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## The future trade relationship between Mexico and the United States, amid concerns over Mexico-China Trade\*

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## I. Introduction

The United States-Mexico-Canada agreement (USMCA) and the North American Free Trade Agreement (NAFTA) before it have helped to generate and continue an integrated North American economic juggernaut whose goods manufacturers and services producers compete effectively with their counterparts in Asia (particularly China) and the European Union. In 2024, total intra-regional trade amounted to \$2.24 billion (U.S.-Mexico, \$917.4 billion, U.S.-Canada, \$761.8, Canada-Mexico, \$56 billion) in goods and an estimated \$130.8 billion in services<sup>1</sup>. Many sectors, particularly autos and auto parts, produce high quality products at relatively moderate cost. In addition to serving well the businesses, workers and consumers in all three countries, the integration makes exports to third countries highly competitive in price and quality. Overall, according to the International Monetary Fund, North America in 2024 accounted for 29% of global GDP. According to the Brookings Institution, regional trade drives 56.2 million total jobs, of which more than 10 million depend directly on goods exports<sup>2</sup>.

The first Trump Administration was generally successful in modernizing and modifying NAFTA in 2017-2020, a significant and welcome achievement. Unfortunately, the highly protectionist “America First” Trump second term trade policies, with major departures from the United States’ obligations under the USMCA and the General Agreement on Tariffs and Trade (GATT), threatens to upend more than thirty years of North American economic integration, particularly in key sectors



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- \* This essay is part of the forthcoming book “Rethinking the idea of North America in the third decade of the 21<sup>st</sup> century”.
  - 1 “United States-Mexico Canada Agreement,” undated, *Office of the United States Trade Representative*, <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement>.
  - 2 “The USMCA holds the pieces to North America’s prosperity and competitiveness,” March 19, 2025, *Mexico Comovamos*, <https://mexicocomovamos.mx/publicaciones/2025/03/the-usmca-holds-the-pieces-to-north-americas-prosperity-and-competitiveness/#:~:text=The%20North%20American%20auto%20industry%20today,%25%20growth%20since%20COVID%2D19>.

such as automotive goods. Without a robust USMCA, at a time of increased geopolitical uncertainty and confrontation, it is unlikely that the United States will be able to compete effectively in the future with China and other major players in the global market.

Of total world trade of approximately \$22.6 trillion in 2023, China accounts for \$3.4 trillion and the United States for \$2.52 trillion. The United States accounts for about 11.2% of world trade (compared to about 15.1% for China<sup>3</sup>. Moreover, maintaining a robust share of world trade world trade, including that with Canada and Mexico, brings with it a level of U.S. negotiating power beyond strictly economic issues that cannot be maintained otherwise.

The current threat to U.S. competitiveness is serious. The USMCA parties need each other, particularly with regard to autos and auto parts, steel, aluminum and copper, and other essential elements that are essential for a vibrant manufacturing sector. Strong economic growth, employment, investment and political stability depend on such integration, as does the continuing process of de-linking with China. Nor does the United States need adversaries on its borders. Unfortunately, USMCA today is to a considerable extent an agreement on paper only with high tariffs on many goods, even originating aluminum, steel, copper, trucks and autos. The harm caused by such policies, to the United States as well as Mexico and Canada, creates an existential risk to the United States and to Mexico and Canada as well.

The Mexico-China trade and investment relationship is becoming a significant element of the broader United States-China rivalries. It therefore is materially complicating the United States-Mexico trade relationship under the USMCA. While the United States in Mexico's largest and most important trading partner, China is number two, with Mexico risking being caught in the middle. The China factor also risks spilling over into other aspects of United States-Mexican relations.

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<sup>3</sup> OEC World Trade, 2024, OEC, <https://oec.world/en/profile/world/wld>.

This chapter is organized as follows: Part II reviews the current (October 31, 2025) U.S. tariffs on goods from Mexico and Canada. Part III summarizes the issues likely to be present leading up to and during the critical 2026 USMCA review. Part IV focuses on the “elephant in the room,” China, and how China is likely to affect United States-Mexican relations, during the review and beyond. Part V briefly discusses the challenges to the USMCA and to future North American cooperation of Mexico’s current shift from a democratic to a one-party state under President Sheinbaum, former President Lopez Obrador and the dominant Morena Party. Part VI presents conclusions and recommendations.

## II. Tariffs under the USMCA and Under Trump

Through 2024, goods exported from Mexico and Canada to the United States enjoyed duty free entry when they qualified as originating goods under the USMCA rules of origin and presented the proper documentation<sup>4</sup>. Others, provided that they met the U.S. “substantial transformation” test entered the United States until April 2025 paying the GATT-mandated MFN tariffs, many of which were zero under the Information Technology Agreement and other Uruguay Round agreements<sup>5</sup>. Since the weighted average U.S. MFN tariffs were only about 2.5-3.5% they were usually not a significant burden. For example, the 2.5% MFN duty on automobiles was probably no more onerous than the administrative costs of proving that the vehicle met the complex automotive rules of origin<sup>6</sup>.

All of this changed beginning in January 2025, allegedly due to Mexico (and Canada’s) failure to stem the flow of fentanyl into the United States. As of the end of October 2025, the U.S.

<sup>4</sup> See Julio Ortiz, “How to Qualify for USMCA Duty-Free Treatment (Without the Headaches)” August 6, 2025, *EP Logistics*, <https://eplogistics.com/blog/how-to-qualify-usmca-duty-free/>.

