

US trade war against Mexico (2025): key issues

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On February 1, 2025, the White House issued a press release detailing Trump's decision to impose tariffs on imports from its major trading partners: Mexico, Canada, and China. The tariffs were implemented under emergency presidential powers due to the «extraordinary threat» posed by illegal migration and drug trafficking. As a result, the US imposed a 25% ad valorem tariff on all imports from Canada and Mexico.

To analyze the consequences of imposing tariffs on Mexico and the US, it is necessary to provide a historical background. The current format of economic relations was formed after the creation of a free trade zone under the NAFTA agreement in 1994, which led to the elimination of most tariffs and the formation of cross-border production chains. In 2020, the agreement was replaced by USMCA, which strengthened requirements for rules of origin of goods, labor standards, and wage levels.

Regarding the possible reasons for Trump's duties introduction, the following can be cited: 1. Trump's election promise to reduce taxes, which, due to the US budget deficit, could be implemented through a new source of income — duties#_ftn1; 2. Trump and his administration cite one of their goals as increasing US industrial production, which has moved abroad over the past 30 years (since high-skilled labor is not required there), therefore to bring it back, it is necessary to make imports of goods into the US more expensive#_ftn2; 3. The huge US trade deficit with the world — about \$918 billion#_ftn3; 4. Duties as a formal reason — the introduction of trade barriers against drug trafficking and the flow of illegal migrants. Although Mexican President Claudia Sheinbaum promised to deploy 10,000 soldiers on Mexico's northern border and extradited 29 drug trafficking leaders to the US, the tariffs were not canceled or reduced, showing us the real goals of their introduction, which differ from the official ones. It should be noted that in 2026, the provisions of the USMCA agreement are to be reviewed, and the introduction of tariffs is a lever of pressure on the Mexico and Canada to conclude a more favorable agreement for the US.

Now let us consider the consequences of imposing tariffs for Mexico. To begin with, 80% of Mexico's exports are sent to the US, and since 2023, Mexico has been one of the US's main partners, pushing China into third place. The US imports 50% of all vegetables and fruits from Mexico; a high level of vertical trade integration allows Mexico to be a leader in the export of conductors and gearboxes, passenger cars, and SUVs, cooperating with companies such as Ford and General Motors. After the introduction of tariffs, the work of regional production chains has been disrupted, as it has become unprofitable to transport an intermediate product across the border several times (for example, seat belts for cars cross borders dozens of times). The introduction of tariffs will hinder the fulfillment of Mexico's Plan to increase the investment ratio to 28% by 2028, because the introduction of tariffs undermines the confidence of external investors in the stability of the Mexican economy in the next 20-30 years. Trump's economic protectionism gives Mexico the opportunity to rethink its growth model: to launch the process of

state investment in the economy and to reorient economic partnerships in favor of the European Union and China. At the beginning of 2025, the Mexican president launched a package of tax incentives to promote foreign companies in Mexico. In turn, the introduction of retaliatory tariffs for the US also negatively affects Mexico's economy, influencing fluctuations in the Mexican peso exchange rate and reducing the supply of vital American energy resources to Mexico.

Advancing to the analysis of the consequences of imposing tariffs for the US, it should be said that the introduction of a generalized ad valorem tariff of 25% in the short term will incur losses for importing companies and final consumers in the United States, who will see rising prices and loss of producer competitiveness. The states heavily exposed to trade with Mexico will suffer the most from new tariffs (such as Texas and California) and will experience large losses in real income. Large American companies may lose a cheap way to produce and sell their goods, and ordinary residents will lose cheap agricultural products and equipment from Mexico#_ftn4.

Turning to the conclusions, we can say that the costs of duties will fall primarily on American companies and consumers, which will lead to higher prices and a loss of competitiveness of the North American region in the face of Asia. For Mexico, the main risk is uncertainty, which deters investment and weakens the potential for non-offshoring. The uncertainty and instability that these measures have introduced into the global trading system, in turn freezing long-term infrastructure investments and disrupting supply chains around the world, will lead to disruption in the automotive, agricultural and industrial sectors, as well as lead to recession, increased unemployment and the loss of beneficial cooperation, the potential of which is enormous. Despite the scale of tariffs, a complete separation of the economies is impossible due to the high interdependence. Thus, the trade conflict in 2025 was not a break in relations, but a manifestation of a new stage — a tougher, politicized model of economic interaction.

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