The Economic Impacts of Tariff Policies on U.S.–Mexico Trade

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I. Introduction[1, 2]

The economic relationship between the United States and Mexico stands out as the most valuable bilateral relationship in the world, with a total trade value of $839.55 billion in 2024 (U.S. Census Bureau 2024). Mexico's gross domestic product (GDP) depends heavily on exports to the United States, while the U.S. economy benefits from the steady flow of affordable goods imported from Mexico, making the two economies closely linked. However, the imposition of tariffs has the potential to alter this relationship. Tariffs are not only costs imposed on foreign producers; they are also borne by domestic consumers, firms, and the economy as a whole, leading to higher production costs and reduced competitiveness. Recent U.S. tariff measures were designed to protect domestic industries, preserve employment in sectors exposed to foreign competition, and increase federal government revenue.

Given the depth of economic integration between the United States and Mexico, the introduction or escalation of tariffs is likely to produce significant economic repercussions on both sides of the border. In the short term, a tariff-induced decline in trade could result in a significant contraction in Mexico's GDP, affecting employment, wages, and industrial output. Conversely, for the United States, reduced imports from Mexico could disrupt established supply chains, affecting employment in the transportation and warehousing industry, increasing the prices of goods, and contributing to inflationary pressures. In the long term, however, both economies would likely adapt by adjusting supply chains, shifting production patterns, and seeking new trade partners to mitigate the effects of prolonged trade barriers.

These impacts must be evaluated alongside the potential domestic gains that tariffs may create, particularly for protected industries and government revenue. Understanding the magnitude and dynamics of these effects is crucial for evaluating the long-term sustainability of trade policies and economic integration under the United States-Mexico-Canada Agreement (USMCA) framework.

II. Trade Policies and Barriers

North American Free Trade Agreement (NAFTA)

NAFTA officially entered into force on January 1, 1994, eliminating most tariffs on goods traded between the United States, Mexico, and Canada. This affected sectors like manufacturing, agriculture, and electronics as supply chains expanded internationally (Villarreal and Fergusson 2017). Following its implementation, U.S.–Mexico goods trade increased by more than seven times between 1993 and 2019, as shown in Figure 1, highlighting the growing economic interdependence between U.S. demand and Mexican manufacturing.

Hufbauer and Cimino-Isaacs (2014) note that while NAFTA caused some job losses from increased Mexican imports, net annual losses were only about 15,000 in the U.S. Research also shows that the trade agreement had a positive net impact of 870,000 workers in Mexico (Trachtenberg 2019).

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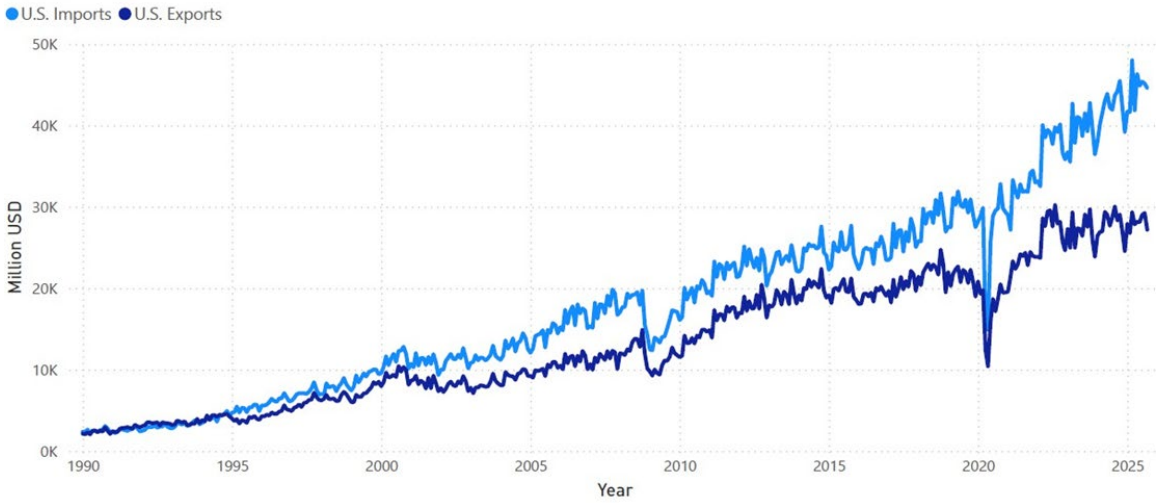
Figure 1. Value of goods traded between the U.S. and Mexico.