<sup>5</sup> See WTO Information Technology Agreement, December 1996, [https://www.wto.org/english/tratop\\_e/inftec\\_e/inftec\\_e.htm](https://www.wto.org/english/tratop_e/inftec_e/inftec_e.htm).

<sup>6</sup> For autos, 75% North American content, 40% of total production costs in companies at least \$16/hour, and high percentages of North American steel and aluminum. See USMCA, appendix to Annex 4-B.

tariffs applicable to imports from Mexico can be summarized as follows:

- 0% – Goods that meet USMCA rules of origin (with exceptions noted below);
- 25% – Autos, auto parts and trucks (with various adjustments and credits for embedded U.S. content);
- 50% – steel aluminum and copper (except raw copper);
- 10%-100% – lumber, wood products, furniture, kitchen cabinets, heavy trucks, pharmaceutical products and potentially other categories in the future)<sup>7</sup>.

The tariffs on Mexico are both more favorable and less favorable than those on goods from competing countries. They are more favorable for imports that meet USMCA rules of origin but can be less favorable in other circumstances. For example, U.S. tariffs on autos imported from Mexico and Canada's major competitors, Japan, South Korea and the European Union currently are "only" 15%<sup>8</sup>. Since Mexico is a major trading nation, it will suffer to the extent competing goods entering the U.S. market are taxed at a lower tariff rate. However, rates are far higher on most imports from Brazil (50%), India (50%) or China (25% to more than 55%)<sup>9</sup>. While some have contended that 85% or so of Mexican exports to the United States qualify for duty-free treatment<sup>10</sup>, others are skeptical. Mexico is the largest single auto exporter to the United States, the third-largest steel exporter, and a major exporter of downstream copper and aluminum products, as well as heavy trucks and furniture, among others. It seems obvious that those originating goods that are nevertheless subject to high tariffs include a significant portion of total exports to

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<sup>7</sup> See Michael Lowell et al., "Trump 2.0 Tariff Tracker," October 10, 2025, *ReedSmith*, <https://www.tradecomplianceresourcehub.com/2025/10/15/trump-2-0-tariff-tracker/>.

<sup>8</sup> *Ibid.*

<sup>9</sup> *Ibid.*

<sup>10</sup> See Jesus Canas, Diego Morales-Burnett and Luis Torres, "Mexico's economy surprises to the upside, but outlook is weak, October 16, 2025, *Federal Reserve Bank of Dallas*, <https://www.dallasfed.org/research/economics/2025/1016>.

the United States; autos alone account for 15%-30% of total export value<sup>11</sup>.

It must be emphasized that the tariff rates listed for Mexico and other exporters to the United States are virtually never final. Rather, since April 2025, when “reciprocal” tariffs were threatened on all U.S. trading partners, it has become evident that they are always subject to change, despite the ongoing uncertainties created for exporters, importers, investors, businesses and consumers. For example, the United States threatened to increase the base 25% tariffs for Mexican non-USMCA compliant goods noted above to 30% as of November 1<sup>12</sup>.

### III. The 2026 “Review”

For reasons outlined earlier, the overriding aim of the 2026 review, mandated by the Trump-negotiated USMCA<sup>13</sup>, should be to enhance U.S. (and North American) competitiveness through improvements made in the USMCA, and avoid measures that could reduce efficiency, raise costs for consumers, threaten jobs, cause substantial inflation, jeopardize exports and in general enhance China’s ability to compete more effectively worldwide with the United States.

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<sup>11</sup> See Julia Contreras, “Restricting imports of Mexican vehicles will harm US manufacturers,” December 4, 2024, *Peterson Institute for International Economics*, <https://www.piie.com/blogs/realtime-economics/2024/restricting-imports-mexican-vehicles-will-harm-us-manufacturers#:~:text=Mexico%20would%20suffer%20from%20these%20steps%2C%20since,exports%20to%20the%20United%20States%20in%202023.>

<sup>12</sup> AQ Editors, “REACTION: Trump Threatens 30% Tariffs on Mexico,” July 14, 2025, *Americas Quarterly*, <https://americasquarterly.org/article/reaction-trump-threatens-30-tariffs-on-mexico/>.

<sup>13</sup> USMCA, article 34.1.

The review, slated to begin in July 2026, is to take place at a time when bilateral negotiations may be ongoing with Mexico, Canada<sup>14</sup> and various third countries as well as of course with China. Moreover, the distinction between the 2026 USMCA review, for which all three Parties are preparing through soliciting comments from stakeholders, and bilateral negotiations, is likely to be increasingly blurred. Bilateral negotiations between the United States and Mexico and the United States and Canada will likely continue beyond November 2025. U.S. Trade Representative Jamison Greer, one of the principal US negotiators, has made it clear that much of the negotiations taking place now and during the 2026 review will be bilateral rather than trilateral so the US can focus on important issues, such as access to the energy markets in Mexico and to the milk products market in Canada<sup>15</sup>.

It is also a time when the United States has flagrantly violated key provisions of the USMCA and the General Agreement on tariffs and trade, and likely will continue to do so after the review. Under the USMCA, those violations include provisions on national treatment and market access; rules or origins and GATT “bound” MFN tariffs incorporated by reference<sup>16</sup>.

