

The Mexican Economy and the impact of trade policy uncertainty in North America

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November 2025

1. Trade Policy Uncertainty and Front Loading of Exports Explain Why Mexico is Avoiding a Recession

Clarification

2. Mexico's strong linkages to the U.S. Economy

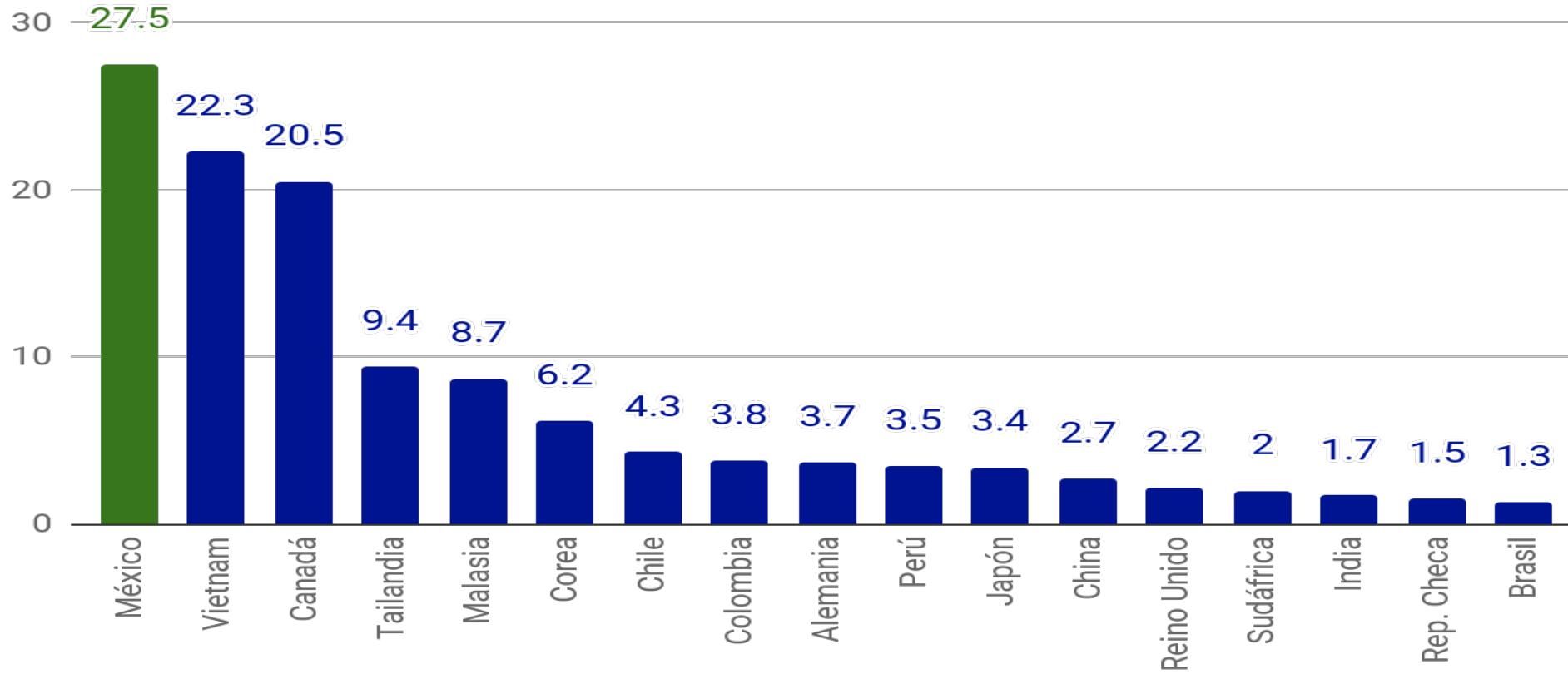
Few countries in the world are as heavily dependent on the economic and political conditions of the United States as Mexico.

- The U.S. is the destination for over 82% of Mexican exports, and Mexico has become its largest trading partner.
- Mexico holds the third-largest bilateral trade surplus with the U.S., trailing only China and the European Union.
- Remittances from Mexican workers in the U.S. were 65 billion USD, equivalent to 3.5% of GDP.
- Tourism revenues from U.S. visitors were 20 bn, 1.2% of GDP.
- The U.S. remains Mexico's largest source of foreign direct investment, averaging 15 billion USD in the last 4 years (44% of total).

