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Mexico's Tariff Shift: What is Changing and Why it Matters

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Introduction

On December 10, 2025, Mexico's President, Claudia Sheinbaum, announced a sweeping tariff overhaul set to take effect on January 1, 2026. The move raises duties of up to 50 percent on more than 1,400 products from countries without Free Trade Agreements (FTAs), marks a significant shift in Mexico's trade policy at a time of heightened global trade uncertainty. The tariff hikes pose a significant threat to Indian exports to Mexico. In response, India has started engaging in discussions on a possible Preferential Trade Agreement (PTA) to address these risks.

This significant measure represents one of the most notable shifts in Mexico's trade policy in decades and underscores the renewed prominence of tariffs as instruments of industrial and trade strategy. Without an FTA with Mexico, India faces a pivotal adjustment: the tariff overhaul could undermine its export competitiveness and disrupt value chains.

This brief seeks to analyse Mexico's newly established tariff regime, assess its alignment with the WTO rules, and examine the strategic implications for Indian exporters as they navigate a dynamic trade landscape.

Mexico Tariff Move: Salient features

According to Mexican authorities, the measure, designed to target 1,463 products, aims to strengthen domestic

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industries. The key features of the new tariff regime are outlined below:

Targeted Products and rationale: Mexico's Ministry of Economy has claimed that the tariff hikes on 1,463 products are the result of a comprehensive review aimed at identifying the country's most sensitive sectors, primarily in manufacturing and industrial goods. The selection of these products was primarily based on incentivising national production, protecting employment and reducing the trade deficit in these sectors, which has increased substantially, by more than 100 percent, over the past 12 months.[1]

Countries with Preferential Agreements: One of the most notable features of Mexico's new tariff regime is that the tariff hikes are targeted at imports from non-FTA countries, while preferential access for FTA partners remains largely intact. Notably, Mexico has 13 Free Trade Agreements (FTAs) with 50 countries, including the United States-Mexico-Canada Agreement (USMCA) and FTAs with the European Union, Japan, Israel, 10 Latin American countries, and the 11 countries under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Mexico is also a member of the Pacific Alliance, a trade bloc formed in 2011 by Mexico, Chile, Colombia, and Peru.[2]

Nature of Tariffs: The new tariff policy is a part of its 2025-2030 development strategy under "Plan Mexico". The Plan Mexico is built on 13 goals for equitable and sustainable growth, focused on boosting national production, with ambitious targets such as placing Mexico among the world's top 10 economies, creating 1.5 million additional specialized jobs, and ensuring that 50% of national supply in strategic sectors is 'Made in Mexico'.[3] The goal is to encourage local production and reduce trade imbalances. This indicates a long-term and structural policy shift rather than a short-term response to a specific, transient issue.

Geopolitical context and U.S. dimension: Mexico's tariff hikes have been introduced during a period coinciding with preparations for the 2026 review of the USMCA and heightened international attention to supply-chain governance in North America.[4] Some reports and commentary have suggested that the United States has urged Mexico to impose duties on Chinese goods to align with U.S. trade policy and counter China's export surge. This pressure is tied to broader tensions between Washington and Beijing.[5] The objective from the U.S. side has been both to reduce unfair competition and to ensure Mexico isn't being used to intermediate Chinese exports into the U.S. market under more

Figure 1: Timeline for Mexico Tariff Regime

Source: Based on information retrieved from BBVA Research (2024) and White & Case (2025).

[1] Duran, P. (2025). Mexico Targets Asian Goods With New Tariff Policy. Retrieved from Mexico Business website: https://mexicobusiness.news/trade-and-investment/news/mexico-targets-asian-goods-new-tariff-policy?utm and Ulloa, C. (2025). The government will impose tariffs on more than 1,400 products, mainly from Asia, in the 2026 Economic Package. Retrieved from El Imparcial website: https://www.elimparcial.com/mexico/2025/09/10/gobierno-impondra-aranceles-a-mas-de-1400-productos-principalmente-asiaticos-en-el-paquete-economico-2026/

[2] International Trade Administration. (2023). Mexico - Trade Agreements. Retrieved from www.trade.gov website: https://www.trade.gov/country-commercial-guides/mexico-trade-agreements#:~:text=Mexico%20is%20a%20member%20of,Chile%2C%20Colombia%2C%20and%20Peru.