While the demands of the United States are not fully decided, it seems likely that the United States will increase economic pressures on Mexico through

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<sup>14</sup> As of October 23, 2025, talks with Canada were suspended. See Ana Swanson and Matina Stevis-Gridness, “Trump Says He’s Cutting Off Trade Negotiations With Canada,” October 23, 2025, *New York Times*, <https://www.nytimes.com/2025/10/23/us/politics/trump-trade-negotiation-canada.html>.

<sup>15</sup> Jason Asenso, “Greer: USMCA review talks will lean more bilateral than trilateral,” October 1, 2025, World Trade Online, <https://insidetrade.com/daily-news/greer-usmca-review-talks-will-lean-more-bilateral-trilateral>.

<sup>16</sup> See, e.g., USMCA article 1.1 (WTO obligations); chapter 2 (national treatment and market access); chapter 4 (rules or origin, automotive appendix); GATT articles I (unconditional MFN treatment); II (bound tariffs); III (discrimination against imports) and XXIV (rules governing free trade agreements).

- A.** new rules of origin designed to assure that more goods for U.S. consumption are produced in the United States;
- B.** measures to discourage Chinese investment in and trade with Mexico, along with mechanisms to apply high tariffs to “transshipped” goods (see Part IV, below)
- C.** demands that Mexico restore the Pena-Nieto energy reforms (very difficult politically for Sheinbaum); and
- D.** demands to resolve outstanding investment disputes.

On the positive side, cooperation on critical minerals, data transfer protection and perhaps AI may also be the subject of the consultations<sup>17</sup>.

Mexico for its part may look for:

- E.** reduction of the tariffs on USMCA-compliant autos, auto parts and trucks to zero, or re-establishing a tariff-rate quota like that guaranteed in a USMCA side letter<sup>18</sup>, or parity (15%) with auto tariffs applicable to cars from the EU, Japan and South Korea;
- F.** reduction of 50% tariffs on steel, aluminum and copper, and those on wood, furniture, pharmaceutical products and chips, to a much lower level, or a tariff/rate quota for zero tariffs;
- G.** assurances that no additional Mexican products will be subject to increased tariff for an extended period, particularly under the ubiquitous section 232<sup>19</sup>; and
- H.** resistance to pressures to allow expanded private investment in fossil fuel and electrical energy.

<sup>17</sup> Diego Marroquín Bitar, Christopher Hernandez-Roy, and Earl Anthony Wayne, USMCA Review 2026 Pathways, Risks, and Strategic Considerations for North America’s Economic Future,” August 18, 2025, *Center for Strategic and International Studies*, <https://www.csis.org/analysis/usmca-review-2026>.

<sup>18</sup> November 30, 2018, [https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/MX-US\\_Side\\_Letter\\_on\\_232.pdf](https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/MX-US_Side_Letter_on_232.pdf).

<sup>19</sup> Section 232 of the Trade Expansion Act of 1962, Publ. Law 116-93, <https://www.congress.gov/crs-product/IF13006>. The statute authorizes the president to impose tariffs and other measures if the imports “threaten to impair” U.S. national security. Numerous section 232 investigations have been conducted by the Department of Commerce in the past, including seven in the first Trump term.

## IV. Mexico, China and the United States: Investment and Trade

One of the greatest challenges for the current and future United States-Mexico trade relationship is dealing effectively with the “elephant in the room,” China. Most American policymakers in the Trump Administration and generally Congress agree the China poses an existential and pervasive threat to the United States economically, politically and militarily, despite the President’s occasional less belligerent statements about Chairman Xi and the U.S.-Chinese relationship more broadly)<sup>20</sup>. Moreover, this challenge not only exists today but may dominate U.S. policies for decades. Given the worldwide rivalries, addressing China in North America is only one aspect of the broader challenge, albeit a complex one. A well-functioning USMCA that maintains North American economic integration and competitiveness can assist the United States in meeting the economic threat by providing expanded non-China-dependent supply chains for American manufacturers and assisting them in efficient production that will maintain or increase employment, stimulate exports and benefit both businesses and consumers in the United States, Mexico and Canada. Whether the USMCA can facilitate those objectives in the future remains to be seen.

At the same time, it is in the U.S. national interest to protect against Chinese goods made in Mexico exported to the United States that threaten national security, such as the potential importation of “connected vehicles” assembled in Mexico that could be utilized for espionage, inter alia, against American military installations and powerplants<sup>21</sup>. Given Chinese history of industrial espionage this was not an irrational fear.

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<sup>20</sup> See Noah Robertson, “GOP hawks feel the whiplash of Trump’s China policy” October 25, 2025, Washington Post, <https://www.washingtonpost.com/national-security/2025/10/24/xi-jinping-trump-china-summit/> (quoting Trump as saying, “I think we are going to end up with a fantastical deal with China”).

<sup>21</sup> “Connected Vehicles,” March 2025, *U.S. Department of Commerce*, <https://www.bis.gov/connected-vehicles>.

These regulations, enacted in the final days of the Biden administration, effectively ban Chinese vehicle imports into the United States, given that all presumably incorporate the offending hardware and software. The regulations apply equally to connected vehicles from China, Turkey, the EU, Brazil and anywhere else where they are produced by Chinese enterprises.

Beyond connected vehicles and much more broadly, there is a need for guidance to help the governments and affected stakeholders determine which goods pose national security risks, such as China-produced connected vehicles, certain medical devices and chips, and those that do not, such as consumer electronics, furniture and the like.