Clarification

2. Mexico's Strong linkages with the US economy.

Exports to the US by country as share of GDP, 2024 (%)

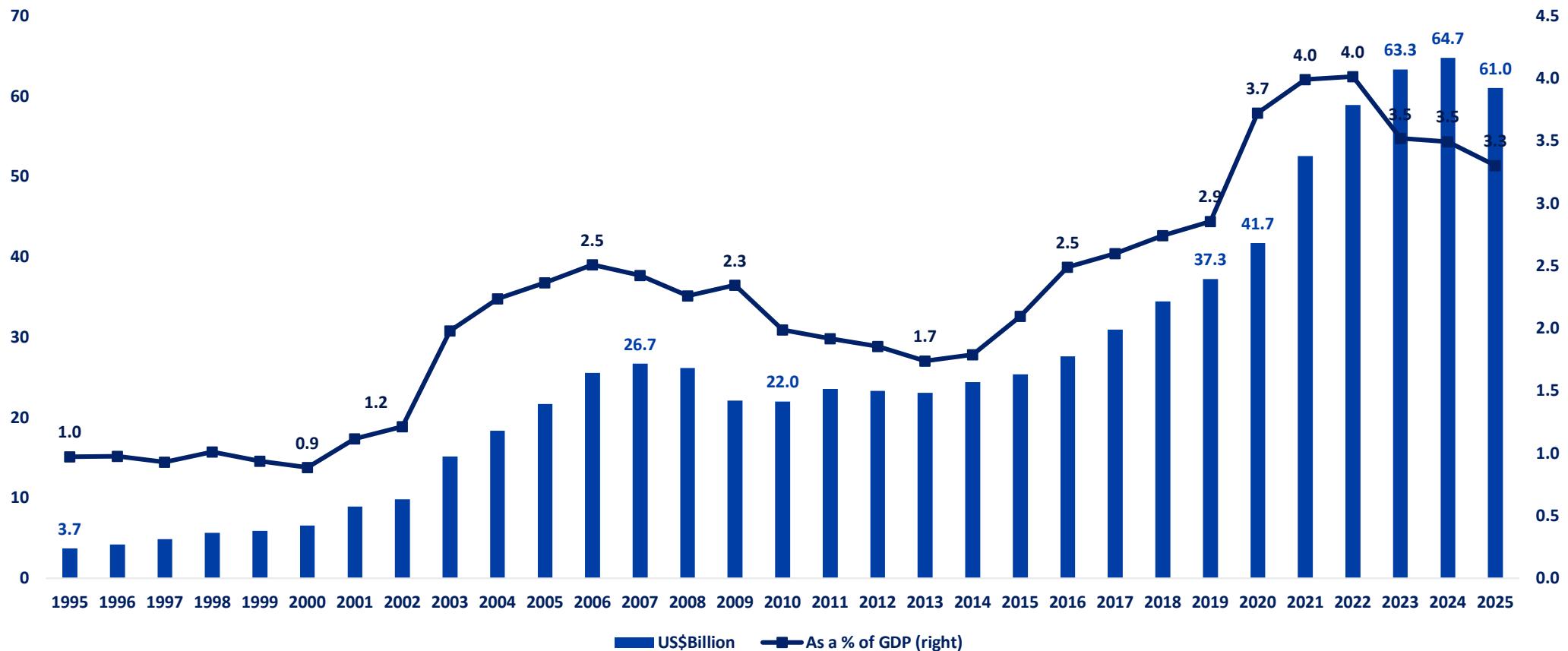


Source: Authors calculations with Macrobond data

2. Mexico's Strong linkages with the US economy.

Remittances flows to Mexico (1995-2025)