[3] Gobierno de México. (2025). Plan México. Retrieved from Planmexico.gob.mx website: https://www.planmexico.gob.mx/ and Gobierno de México. (n.d.). Strategy for Equitable and Sustainable Economic Development for Shared Prosperity Mexico's Plan First Draft. Retrieved from https://embamex.sre.gob.mx/trinidadytobago/ images/Cargar/turismo- comercialesyculturales/English_Version_Plan_Mexico_2030-compressed.pdf

favourable rules.[6] However, Mexico officially denies that its tariff policy is merely a response to U.S. pressure, stating that its decision is primarily aimed at protecting domestic economic interests.[7]

Overview of Mexico's Trade with the World

Mexico has maintained a predominantly negative trade balance from 2014 to 2024. A notable exception occurred during 2019 and 2020, when the country achieved a significant trade surplus of USD 34 billion, marking a sharp departure from historical patterns. This improvement, however, was short-lived. The trade balance further deteriorated in 2021, returning to a deficit of USD 11.25 billion, before worsening further in 2022 to reach the period's most significant deficit of USD 26.88 billion (see Figure 2). Additionally, Mexico's import and export basket largely consists of similar product categories, including motor vehicles and parts, petroleum oils, electrical equipment, and machinery from the World.

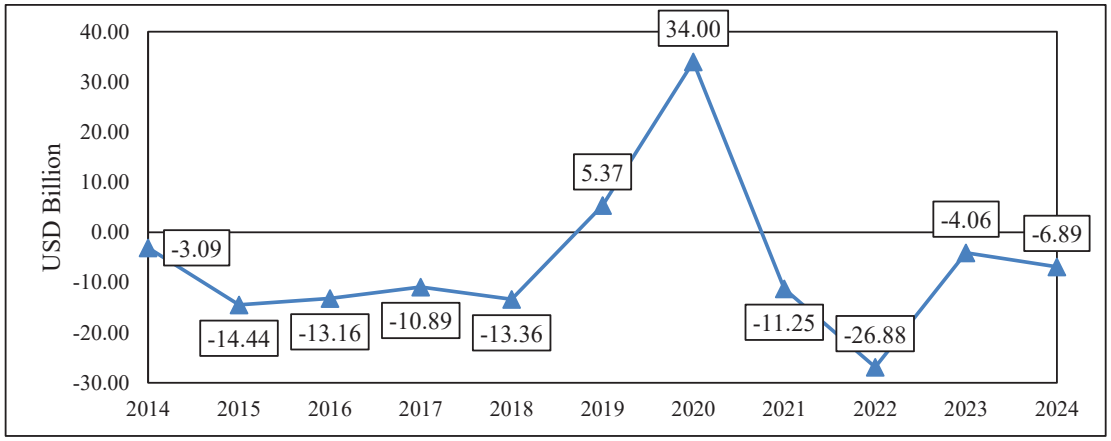
Mexico's Tariff hike: Compliance with the WTO

As a founding Member of the World Trade Organization (WTO), Mexico is bound by its disciplines, which require that any increase in applied tariffs shall remain within its bound tariff commitments. Members may, in practice, apply tariffs

USMCA: Mexico's GM Corn Restrictions[8]

In 2020, Mexican President Andrés Manuel López Obrador issued a decree aiming to phase out genetically modified (GM) corn by 2024, citing health and environmental concerns. However, under the US-Mexico-Canada Agreement (USMCA), the United States challenged these restrictions as inconsistent with its obligations under the agreement. The dispute highlighted that under modern trade agreements, domestic policy space is constrained, particularly when scientific evidence and procedural rigor are central to adjudication.

Figure 2: Trend of Mexico's Trade Balance with the World (2014-2024)



Source: ITC Trade Map.

[4] Gandhi, S. (2025). Mexico to impose tariff hike of up to 50% on India, Asian nations from 2026. Retrieved December 15, 2025, from Business Standard website: https://www.business-standard.com/world-news/trade- mexico-tariff-hike-india- china-asian-countries-125121100128_1.html

[5] Duran, P. (2025). Mexico target Asian goods with new tariff policy. Retrieved from Mexico business news website: https://mexicobusiness.news/trade-and-investment/news/mexico-targets- asian-goods-new-tariff-policy?utm

[6] Patrick, I. (2025). Mexico slaps tariffs of upto 50% on Chinese goods as US trade pact review looms. Retrieved from South China Morning Post website: https://www.scmp.com/ news/china/politics/article/ 3336130/mexico-slaps-tariffs -50-cent-chinese-goods-us- trade-pact-review-looms