As corollary to national security matters, the United States insists on addressing the problem of transshipment of what are considered Chinese goods to the United States via Mexico, after minimal processing and with little Mexican value added. A recent Brookings Institution study “finds that there is evidence pointing to China circumventing U.S. tariffs and entering the U.S. market mainly via Mexico, with some evidence of circumvention via Canada”<sup>22</sup>. Some such avoidance of high U.S. duties on direct Imports takes place through shipping Chinese goods to Mexico or Canada and reshipping them as Mexican or Canadian goods to the United States. Such transshipment has been charged, inter alia, regarding Chinese steel<sup>23</sup>. In other instances, exports from China to Mexico of components such as auto parts enter the United States after incorporation into vehicles assembled in Mexico.

The latter practice has been permitted under both NAFTA and the USMCA. For example, the USMCA rules of origin

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<sup>22</sup> John P. Meltzer and Maricarmen Barron Esper, “Is China circumventing US tariffs via Mexico and Canada?,” September 23, 2025, *Brookings*, <https://www.brookings.edu/articles/is-china-circumventing-us-tariffs-via-mexico-and-canada/#:~:text=Transshipment%2C%20which%20occurs%20when%20an,the%20WTO%20MFN%20tariff%20rate..>

<sup>23</sup> Jeff Newman, “China ships billions of finished products to Mexico labelling them made in Mexico evading tariffs when transported into U.S.,” March 29, 2025, *Jeff Newman Law*, <https://jeffnewmanlaw.com/china-ships-billions-of-finished-products-to-mexico-labelling-them-made-in-mexico-evading-tariffs-when-transported-into-u-s/>.

require, inter alia, that Mexican or Canadian autos exported duty-free to the United States under the USMCA incorporate at least 75% regional content<sup>24</sup>. This means that up to 25% of the value of the vehicle can come from non-North American sources, whether Chinese, South Korean, German or elsewhere. In some sectors, such as autos and consumer electronics, imports of substantial quantities of parts and components have been occurring in part because such components are generally not available in North America, are technologically superior and/or are less costly<sup>25</sup>.

While such transshipment may not raise national security issues, it interferes with U.S. policies designed to reduce the volume and value of Chinese-origin goods entering the United States. At the same time, the practice makes it possible for Mexican companies (whether owned by Chinese or other interests) to invest capital and employ workers as well as export the finished goods to the United States, Canada and elsewhere, and consume them in Mexico.

Hopefully, as discussions between the United States, Mexico and Canada (and many other affected countries, particularly in Asia) continue, defining what constitutes transshipment precisely will occur, so that U.S. and other foreign investors in Mexico and third countries do not inadvertently fall afoul of transshipment rules and become subject to unexpected high tariffs. U.S. government tariff rules provide promulgated in July 2025 call for a 40% tariff on goods determined to be transshipped, a potentially crushing burden, but detailed guidance is not yet available<sup>26</sup>. Such guidance will be important,

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<sup>24</sup> USMCA, chapter 4, Appendix on Automotive Goods, at 4-B-1, <https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/04%20Rules%20of%20Origin.pdf>.

<sup>25</sup> See Margaret Myers and Yifang Wang, "CHINA'S PRESENCE IN MEXICO'S AUTO SECTOR: What's at Stake for Mexico?," August 2025, *The Dialogue*, <https://thedialogue.org/wp-content/uploads/2025/08/Whats-at-Stake-for-Mexico-PubVer.pdf>.

<sup>26</sup> See "Further Modifying the Reciprocal Tariff Rates," July 31, 2025, Executive Order, the White House, <https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/#:~:text=Sec.%203.,transshipped%20to%20evade%20applicable%20duties>. While this Executive Order does not apply to Mexico and Canada, it can reasonably be assumed that future guidance on transshipment will be uniform.

inter alia, to encourage voluntary compliance by investors and traders, and to avoid unnecessary and costly litigation. Overly broad transshipment rules could adversely affect future trade and investment levels. If for example, the United States were to impose a rule that would consider goods with more than 30% foreign content, as is currently being discussed for some Asian countries<sup>27</sup>, it could make compliance difficult for countries such as Mexico where many producer supply chains are heavily dependent on foreign inputs.

The guidance could draw upon the long-standing “anti-circumvention” provisions of U.S. antidumping and countervailing duty law, applied inter alia in determining that solar panels assembled in Cambodia, Malaysia, Thailand and Vietnam and other countries that are exported to the United States should be treated as Chinese imports for duty purposes<sup>28</sup>. It would also seem logical that any goods produced in Mexico or Canada that meet USMCA rules of origin be automatically excluded from any anti-transshipment actions.

Limits on Chinese direct foreign investment in Mexico, perhaps through some sort of trilateral investment screening mechanism, may be a major issue for the 2026 Review and possibly in ongoing bilateral discussions. Estimates of Chinese FDI in Mexico, including through third countries such as Singapore, vary widely. Possibly the best estimate, which far exceeds official government figures through 2024 of about \$2 billion, is around \$15 billion. This is a substantial figure but less than 10% of estimated U.S. owned DFI in Mexico,

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<sup>27</sup> See Alexandra Stevenson, “The ‘Sleeper Issue’ at the Heart of Trump’s Trade War on China,” October 25, 2025, <https://www.nytimes.com/2025/10/25/business/trump-tariffs-southeast-asia-transshipment.html?smid=nytcore-ios-share&referringSource=articleShare> (noting as well that late October trade agreement with Malaysia contained no details as to how transshipment rules would be applied).