Source: U.S. Census Bureau, Trade in Goods with Mexico – Historical Data, including 1990. Retrieved from https://www.census.gov/foreign-trade/balance/c2010.html#1990

2018-2019 Tariffs

In March 2018, the Trump administration invoked Section 232 of the Trade Expansion Act of 1962 to impose tariffs on imported steel (25%) and aluminum (10%), citing national security concerns over domestic industry decline and global excess production. Although Mexico, along with other trading partners, was exempt from the initial deadline during negotiations, the tariffs ultimately went into effect on June 1, 2018 (The White House 2018).

The application of these tariffs led Mexico to impose retaliatory tariffs targeting U.S. agricultural exports. On May 17, 2019, the U.S., Mexico, and Canada reached an agreement to stop the tariffs, a move that was essential for the ratification of the USMCA (USTR 2019).

Hiked tariffs on Chinese imports during this period reduced U.S. manufacturing employment by 1.4% as they raised the cost of inputs and triggered retaliation (Flaaen and Pierce 2019), while boosting Mexican imports to replace this trade (Chen, Novy, and Solórzano 2025).

COVID-19 Trade Restrictions

Starting on March 20, 2020, both the Mexican and Canadian borders with the United States were closed for non-essential travel (Blackwell 2021). Although this restriction did not include freight and commercial trade (CBP 2021), the pandemic caused a sharp decline in international trade because of factory shutdowns, reduced tourism and cross-border commerce, and supply chain disruptions.

Despite the border closure being extended for 19 months until November 8, 2021 (Federal Register 2021), trade between Mexico and the U.S. quickly rebounded to pre-pandemic levels after just three months as seen in Figure 1.

United States-Mexico-Canada Agreement (USMCA)

The USMCA entered into force on July 1, 2020, replacing NAFTA. While it maintained the tariff-free trade for most goods, it introduced stricter rules of origin, increasing the regional value content requirement for automobiles from 62.5% to 75% (USTR 2020). This agreement also included labor value content rules, requiring a portion of auto production to occur in facilities paying wages of at least $16 per hour, reducing the share of Mexican manufacturing in the overall process. These provisions aimed to incentivize greater North American sourcing, reshaping regional production patterns.

Research from the Economic Policy Institute concluded that the USMCA did not meaningfully reverse or stop U.S. manufacturing job losses, with estimates of over 576,000 furloughed after the USMCA took effect (EPI 2025).

2025 Tariffs

Similarly to his first term, President Donald J. Trump invoked Section 232 of the Trade Expansion Act in conjunction with the International Emergency Economic Powers Act to levy tariffs on Mexico, Canada, and China, citing illegal immigration and fentanyl trafficking as a national emergency (Hammond and Burkhart 2025). Effective March 2025, the tariffs imposed a 10% duty on potash and a 25% tariff on non-USMCA-compliant Mexican imports. In response, Mexican President Claudia Sheinbaum signaled retaliatory tariffs (Garcia and Martinez 2025), though none were implemented as of December 31, 2025.

On August 29, President Trump suspended the de minimis exception globally, an exemption of duties and taxes as well as reduced paperwork for imports of less than $800 (Hammond and Burkhart 2025). This tax exemption previously opened the door for international low-value e-commerce to reach U.S. consumers.

Steel, aluminum, and derivative products tariffs increased to 50% globally (excluding the UK) effective June 4, 2025 (Hammond and Burkhart 2025), increasing the 2018 tariffs and expanding the derivative products list (Kitamura and Hammond 2025).