[7] Jose, E.S., (2025). Beijing accuses Mexico of submitting to US 'coercion' over tariff increase eon Chinese cars. Retrieved from El Pais website: https://english.elpais.com/economy-and-business/2025-09-12/beijing-accuses-mexico-of-submitting-to-us-coercion-over-tariff-increase-on-chinese-cars.html?utm

[8] Sharma, S. K., Ganti, L. S., & Goswami, A. (2023). Negotiate GM product deals with care. Retrieved from BusinessLine website: https://www.thehindubusinessline.com/opinion/negotiate-gm-product-deals-with-care/article66871413.ece

below their bound rates. However, the maximum bound tariff or ceilings cannot be increased without renegotiation and the provision of compensation to affected trading partners, in accordance with WTO procedures.

A review of Mexico's tariff schedule indicates that its bound tariff ceilings range from 50 percent to 156 percent across some covered product categories (see Table 1), and the average bound duty on all non-agricultural products stood at 34.8 percent in 2024. Since the proposed increases in applied tariffs remain within Mexico's WTO-bound limits, the tariff hikes thus appear to be WTO-compliant. Furthermore, the measures are applied on an MFN basis and are not country-specific, aligning with WTO non-discrimination principles. However, this assessment remains preliminary and will require deeper scrutiny once the new tariff rates are actually implemented.

India-Mexico Trade: Sectoral Impacts

India's trade with Mexico has undergone a marked shift in recent years. Following a period of irregular trade deficits from 2013 to 2020, India has recorded a sustained trade surplus since 2021. Between 2021 and 2024, India's trade balance with Mexico improved dramatically from a marginal USD 0.02 billion to USD 2.80 billion, underscoring the growing competitiveness of Indian exports (see Figure 3). Preliminary trade data for 2025 also indicate the continuation of this surplus trend. Mexico, in 2024, ranks as India's 21st largest export destination, accounting for around 1.3 percent of India's total exports.

Against this backdrop, Mexico's new tariff hikes put USD 4.66 billion[9] of Indian exports at stake. As shown in Figure 4, automobiles and auto components emerge as the most

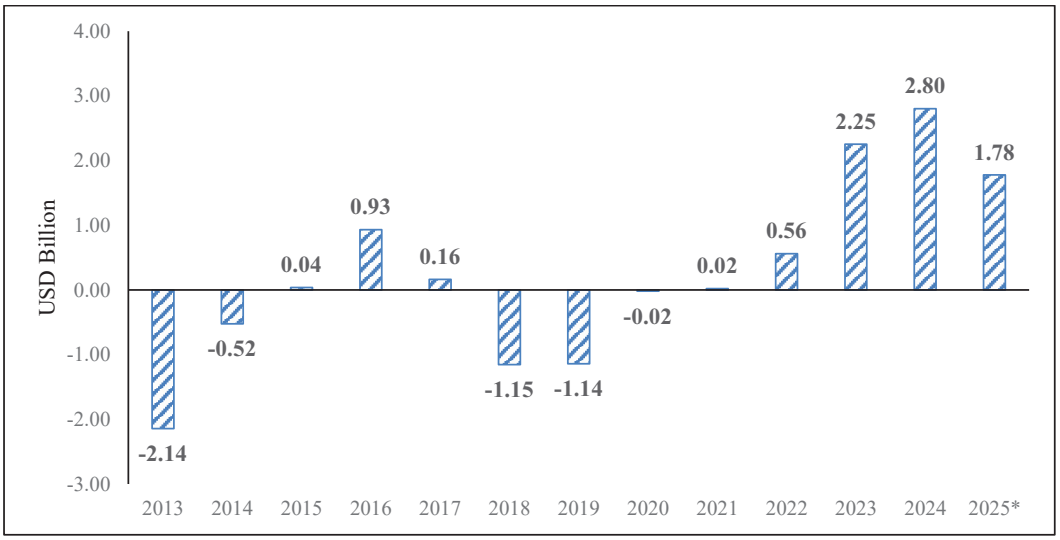
[9] Since the detailed product list has not been publicly released, the estimated trade loss are based on broad product categories

