U.S. businesses to operate in Mexico. After all, a new agreement was finalized in the first few months of the pandemic when many had their focus diverted to more immediate challenges. And even if you read about it, you might not have connected the dots on how a renegotiated trade deal would impact your business.

What exactly happened? The U.S., Mexico, and Canada agreed to a new trade deal replacing the North American Free Trade Agreement (NAFTA) in July 2020. The United States-Mexico-Canada Agreement (USMCA) is in fact sometimes referred to as "NAFTA 2.0" or the "New NAFTA." Think of it as a "refreshed" version, intended to address some of the shortcomings of the original deal and modernize provisions for the 21st century. Lawmakers in all three countries passed the law with overwhelming bipartisan majorities, demonstrating the win-win nature of these changes for businesses and workers alike.

So What Changed?

Rather than navigating through the complex text of the treaty spanning hundreds of pages, let's spotlight the pivotal changes that American employers should be aware of as they consider expanding into Mexico.

Mexican Labor Reforms

The most significant pivot ushered in by USMCA is the overhaul of Mexican labor law.

- We've now seen a **labor law transformation** in Mexico – fewer strikes, better negotiation outcomes, and more harmonious work environments. The reforms have emphasized transparent union elections and contracts, which has led to better relationship between employers, workers, and unions.
- Mexico's labor reforms have paved the way for a **transparent and consistent regulatory framework** that resonates with American businesses. Having a clear regulatory standpoint allows employers to hire, train, and pay workers – and invest in Mexican operations – with greater confidence. This clearer framework ensures that entities in both the U.S. and Mexico can strategize for the future with a comprehensive grasp of the trade and business terrain.
- We also see a fully **reformed labor court system** that places a higher emphasis on alternative dispute resolution – and for those cases that remain in litigation, a clearer and more defined path to conclusion. This predictability allows businesses to create more structured and sound business plans.
- Moreover, the enhanced labor standards and **improved working conditions** mitigate potential critiques against American businesses operating in Mexico. These positive changes bolster the confidence of American enterprises in deepening their investment ties with their southern neighbor.

Streamlined Cross-Border Collaborations

Several procedural enhancements have ushered in a new era of efficiency for cross-border collaborations.

- The USMCA establishes clear rules on **digital trade** to facilitate growth and cross-border collaborations. Specifically, it prevents the countries from imposing duties on digital products on each other. This ensures products like e-books, videos, music, software, and games can cross borders tariff-free.
- Moreover, stricter **intellectual property rules** now mean that innovators can better benefit from their creations without as much fear of infringement. The agreement boosts protections for patents and trademarks, which is especially significant for industries like manufacturing, life sciences, and financial services.
- The agreement has also **dismantled much of the confusing and bureaucratic system** that hindered cross-border operations. The countries now allow for electronic signatures and self-certification of origin while exchanging goods, as just two examples that have improved the flow of commerce.

The end result of all of these changes: It is far easier for American businesses to conduct operations south of the border. Joint ventures, partnerships, and other arrangements with Mexican counterparts are booming thanks to the reforms. While manufacturing operations, exporters, and other operations that benefit from trade are in line to gain, the reforms also benefit the service

economy and industries such as banking, insurance, legal, engineering, project management, technology – just to name a few.

But it's not only U.S. businesses that are benefitting from the Mexican labor reforms. Investors from around the globe are waking up to the possibilities that now exist in Mexico, viewing it as a safe – and even progressive – place to do business. The increased capital investments being made in Mexico will end up benefitting all businesses that choose to operate there.

Auto Manufacturing Industry is Booming

A standout beneficiary of the USMCA is the automotive manufacturing sector. Several specific provisions of the treaty encourage auto production to be kept in the U.S., Mexico, and Canada. For a car to be exempt from tariffs, 75% of its parts must be made in one of the three countries (up from NAFTA's 62.5%), and between 40-45% of parts must be made by workers earning at least \$16 an hour. This has led to increased job opportunities and investment in the auto manufacturing sector.

What to Expect Over the Next Decade

As the ripple effects of the USMCA permeate the business world, we expect to soon see cross-border businesses realizing an enhanced reputational boost. The focus on environmental, social, and governance (ESG) principles is now leading many consumers to send their business to companies that exhibit socially conscious behavior. Embracing the improved labor, environmental, and social practices stemming from this collaboration might just place you at the forefront of this evolving business era.

Interested in Learning More?

Your Fisher Phillips team can assist you by answering specific questions about the way these reforms can work in your favor and assist you in setting up operations in Mexico. Contact your Fisher Phillips attorney, the authors of this Insight, or our attorneys on our [International Team](#) and in [Mexico](#) with any questions. Make sure you are signed up to [receive Fisher Phillips Insights](#) in order to stay up to speed on critical legal developments that can help your business.

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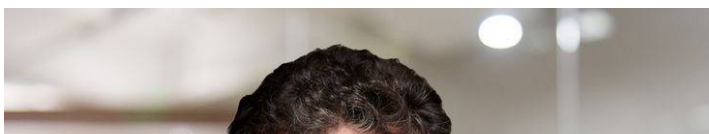
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