Because of increased tariffs on Mexican imports, Juarez, one of the most important manufacturing hubs in the country, lost more than 64,000 factory jobs between 2023 and 2025 (Hernandez and Gonzalez 2025). This decline highlights the substantial impact new tariffs can have on long-established and deeply integrated cross-border supply chains.

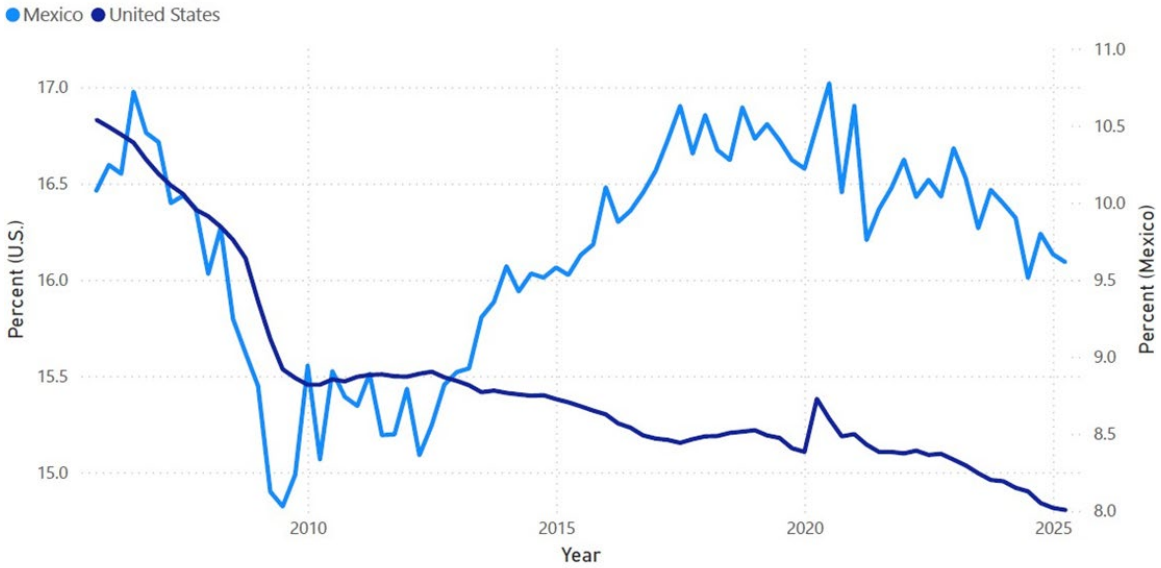
III. Manufacturing

Given the high degree of production sharing within North America, any sudden imposition of tariffs on Mexico would almost certainly raise production costs for U.S. firms that depend on Mexican intermediate inputs. Analysis of trade within the USMCA shows that a substantial share of cross-border trade consists of intermediate goods moving through tightly integrated supply networks (Business Roundtable 2025), so higher tariffs would act as a direct cost shock for industrial buyers apart from foreign exporters. This could mitigate the intended effect of increasing manufacturing employment, while also having a negative impact in other sectors of the economy that rely on manufactured components and capital goods, transmitting higher costs to final consumers.

According to data from the Bureau of Labor Statistics, manufacturing employment peaked in 1979 at about 19.53 million workers and has fallen substantially since then, even as employment in other sectors has continued to grow — declining as a share of total employment for decades as shown in Figure 2. Research on this long-run decline highlights several structural forces: increased productivity because of technological improvements, increased international trade, and a broader shift of the U.S. economy toward services (Houseman 2018). These trends imply that, although higher tariffs on Mexico could in principle protect U.S. manufacturing, they are unlikely to reverse the long-term decline in employment in the sector. Moreover, because U.S. producers now rely on Mexican inputs, higher tariffs would raise costs for them, limiting any employment gains and potentially reducing competitiveness in both domestic and export markets.