Table 1: Mexico Tariff Based on Broad Product Groups

Product groups	Final bound duties		MFN applied duties (2024)	
	AVG	Max	AVG	Max
Minerals and metals	34.4	50	7.4	25
Chemicals	35.1	156	2.4	25
Wood, paper, furniture	34.2	50	5.5	25
Textiles	35.0	50	10.2	25
Clothing	35.1	50	21.8	25
Rubber, leather and footwear	34.7	50	6.5	30
Mechanical, office and computing machinery	35.1	50	2.8	25
Electrical machinery and electronic equipment	34.4	50	4.7	25
Transport equipment	36.9	50	10.7	50
Other Manufactures	34.6	50	5.4	25

Source: 2025 WTO Tariff Profile of Mexico, accessed from https://www.wto.org/english/res_e/statis_e/tariff_profiles_list_e.htm

Figure 3: Trend in India's Trade Balance with Mexico (2013-2025)

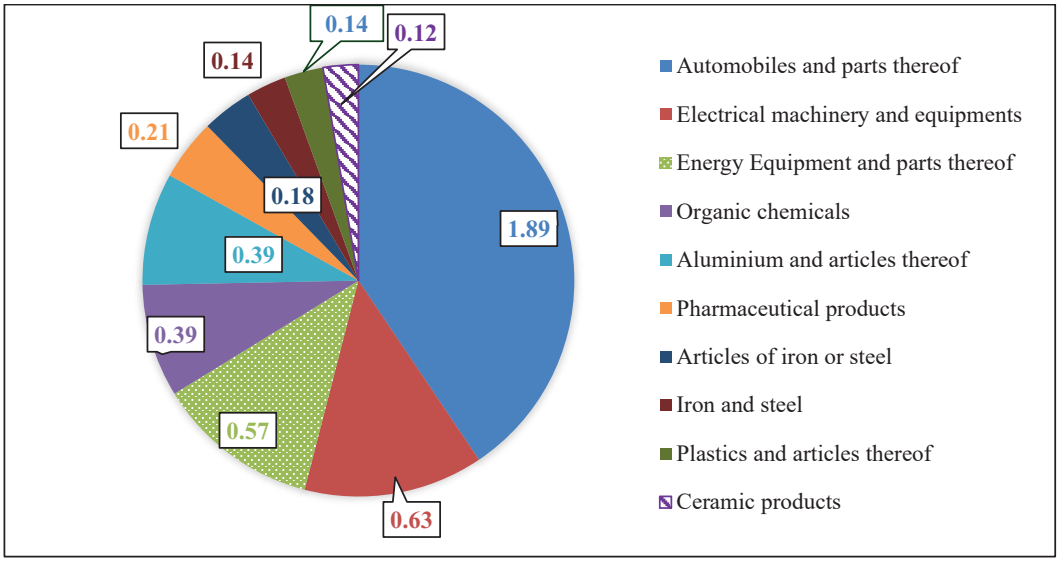


Note: * from April 2025 to September 2025.

Source: ITC Trade Map for data from 2013-2024 and Department of Commerce Monthly trade data for 2025.

vulnerable segment, with Indian exports to Mexico valued at USD 1.89 billion in 2024. Mexico is the world's sixth-largest importer of automobiles and auto components, with nearly USD 66 billion in imports, thereby occupying a strategic position in the global automotive market. While its market is dominated by the United States (40.7 percent) and China (20.7 percent), followed by Japan (6.3 percent) and Germany (6.2 percent), Indian manufacturers have gradually carved out a meaningful foothold, holding an estimated 3.5 percent market

Figure 4: Top 10 Products Exported from India to Mexico for 2024 (USD Billion)



Source: ITC Trade Map

share. Although modest, this presence reflects steady gains over recent years, making the proposed tariff increases particularly disruptive for a sector where Indian firms were beginning to mark their position.

Beyond automobiles, the impact of the tariff hikes extends to other key Indian export sectors. Electrical machinery and equipment, with exports of USD 0.63 billion, and energy and industrial equipment, valued at USD 0.57 billion, are also likely to face heightened trade barriers. Together, these sectors highlight the breadth and depth of India's exposure to Mexico's new tariff regime and raise concerns about the sustainability of India's recent export momentum in this strategically important market. Preliminary export data for 2025 indicate that the composition of India's exports to Mexico remains broadly unchanged, with the principal export sectors continuing to fall within the scope of the new tariff measures.