US billions and as a % of GDP

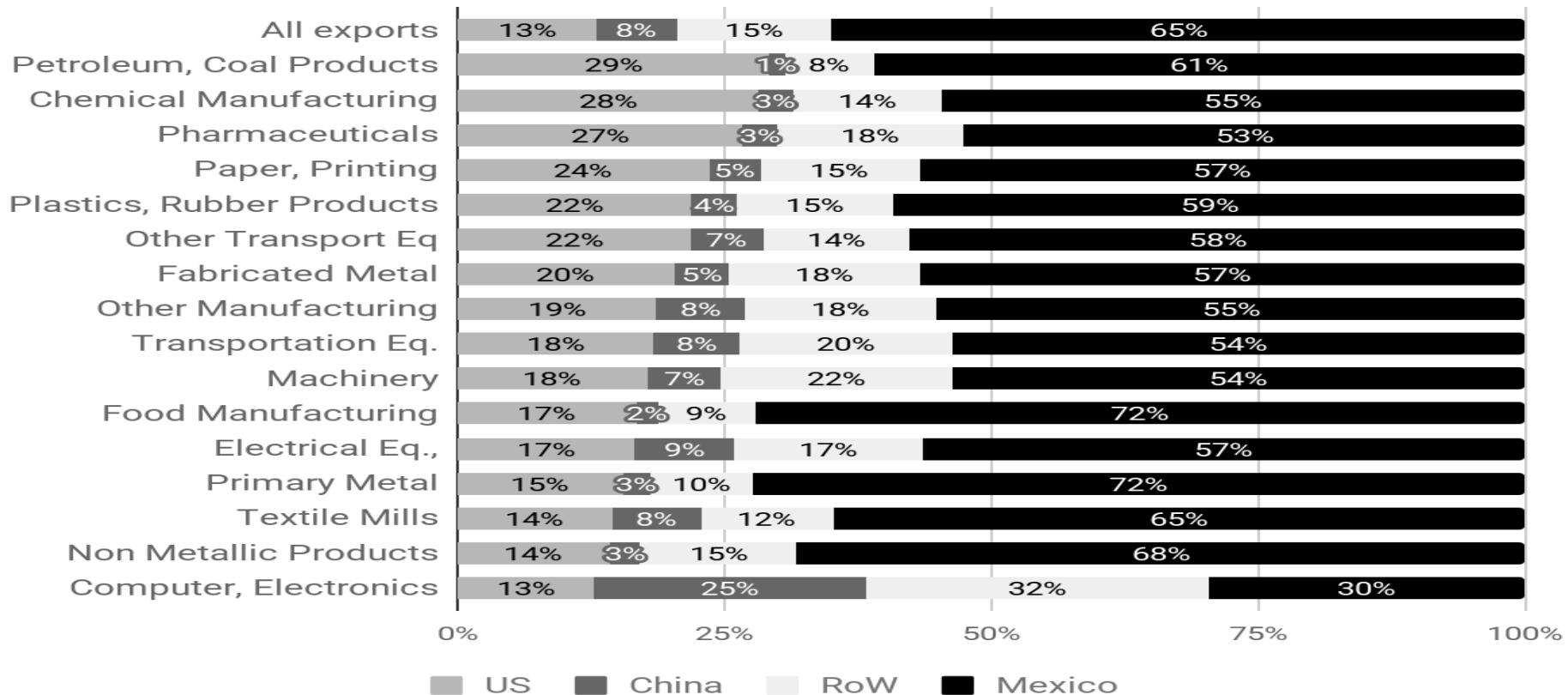


Source: Banxico

2. Strong Complementarities between Mexico and the U.S.

Imported content in exports: Mexican global manufacturing

% contribution



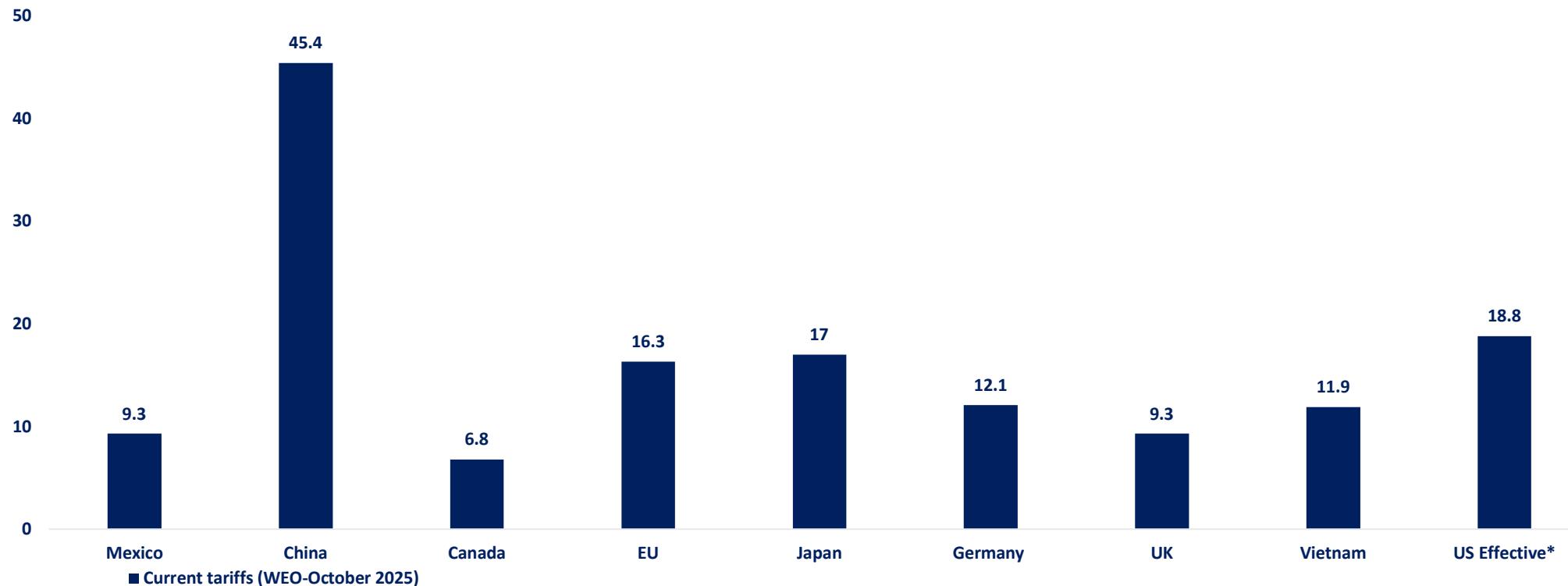
Source: OECD

4. The current tariff structure

- Exports that fall under the USMCA framework (except for certain sector-specific tariffs described below) can enter tariff-free.
- Exports not channeled through USMCA are subject to a 25% tariff under the International Emergency Economic Powers Act (IEEPA-Fentanyl and Migration)
- Apart from these IEEPA tariffs, Mexico faces sector-specific tariffs that apply to imports from nearly all countries, except for economies that have negotiated separate arrangements with the Trump administration, such as the European Union and Japan. These sector-specific tariffs include:
 - i) 25 percent tariffs on finished automobile exports (16% of total exports), with the possibility of deducting U.S. content when calculating the tariff.
 - ii) A de jure 25 percent tariff on auto parts, announced in April but not yet enforced (see U.S. Customs and Border Protection (2025)). Auto parts are 24% of total exports to the U.S.
 - iii) 50% tariffs on steel and aluminum and their derivatives (increased from 25%) and on aluminum cans and beer (2% of total exports to U.S.)
 - iv) 17% tariffs on tomatoes (this applies only to Mexico) as the US argues dumping practices that have not been proven.

4. The current tariff structure: Mexico has retained important tariff benefits when compared with the rest of the world, the 0 tariff will be important to boost investment through time