Mexico's manufacturing employment is also under pressure; it has shown a slight decrease from its recent peak in 2023, which was prompted by nearshoring trends. However, it still represents a much larger share of total employment than in the United States. Estimates based on the National Survey of Occupation and Employment (ENOE) indicate that around 9.56 million people worked in manufacturing in 2024, roughly 16 percent of total employment, double the U.S. share shown in Figure 2.

Figure 2. Manufacturing as a percent of total employment.



Source: U.S. Bureau of Labor Statistics, *All Employees: Manufacturing (MANEMP)*, retrieved from FRED, Federal Reserve Bank of St. Louis (2025), https://fred.stlouisfed.org/series/MANEMP; and INEGI (2025), *Encuesta Nacional de Ocupación y Empleo (ENOE)*, OLAP database, https://en.www.inegi.org.mx/programas/enoe/15ymas/.

OECD (2020) and Banco de México (2024) regional data show that Mexican manufacturing growth has concentrated in the northern states of the country, reflecting a shift for U.S. export-oriented manufacturing. This shift has caused the industry to cool down after 2023 because of reduced U.S. manufacturing activity. Studies on automation technologies in Mexico suggest that rising adoption of advanced production technologies also places downward pressure on manufacturing employment, particularly in routine, low-skill occupations (Ramos, Garza-Rodríguez, and Giba-ja Romero 2022).

Although Mexico is more exposed to tariff-induced trade disruptions since manufacturing accounts for a larger share of its employment, the downward trend observed since the late 2010s is also linked to broader factors such as global demand cycles, technological change, and competition from other low-cost producers.

IV. Supply Chain Integration

Since the establishment of NAFTA, the predecessor of the USMCA, North America has developed highly integrated production networks in which the United States and Mexico specialize in different stages of manufacturing while relying on shared logistics infrastructure.

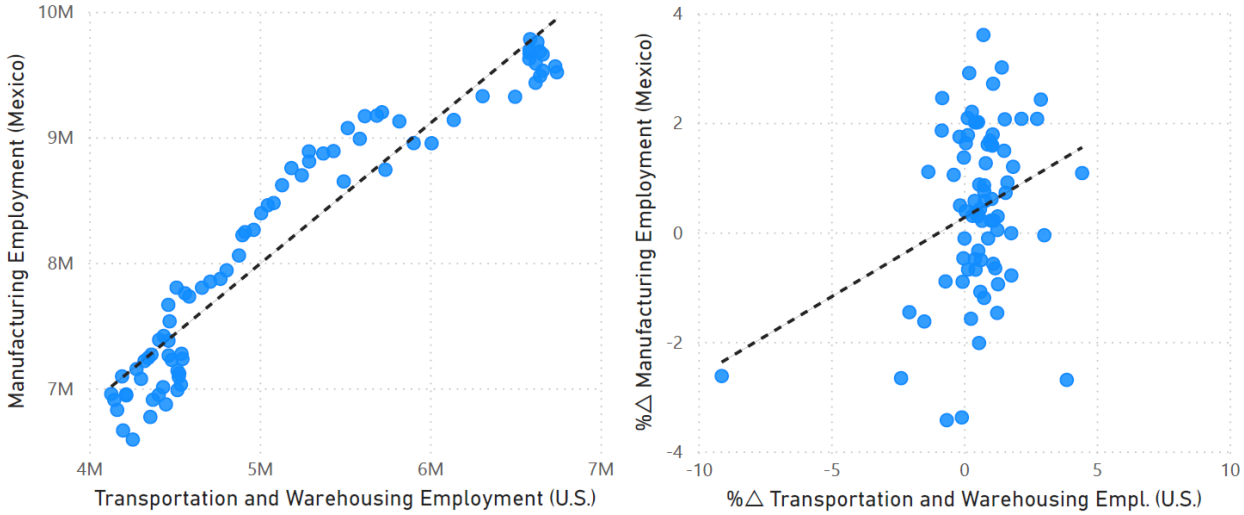
U.S. producers ship intermediate inputs to Mexico, where labor-intensive manufacturing and assembly occur, and finished or semi-finished goods are then exported back to the United States. This pattern is especially concentrated along the northern Mexican border in maquiladora plants and has generated substantial spillovers for U.S. border cities, particularly in transportation, warehousing, and related services (Cañas et al. 2011).