<sup>28</sup> Antidumping and Countervailing Duty Orders on Crystalline Silicon Photovoltaic Cells, Whether or Not Assembled Into Modules, From the People’s Republic of China: Final Scope Determination and Final Affirmative Determinations of Circumvention With Respect to Cambodia, Malaysia, Thailand, and Vietnam,” August 23, 2023, *88 Fed. Reg. 57419*, <https://www.federalregister.gov/documents/2023/08/23/2023-18161/antidumping-and-countervailing-duty-orders-on-crystalline-silicon-photovoltaic-cells-whether-or-not>.

\$145 billion<sup>29</sup>. The number would have been higher if a planned \$2 billion investment by Chinese automaker BYD had not been indefinitely postponed<sup>30</sup>.

Notably, the 150,000-capacity BYD facility was said to be intended to supply the Mexican domestic market and the approximately fifty countries with which Mexico has free trade agreements<sup>31</sup>, but observers have been skeptical. BYD may well have been taking a long-term view for a major investment in Mexico, but the political risks for President Sheinbaum from an adverse U.S. reaction were overwhelming. Other practical factors may also have discouraged Chinese automotive investment in Mexico. First, Chinese auto production at home substantially exceeds domestic capacity. In 2024, China produced about 31.4 million vehicles with domestic sales of around 26.3 million<sup>32</sup>. Manufacturers have a strong incentive to export the rest, typically with government subsidies. Secondly, Chinese government concerns over the effective movement of automotive jobs from China overseas cannot be discounted, particularly to markets considered risky, such as India, Russia and Turkey<sup>33</sup>. (There is no evidence that the Chinese government specifically cautioned against automotive investment in Mexico.)

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**29** Gabriel Collins, Tony Payan and David Gantz, "Quantifying Investments in Mexico by China-Linked Entities," January 30, 2025, Baker Institute for Public Policy, <https://www.bakerinstitute.org/research/quantifying-investments-mexico-china-linked-entities>.

**30** Leonardo Lara, "BYD Shelves Plans to Build Major Mexico Car Plant Over Trump's Trade War," July 2, 2025, *Bloomberg*, <https://www.bloomberg.com/news/articles/2025-07-02/byd-indefinitely-delays-planned-mexico-plant-amid-trade-war>.

**31** See "Mexico Country Commercial Guide: Mexico – Trade Agreements," undated, *Privacy Shield Framework*, <https://www.privacyshield.gov/ps/article?id=Mexico-Trade-Agreements#:~:text=Mexico%20has%2013%20Free%20Trade,Agreement%20for%20Trans%2DPacific%20Partnership>.

**32** Bill Russo, "State of China's Auto Market – January 2025," January 22, 2025, *Automobility*, <https://automobility.io/2025/01/state-of-chinas-auto-market-january-2025/>.

**33** Graeme Roberts, "China warns on overseas car plants," September 12, 2024, *JustAuto*, <https://www.just-auto.com/news/china-warns-on-overseas-car-plants/#:~:text=China's%20commerce%20ministry%20reportedly%20warned,and%20Thailand%2C%20one%20source%20said>.

President Sheinbaum in September 2025 proposed legislation which would increase tariffs substantially on over 1400 products, many of which are imported regularly from China<sup>34</sup>. They would apply only to imports from countries with which Mexico does not have free trade agreements. Of the higher tariffs, the increased tariff on autos (most of which are imported from China) from 20% to 50% was probably the most important. Since the announcement followed a (negotiating) visit from US Secretary of State Marco Rubio by two days, it is reasonable to assume that the increase was “requested” by the United States<sup>35</sup>. However, the tariff increase if implemented could produce additional, badly needed government revenue (estimated at \$3.8 billion) and in the auto sector, help to protect legacy auto producers in Mexico, such as Volkswagen, from ruinous Chinese competition<sup>36</sup>. The Mexican tariffs, which appear to be WTO consistent because they do not exceed Mexico’s GATT “bound” levels<sup>37</sup>, do not apply to imports from the dozens of countries with which Mexico has free trade agreements, including the US, Canada, the EU and Japan. While the focus, particularly with autos, was obviously China, the tariffs if ultimately applied in the form initially proposed could have a major impact on other significant trading partners such as South Korea.

The impact on the Mexican economy and its stakeholders remains to be seen. Mexico’s auto producers would probably benefit from somewhat higher prices for highly competitive Chinese autos sold in the Mexican market. Potential purchasers

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**34** MND Staff, “Good news for Trump: Mexico is planning to raise tariffs on Chinese imports,” August 28, 2025, *Mexico News Daily*, <https://mexiconewsdaily.com/business/mexico-chinese-imports-tariffs-trump-usmca/#:~:text=Hundreds%20of%20other%20Chinese%20products,have%20a%20free%20trade%20agreement>.

**35** See “Travel to Florida, Mexico, and Ecuador, September 2-4, 2025,” August 28, 2025, *U.S. Department of State*, <https://www.state.gov/secretary-travel/travel-to-mexico-and-ecuador-september-2-4-2025#:~:text=Summary,Marco%20Rubio%20Remarks%20to%20Press>.

**36** MND Staff, *op. cit.* See also Averbuch and Stillman, *infra*.

**37** See Maya Averbuch and Amy Stillman, “Mexico Tariff Hikes Will Follow WTO Rules, Generate \$3.8 Billion,” September 9, 2025, *Bloomberg*, <https://www.bloomberg.com/news/articles/2025-09-09/mexico-tariff-hikes-will-follow-wto-rules-generate-3-8-billion>.

of BYD and other Chinese brands, which in 2024 represented over 20% of the light vehicles sold in Mexico<sup>38</sup>, would likely have to pay more. Other increased tariffs could affect production costs for Mexican producers who still depend on Mexican supply chains and Mexican consumers, depending on the final list of covered products and the rates applied.