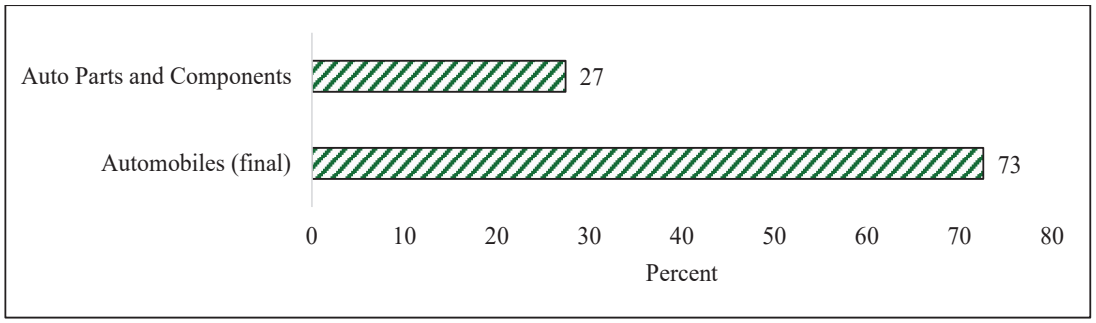
At a more disaggregated level, India's automotive exports to Mexico remain skewed towards Automobiles (final), although exports of auto parts and components also constitute a meaningful share and serve as intermediate inputs within Mexico's automotive value chains (see Figure 5). Tariff increases on these intermediate goods may disrupt automotive value chains and indirectly affect Mexico's automobile sector.

Trade and FDI Adjustments

Beyond trade flows, the new tariff structure may also reshape affected countries' Foreign Direct Investment (FDI) strategies and market-entry decisions in Mexico. As higher tariffs raise the cost of market access for non-FTA partners, FDI emerges as a parallel and increasingly attractive strategy to preserve competitiveness.

Like India, other non-FTA partners have historically pursued investment-based strategies in Mexico to strengthen market access. At the forefront is China, Mexico's second-largest source of imports. China exports over USD 45 billion worth of products now covered by the new tariff regime, ranging from electronics, machinery, steel, and chemicals to automobiles, auto parts, and toys. Given China's significant presence

Figure 5: Share of Total Automobiles and Parts thereof- India Export with Mexico



Note: The above data pertains to all the products at HS 6 digit covered under Chapter 87 in 2024.
Source: ITC Trade Map.

in Mexico, the high tariffs are likely to have a substantial negative impact on its exports.

While Chinese exports to Mexico are being hit, Chinese (including Hong Kong) investment in Mexico is rising sharply, with cumulative FDI reaching around USD 3.2 billion between 2017-2024, concentrated in automobiles, electronics, manufacturing, among others.[10] This means that even as China's direct exports face new tariffs, Chinese firms that produce inside Mexico gain a strategic advantage, as their locally manufactured goods avoid the tariff entirely. In effect, Mexico's tariff hike penalises China-as-an-exporter but rewards China-as-an-investor.

From Exporter to Investor: India's Growing Footprint in Mexico

Indian firms have deepened their manufacturing footprint in Mexico. For instance, Titan X (Tata group) opened an auto cooling part fabrication plant in Mexico, and Sakthi group is investing in the auto parts sector in Durango. The Automotive Component Manufacturers Association (ACMA) of India visited Mexico to explore business expansion opportunities.[11]

Conclusion

Mexico's new tariff regime signals a strategic shift in trade policy amid global uncertainty. By raising tariffs on manufacturing and industrial imports from non-FTA partners while preserving preferential access for FTA members, Mexico is deploying tariffs as a core instrument of its long-term industrial strategy. Although the measures appear consistent with Mexico's multilateral commitments, their scale and sectoral breadth mark a significant shift in market access conditions for non-FTA exporters.

In the near term, the tariff hikes are likely to raise trade costs, squeeze exporter margins, and trigger supply-chain adjustments for non-FTA partners, with trade flows increasingly redirected towards Mexico's FTA partners. Simultaneously, the policy reinforces incentives for bilateral agreements, localization, and investment within Mexico, as firms seek to mitigate tariff burdens by producing inside its preferential trade framework. To respond effectively, India should accelerate PTA negotiations to secure market access in Mexico. India's ongoing trade agreement negotiations with Latin American partners such as Peru and Chile provide a pathway to deepen regional engagement and create momentum for initiating similar negotiations with Mexico.