Using quarterly data from 2005–2025, a simple linear relationship is estimated between Mexican manufacturing employment and U.S. transportation and warehousing employment (see Figure 3). The correlation coefficient is 0.9524, and the regression R^2 is 0.9072, indicating that approximately 90.72 percent of the variation in U.S. logistics employment is explained by Mexican manufacturing employment. The slope coefficient of the regression is 0.81, implying that each additional manufacturing job in Mexico is associated with roughly 0.81 jobs in U.S. transportation and warehousing. In contrast, when the same

relationship is estimated using quarter-to-quarter percentage changes, the R^2 decreases to 0.0884, suggesting that the sectors are highly integrated in the long run but weakly synchronized in the short run.

By combining lower labor costs in Mexico with higher-value production stages and logistics operations in the United States, firms are able to reduce overall production expenses while sustaining employment in transportation, warehousing, and manufacturing. This integrated structure, however, is vulnerable to policy shocks. Tariffs imposed within global value chains raise the cost of imported intermediate inputs, distort firms' sourcing decisions, and can force costly supply chain reconfigurations, ultimately reducing productivity, output, and consumer welfare (Eugster et al. 2022).

Figure 3. Correlation between Mexican manufacturing and U.S. logistics.



In the U.S.–Mexico context, higher U.S. tariffs on Mexican goods would likely diminish Mexican manufacturing activity and, given the strong employment linkage estimated above, reduce demand for U.S. transportation and warehousing workers—particularly in border cities reliant on cross-border freight flows. Tariffs would also increase production costs for vehicles and other manufactured goods produced within North America, contributing to higher consumer prices.

V. Inflation

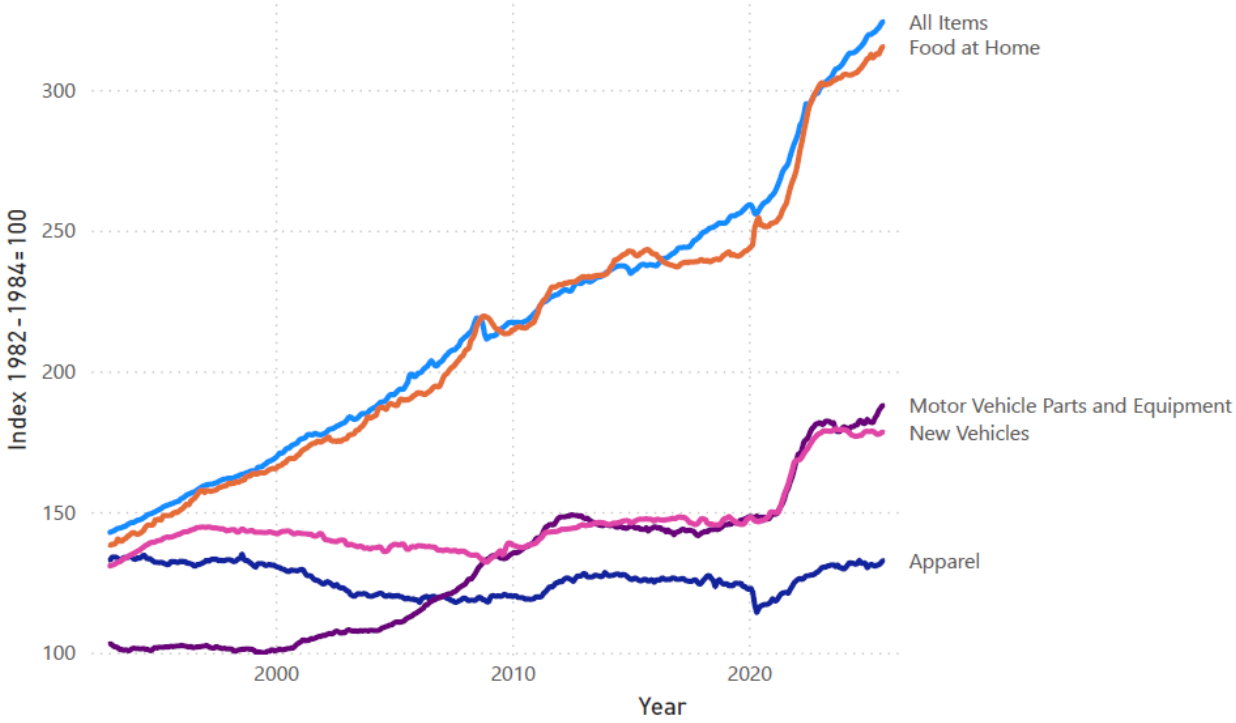
After the start of the COVID-19 pandemic in 2020, the United States, like many other countries, experienced a sustained period of elevated inflation. The all-items Consumer Price Index increased from roughly 260 basis points to more than 300 by 2023, reflecting economy-wide inflationary pressures. As shown in Figure 4, inflation affected every major sector. However, the categories highlighted are particularly vulnerable to trade disruptions with Mexico. According to the U.S. Department of Commerce, Mexican suppliers account for 42.5 percent of U.S. auto parts imports.