The proposed tariffs have been strongly protested by China, which has threatened unspecified retaliation against Mexico. Since China is Mexico's second largest trading partner, after the United States, these threats must be taken seriously. Mexico has agreed to discuss them with China<sup>39</sup>. It will be difficult for Mexico to placate both the US and China; as of the end of October 2025, the proposed legislation remains under review in the Mexican Congress. U.S.-Chinese bilateral relations are worsening because of China's new and wide-ranging restrictions on rare earth minerals and products made from them worldwide<sup>40</sup>. Even if the United States and China resolve current trade friction, the risks for Mexico of being caught between Mexico's two largest trading partners may well increase in the future.

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<sup>38</sup> See "For the first time in four years, sales of Chinese cars in Mexico (including those manufactured by General Motors in China) grew by less than 10%," January 13, 2025, *AmericaEconomia*, [https://www.americaeconomia.com/en/node/290121#:~:text=In%202024%2C%20sales%20of%20new,was%20still%20just%200.3%20percent.\(302,837 units represented 20.2% of the relevant market\).](https://www.americaeconomia.com/en/node/290121#:~:text=In%202024%2C%20sales%20of%20new,was%20still%20just%200.3%20percent.(302,837%20units%20represented%2020.2%20of%20the%20relevant%20market).)

<sup>39</sup> Diego Ore and Emily Green, "Mexico to discuss tariff hikes with China and others before making law," October 9, 2025, Reuters, <https://www.reuters.com/business/autos-transportation/mexico-discuss-tariff-hikes-with-china-others-before-making-law-2025-10-09/>.

<sup>40</sup> Gracelin Baskaran, "China's New Rare Earth and Magnet Restrictions Threaten U.S. Defense Supply Chains," October 9, 2025, *Center for Strategic and International Studies*, <https://www.csis.org/analysis/chinas-new-rare-earth-and-magnet-restrictions-threaten-us-defense-supply-chains#:~:text=Under%20the%20measures%20announced%20today,earth%20elements%20sourced%20from%20China.>

## V. Challenges from Mexico's Investment Climate

In recent years, Mexico's poor investment climate has likely discouraged many investors who might have chosen Mexico in the process of de-linking with China, rather than Vietnam, Malaysia or other Asian countries. The danger of further discouraging new investment and job creation has almost certainly increased as Mexico returns to single-party government<sup>41</sup>. In July 2025 Mexico discharged half of its appointed judges, replacing them with elected ones of limited competence but strong adherence to the Morena Party. The other half are to be elected in 2027. The Sheinbaum government has also emasculated the Amparo Law, Mexico's principal protection of citizen and enterprise legal rights<sup>42</sup>.

Major regulatory bodies responsible for competition, telecommunications, energy and transparency, among others, have lost their independence with functions transferred to ministries that are part of the presidency<sup>43</sup>. Perhaps most significantly overall, the Pena-Nieto administration's 2013 constitutional and legal energy reforms have been reversed, affording Pemex and the Corporacion Federal de Electricidad (CFE) broader monopoly powers reflecting Mexican statist energy policies of the 1960s and 1970s<sup>44</sup>. As one observer has noted,

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<sup>41</sup> See David A. Gantz, "What Does Mexico's Impending Return to Single-Party Governance Mean for Attracting FDI?," June 25, 2024, *Baker Institute for Public Policy*, <https://www.bakerinstitute.org/research/what-does-mexicos-impending-return-single-party-governance-mean-attracting-fdi>.

<sup>42</sup> See MND Staff, "Congress approves major reform to the Amparo Law, Mexico's main legal rights protection," October 16, 2025, *Mexico News Daily*, <https://mexiconewsdaily.com/news/amparo-law-reform-approved/>.

<sup>43</sup> Ana Sofia Rios, Ana Paulo Merino and Paulina Macias, "Compliance in Mexico amid a rapidly evolving legal and regulatory landscape," August 29, 2025, *Latin Lawyer*, <https://latinlawyer.com/guide/the-guide-corporate-compliance/sixth-edition/article/compliance-in-mexico-amid-rapidly-evolving-legal-and-regulatory-landscape>.

<sup>44</sup> See Edward Dougherty and Luis Clouet, "Mexico's Energy Reform: A Return to State Control," April 11, 2025, *Herbert Smith Freehills Kramer*, [https://www.hsfkramer.com/en\\_US/notes/latamlaw/2025-posts/mexicos-energy-reform-a-return-to-state-control](https://www.hsfkramer.com/en_US/notes/latamlaw/2025-posts/mexicos-energy-reform-a-return-to-state-control).

The reform is expected to have far-reaching implications for Mexico's energy landscape. By prioritizing state control, the government aims to ensure energy sovereignty and security. Private investment in the energy sector is not prohibited or cancelled. However, the limitations on its participation have raised concerns about potential impacts on investment and market competitiveness. Investor uncertainty has been further exacerbated by the dissolution of autonomous regulatory bodies (such as CRE and CNH), which may deter foreign investment<sup>45</sup>.