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[10] Kelly, B. (2025). China expands Mexico investment but notably lags U.S., other G7 economies. Retrieved from Dallasfed.org website: https://www.dallasfed.org/research/pubs/25trade/a2

[11] Ministry of External Affairs. (2025). India-Mexico - Bilateral Brief. Retrieved from Ministry of External Affairs website: https://www.mea.gov.in/Portal/ForeignRelation/India-Mexico-Jan-2025.pdf

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RIS specialises in issues related to international economic development, trade, investment and technology. It is envisioned as a forum for fostering effective policy dialogue and capacity-building among developing countries on global and regional economic issues. The focus of the work programme of RIS is to promote South-South Cooperation and collaborate with developing countries in multilateral negotiations in various forums. Through its following centres/forums, RIS promotes policy dialogue and coherence on regional and international economic issues.

DAKSHIN – Development and Knowledge Sharing Initiative – Global South Centre of Excellence

The word "DAKSHIN" (दक्षिण) is of Sanskrit origin, meaning "South." The Hon'ble Prime Minister of India, Shri Narendra Modi, inaugurated DAKSHIN – Global South Centre of Excellence in November 2023. The initiative was inspired by the deliberations of Global South leaders during the Voice of the Global South Summits. DAKSHIN stands for Development and Knowledge Sharing Initiative. Hosted at the RIS, DAKSHIN has established linkages with leading think tanks and universities across the Global South and is building a dynamic network of scholars working on Global South issues.

AIC – ASEAN-India Centre at RIS

AIC at RIS has been working to strengthen India's strategic partnership with ASEAN in its realisation of the ASEAN Community. AIC at RIS undertakes research, policy advocacy and regular networking activities with relevant organisations and think-tanks in India and ASEAN countries, with the aim of providing policy inputs, up-to-date information, data resources and sustained interaction, for strengthening ASEAN-India partnership.

CMEC has been established at RIS under the aegis of the Ministry of Ports, Shipping and Waterways (MoPS&W), Government of India. CMEC is a collaboration between RIS and Indian Ports Association (IPA). It has been mandated to act as an advisory/technological arm of MoPSW to provide the analytical support on policies and their implementation.

FITM – Forum on Indian Traditional Medicine

FITM is a joint initiative by the Ministry of Ayush and RIS. It has been established with the objective of undertaking policy research on economy, intellectual property rights (IPRs) trade, sustainability and international cooperation in traditional medicines. FITM provides analytical support to the Ministry of Ayush on policy and strategy responses on emerging national and global developments.

BEF – Blue Economy Forum

BEF aims to serve as a dedicated platform for fostering dialogue on promoting the concept in the Indian Ocean and other regions. The forum focuses on conducting studies on the potential, prospects and challenges of blue economy; providing regular inputs to practitioners in the government and the private sectors; and promoting advocacy for its smooth adoption in national economic policies.

FIDC – Forum for Indian Development Cooperation – भारतीय विकास सहयोग मंच

FIDC, has been engaged in exploring nuances of India's development cooperation programme, keeping in view the wider perspective of South-South Cooperation in the backdrop of international development cooperation scenario. It is a tripartite initiative of the Development Partnership Administration (DPA) of the Ministry of External Affairs, Government of India, academia and civil society organisations.

FISD

FISD aims to harness the full potential and synergy between science and technology, diplomacy, foreign policy and development cooperation in order to meet India's development and security needs. It is also engaged in strengthening India's engagement with the international system and on key global issues involving science and technology.

SACEPS

As part of its work programme, RIS has been deeply involved in strengthening economic integration in the South Asia region. In this context, the role of the South Asia Centre for Policy Studies (SACEPS) is very important. SACEPS is a network organisation engaged in addressing regional issues of common concerns in South Asia.

NeST – Network of Southern Think-Tanks

Knowledge generated endogenously among the Southern partners can help in consolidation of stronger common issues at different global policy fora. The purpose of NeST is to provide a global platform for Southern Think-Tanks for collaboratively generating, systematising, consolidating and sharing knowledge on South South Cooperation approaches for international development.

DST SPR – Department of Science and Technology Satellite Centre for Policy Research at RIS – STI Diplomacy

DST-Satellite Centre for Policy Research on STI Diplomacy at RIS aims to advance policy research at the intersection of science, technology, innovation (STI) and diplomacy, in alignment with India's developmental priorities and foreign policy objectives.

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