Weighted Average Tariff for US Main Trading Partners



3. Mexico Increases Tariffs (in compliance with WTO) to show goodwill in the negotiations

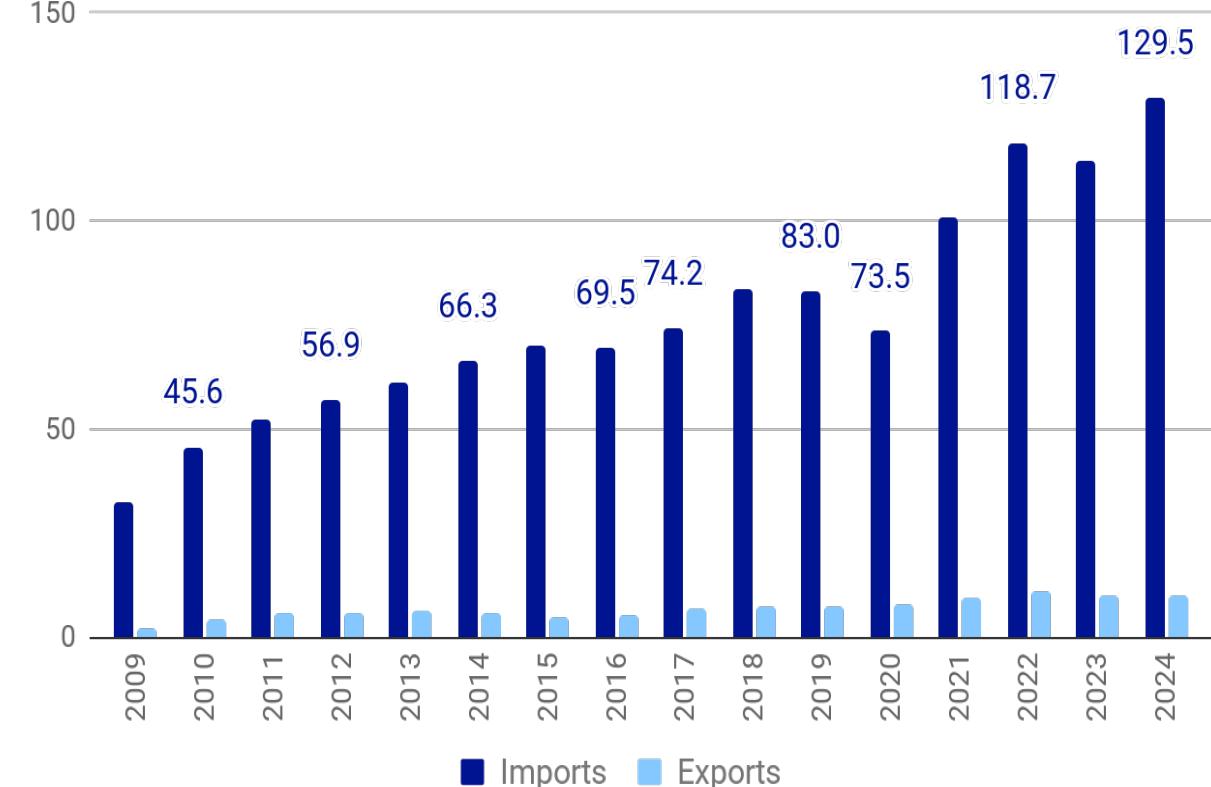
Imports from countries without trade agreements

Percentage of Mexico's total imports

Country	% of Total Imports
China	20.3
South Korea	3.6
Taiwan	2.8
Brazil	1.8
Thailand	1.7
India	1.4
Philippines	0.6
Indonesia	0.5
Turkey	0.3
Russia	0.3
South Africa	0.2

Mexico trade with China

Billion US dollars



Source: Authors calculations with data from INEGI and Banxico

4. High level objectives of USMCA negotiation

- Objectives for US:
 1. Align Mexico's migration and security policies to US interest.
 2. Force strict geopolitical alliance.
 3. Extend US protectionism to North America.
 4. Secure strategic complementarity in manufacturing
 5. Protect US economic interest
- Objectives Mexico
 1. Maintain Mexico's main Development Strategy.
 2. Minimize perceived intrusion by US in domestic affairs
 3. Maintain discretion in domestic policy matters.

The agreement is a very powerful instrument to achieve these objectives.

4. Issues for the USMCA Revision

- Maintain the zero tariff for USMCA Compliant goods. This represent a very important advantage for Mexico.
- Achieve the best bilateral agreement in the world in the automobile/auto part sector than other countries, based on strong complementarities.
- Secure sensible new rules of Origin and work with U.S. corporates in transition to comply with them.
- Policies vs Third Countries (Tariffs and FDI constraints) should only respond to security concerns and reexports to the US but should not extend US protectionism to the Mexican consumer and Mexican exports to third countries.
- Broaden NadBank's mandate and significantly increase its capital.
- An agreement that follows this contours is positive for Mexico and would allow it to restore at least a 2% potential growth rate (pre AMLO potential growth) if domestic policies are strengthened.
- Negotiate a parallel bilateral security and migration agreement.

The Mexican Economy and the impact of Trump's Policies: An Update

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