All of these "reforms" have been enthusiastically endorsed by President Sheinbaum as well as her predecessor Lopez Obrador and super-majorities in the Morena Party<sup>46</sup>. Thus, efforts to moderate the impact of these changes would be difficult for President Sheinbaum even if she were otherwise interested in doing so.

Mexico has also ignored certain provisions of the USMCA, including those relating to transparency and to the more open energy markets established by the Pena-Nieto administration and guaranteed under the USMCA<sup>47</sup>. While she seems to have made some progress in dealing with drug cartels<sup>48</sup>, it is unclear after a year whether she can successfully address energy shortages, infrastructure weaknesses, government revenues and general crime, among others.

Chinese investors have some advantages over those from the United States and many other countries. They likely have few concerns about Mexico's return to single party government or lack of rule of law, since they are used to dealing with a unitary executive, the Chinese Communist Party, which

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<sup>45</sup> *Ibid.*

<sup>46</sup> See Stephanie Brewer, "Claudia Sheinbaum's first year: 5 key points on democracy and human rights, October 1, 2025, WOLA, <https://www.wola.org/analysis/claudia-sheinbaums-first-year-5-key-points-on-democracy-and-human-rights/>.

<sup>47</sup> See, e.g., USMCA article 32.11 (effectively affording U.S. investors for investments in Mexico that are no more restrictive than permitted to investors governed by other Mexican free trade agreements, such as the Comprehensive and Progressive Trans-Pacific Partnership).

<sup>48</sup> See Travis Bembenek, "Claudia versus the cartels: A perspective from our CEO," May 31, 2025, *Mexico News Daily*, <https://mexiconewsdaily.com/news/claudia-versus-cartels-ceo-perspective/>.

controls legislative and judicial functions as well; separation of powers does not exist in China<sup>49</sup>. Mexico desperately needs additional manufacturing investments to create new jobs, transfer technology and generate exports to anywhere other than the United States, some of which Chinese investors seemed willing to offer as the fall of 2024. Ironically, U.S. tariffs in 2025, along with uncertainties regarding future tariff policies, have reduced the attractiveness of such investment, and not only in the auto sector. As of the end of October 2025, imports of goods into the United States from Mexico that do not meet USMCA rules of origin (including most of those dependent on Chinese supply chains) are dutiable at 25%, with a possible increase to 30% in November<sup>50</sup>. This is less than tariffs applicable to some goods exported directly from China (which can exceed 55%)<sup>51</sup> but a far cry from the average 2.5-3.5% MFN tariffs that applied in 2024 and earlier. Moreover, U.S. tariffs on Chinese imports are always subject to change by decision of the Trump administration, even more than those applicable to Mexico and Canada. Given the uncertainties over future tariff levels and ongoing threats from the United States against goods produced or assembled in Mexico by Chinese owned companies, it seems unlikely that many potential Chinese investors in Mexico would be willing to accept the risks.

A good example is auto production (even if banned for other reasons). Initial Chinese auto production in Mexico for Chinese producers such as BYD, would rely extensively for five years or more on parts and components imported from China into Mexico rather than local supply regional supply chains,

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<sup>49</sup> See "China anniversary: How the Communist Party runs the country," October 5, 2022, *BBC*, <https://www.bbc.com/news/world-asia-china-49631120>.

<sup>50</sup> Turenna Eamirez Ortiz, Uriel Martinez and Juan Manuel Loaeza, "90-Day Suspension of the U.S. Application of 30 Percent Tariffs on Products from Mexico," August 7, 2025, *Holland & Knight*, [https://www.hklaw.com/en/insights/publications/2025/08/pausa-en-aplicacion-de-aranceles-del-30-a-productos-mexicanos#:~:text=U.S.%20President%20Donald%20Trump%20announced,%20Canada%20Agreement%20\(USMCA\)..](https://www.hklaw.com/en/insights/publications/2025/08/pausa-en-aplicacion-de-aranceles-del-30-a-productos-mexicanos#:~:text=U.S.%20President%20Donald%20Trump%20announced,%20Canada%20Agreement%20(USMCA)..)

<sup>51</sup> ReedSmith, "Trade Compliance Resource Hub," October 10, 2025, *ReedSmith*, <https://www.tradecomplianceresourcehub.com/2025/10/18/trump-2-0-tariff-tracker/>.

localized parts become available<sup>52</sup>. Under such circumstances, at least initially, a BYD automobile if assembled in Nuevo León could not possibly meet the strict USMCA rules of origin (including 40% of total content resulting from factories paying \$16 per hour, 75% regionally produced steel and 75% North American content overall)<sup>53</sup>. Rather, it would represent an estimated 60-75% Chinese content and only about 25% Mexican content (mostly labor). If cars assembled in Mexico could have met the American “substantial transformation” test, which seems reasonably likely, in the past they would have been subject to the US MFN duty for cars and SUVs of only 2.5%. But such low U.S. MFN tariffs are relics of the past.

## VI. Conclusions

Several caveats must be constantly kept in mind by Mexico (and all US trading partners). First, it is evident that the Trump administration has little if any respect for the United States’ obligations under the GATT and WTO agreements, USMCA, and under multiple other US FTAs with, inter alia, Australia, Chile, Colombia, Peru, Singapore and South Korea. Trade decisions by the U.S. government, at least until 2029, will be made essentially without regard to such obligations, based in part on highly questionable assertions that national security exceptions apply<sup>54</sup>.