Mexico also provides about half of U.S. fresh fruit and vegetable imports and dominates specific items such as avocados, tomatoes, and berries, key components of the food-at-home category (Astill, Avendaño Ruiz, and Zahniser 2024). In the textile sector, approximately 90 percent of Mexican textile and apparel exports are destined for the United States, leaving both U.S. consumers and Mexican producers highly exposed to disruptions in this supply chain (CANAINTEX 2024).

Evidence from the 2018 trade war shows how tariffs feed directly into consumer prices. Amiti, Redding and Weinstein (2019) find that U.S. import tariffs were passed through almost one-for-one into the duty-inclusive prices of targeted imports. Making U.S. firms and consumers effectively pay the full cost.

Fajgelbaum et al. (2020) similarly estimate that the Trump-era tariffs and retaliation reduced U.S. real income by about 0.27 percent of GDP, driven by higher prices and distorted sourcing patterns. These tariff lists included many consumer goods included in Figure 4.

Figure 4. Consumer Price Index for all urban consumers, U.S. city average, monthly, seasonally adjusted.



Source: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis.

VI. Conclusion

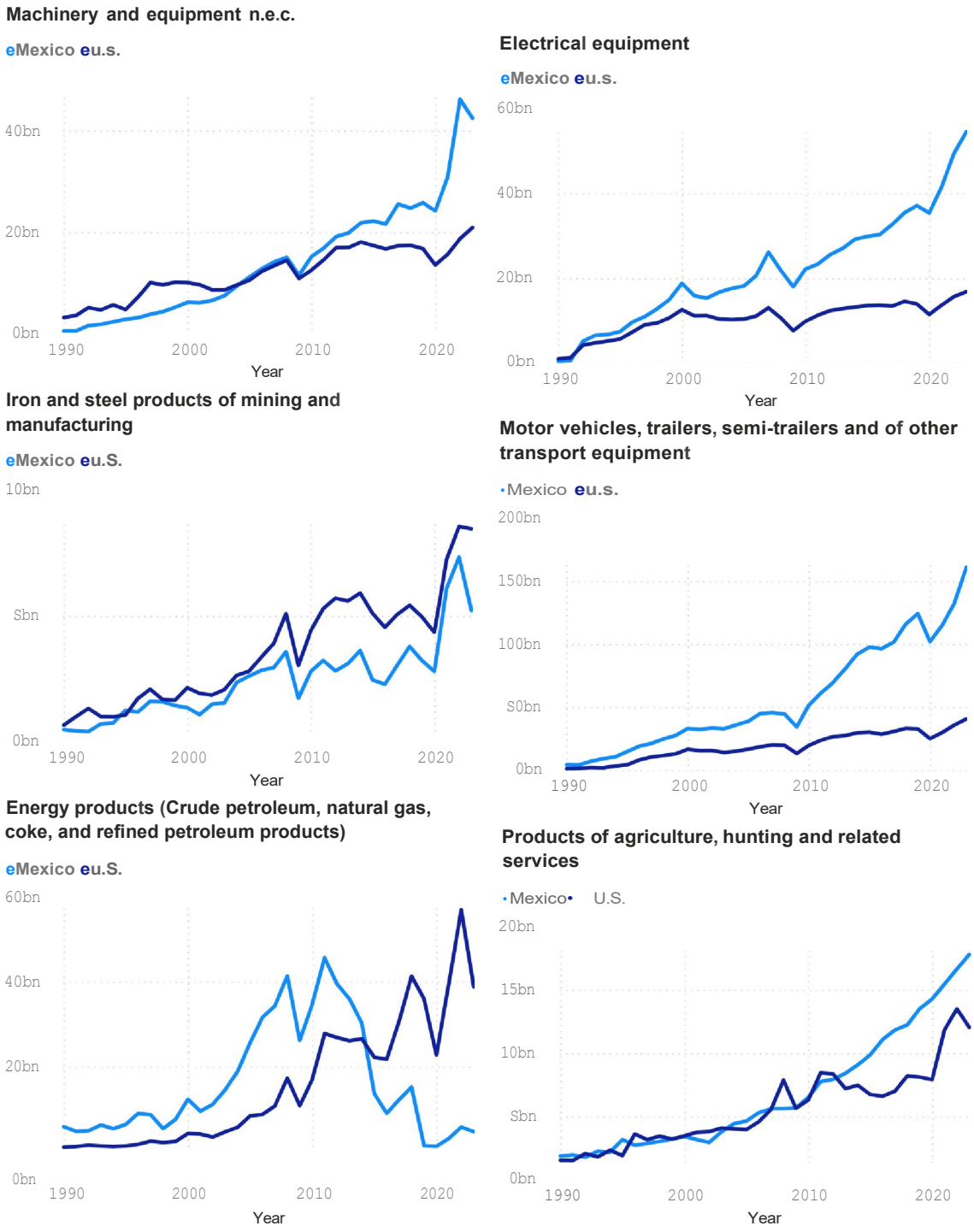
Evidence shows that U.S. tariffs on Mexican goods would impose significant economic costs while offering limited gains for domestic manufacturing like intended. Long-term structural forces suggest that tariffs are unlikely to reverse the decades-long decline in U.S. manufacturing employment. Instead, higher import duties would raise the cost of Mexican intermediate inputs, weakening U.S. producers' competitiveness and limiting any intended employment effects.

The close integration of U.S.–Mexico supply chains further amplifies the potential impact. The strong relationship between Mexican manufacturing employment and U.S. transportation and warehousing employment indicates that a decline in Mexican output would directly affect U.S. logistics sectors, especially in border cities dependent on cross-border freight.

Tariffs would also heighten inflationary pressures since Mexico supplies a large share of U.S. auto parts, produce, and textile goods, which have already experienced elevated price growth. Evidence from the 2018 tariffs shows that U.S. firms and consumers ultimately bear a large portion of the tariffs.

Finally, replacing long-established supply chains would be costly and slow, leaving both economies with higher production costs and reduced efficiency in the meantime. Overall, the results indicate that tariffs would impose widespread economic burdens on both countries, with particularly adverse effects on U.S. and Mexican producers, consumers, and border-region industries.

Figure 5. United States-Mexico bilateral exports, 1990-2023.



Note: Each country's line represents its exports to the other country.
Source: OECD Data Explorer - Bilateral Trade Indicators (BTIGE dataset).

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