Given the multiple violations by the Trump tariffs of USMCA obligations relating to national treatment, rules of origin establishing duty-free entry, and GATT MFN tariff bindings, among

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<sup>52</sup> See Huang Lin, “China’s Carmakers Build Plants in Brazil to Meet Booming EV Demand, Beat Tariffs,” July 24, 2025, *Yicai*, <https://www.yicai.com/news/chinese-carmakers-localize-in-brazil-amid-ev-boom-and-tariff-hikes#:~:text=Chinese%20carmakers%2C%20including%20JAC%20Motors,%2C%20batteries%2C%20and%20smart%20manufacturing> (discussing efforts of Chinese car makers in Brazil to develop local sources for core components).

<sup>53</sup> USMCA, chapter 4 (rules of origin), APPENDIX PROVISIONS RELATED TO THE PRODUCT-SPECIFIC RULES OF ORIGIN FOR AUTOMOTIVE GOODS, at 4-B-1-1 et seq, <https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/04%20Rules%20of%20Origin.pdf>.

<sup>54</sup> See, e.g., GATT, article XXI; USMCA, article 32.2.

others, it is reasonable to question whether any such agreement, including any revised USMCA emerging from the 2026 review, could be relied upon by Mexico (or Canada).

Secondly, at least through January 2029, the Trump administration seems likely to continue to thrive on creating chaos and uncertainty in trade, international relations generally and other sectors. This will surely affect Mexico. To date at least, Mr. Trump has not, unlike with Canada and Greenland, threatened annexation. However, his colleagues have from time to time threatened to invade Mexico to deal with drug cartels<sup>55</sup>, although in my view such actions are unlikely to occur. However, such uncertainties, along with those created by the Sheinbaum administration, will likely be continuing and will chill investment and job creation in Mexico as well as the United States and worldwide.

Third, both U.S. political parties have broadly repudiated 1947-2015 globalization. Trump's 10% base tariffs may well be the new normal, with the 2.5-3.5% average MFN tariffs gone forever<sup>56</sup>. One can hope that when and if there is another Democratic president he or she will provide improved tariff treatment not only to Canada and Mexico, but to close allies such as the EU, UK, Korea, and Japan, and to friends such as Singapore and Vietnam. However, given traditional Democratic Party protectionism, a broad return to low U.S. MFN tariffs seems unlikely. In the United States and elsewhere, tariffs once raised are difficult to reduce due to stakeholder pressures.

Fourth, the bitter rivalry, accurately characterized as a "trade war," between the United States and China, seems almost certain to continue in the foreseeable future. U.S. efforts to delink the U.S. economy from the Chinese economy will continue, although the speed, success and wisdom of these efforts is

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<sup>55</sup> Nadine Yousif, "Mexico rules out Trump's reported military plan against drug cartels," August 9, 2025, *BBC*, <https://www.bbc.com/news/articles/c07pdel9vyjo>.

<sup>56</sup> See Patricia Cohen, "Why It Seems Everything We Knew About the Global Economy Is No Longer True," June 18, 2023, *New York Times*, <https://www.nytimes.com/2023/06/18/business/economy/global-economy-us-china.html#:~:text=Globalization%2C%20seen%20in%20recent%20decades,by%20the%20war%20in%20Ukraine.%E2%80%9D>.

uncertain. Even should more thoughtful U.S. trade and other economic policies be implemented in the future, they would probably slow but not reverse China's ascendancy. China's ability to overtake the US economically and politically in such areas as EVs, AI, responses to climate change and defense may well accelerate as a result of current U.S. tariff policy, along with defunding of universities' research, decline of U.S. "soft" influence on many countries, elimination of foreign aid, emasculation of the Voice of America, reduced support for human rights, draconian attacks on undocumented immigrants and unwise limits on legal immigration<sup>57</sup>. A tariff policy that frequently does not distinguish between allies and adversaries does not seem to be a sensible approach to maintaining U.S. influence. The U.S. decline will likely take place despite many Chinese missteps and frequent overreaching<sup>58</sup>.

Thus, in this new world order, in which America is stepping back from its post-World War II global leadership role, I believe U.S. policies toward China will have a significant ongoing impact on U.S.-Mexico and U.S.-Canada relations. It seems almost certain that U.S. concerns over rising Chinese hegemony will affect U.S.-Mexico trade as well as actual and potential Chinese trade with and investment in Mexico. The policies may also affect Mexican trade with such countries as Vietnam, India and Indonesia that serve as surrogates for China.

As noted earlier, some of the U.S. concerns over national security aspects of goods that might be produced in Mexico by Chinese firms, such as connected vehicles or chips, are rational, while those relating to consumer electronics, most auto parts and furniture are not. One of the greatest challenges for President Sheinbaum and her successors will be to encourage the U.S. government to differentiate between national-security-related Chinese trade with and investments in Mexico,

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<sup>57</sup> See, e.g., Hal Brands, "Three Ways America's World Order Could Collapse," July 28, 2025, *American Enterprise Institute*, <https://www.aei.org/op-eds/three-ways-americas-world-order-could-collapse/>.

<sup>58</sup> Jing Qian and Jennifer Choo, "Preface | China 2025: Navigating Persistent Challenges and Familiar Uncertainties," December 9, 2024, *Asia Society Policy Institute*, <https://asiasociety.org/policy-institute/china-2025-what-watch>.

and the many which are not, so that Mexico can continue to seek new investment from China as well as other sources. It is too early to tell whether “America First” United States trade policies, including friction over Chinese- Mexico trade policies, will do irreparable damage to future United States-Mexico relations.



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