International Trade

Mexico imposes tariffs on 544 products

Diego López / Crista Pérez / Carlos Serrano / Samuel Vázquez

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Mexico imposes temporary tariffs between 5% and 50% on the import of 544 tariff items applicable to products from countries with which it does not have trade agreements, including China, and subsequently rectifies some tariffs.

Main Points

- The items considered include steel products, textiles, footwear, wood, plastics, chemicals, paper, electronics, transport equipment and furniture.
- The industries involved are also identified as some of the most competitive, which coincide with the revealed comparative advantage indicator calculated by BBVA Research.
- According to the decree, from 2018 to 2023 (the period we associate with the nearshoring process) the production chains of these industries have been impacted by geopolitical and trade conflicts, reducing their competitiveness.
- The benefit of the Sectoral Promotion Programs applicable to tariff items of various steel products for the industrial sectors considered strategic (electrical, electronic, automotive and auto parts) is maintained.
- The new tariffs are protectionist measures that make the economy less competitive and affect consumers.

Decree seeks to promote national industry and the internal market

On April 23, 2024, the government of Mexico issued the decree amending the Tariff of the Law on General Import and Export Taxes by which it updates the tariffs modified on August 15, 2023 in this same Law, establishing temporary tariffs between 5 and 50% on 544 items, relating to steel, aluminum, textiles, clothing, footwear, wood, plastic and products manufactured from them, chemical products, paper and cardboard, ceramic products, glass and glass products, electrical material, transport material, musical instruments and furniture, among others. This is in order to "*provide certainty and fair market conditions to the sectors of the national industry that face situations of vulnerability, derived from practices that alter and affect international trade, and thus promote the development of national industry and support the internal market*."

In this regard, 388 tariff items continue to have a tax equal to or higher than that established in August; 156 are added and 4 are removed. These tariffs will be in force until April 23, 2026 and will not be applicable to products that entered the country before the entry into force of the decree, nor to those from countries with which Mexico has trade agreements[1], so they will continue to receive the preferential treatment that each treaty grants them.

[1] The U.S., Canada, the European Union, the countries of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) — e.g.: Australia, Chile, Japan, Malaysia, New Zealand, Peru, Singapore and Vietnam, the countries of the agreement with Central America - Costa Rica, Nicaragua, Guatemala,

The decree notes among its considerations that from 2018 to 2023, *“the national production chains related to the indicated products have been impacted by the slowdown in economic growth caused by geopolitical and commercial conflicts, which affects their competitiveness in the national and international market”* and that due to the nearshoring *“it is necessary to implement concrete actions that allow a balanced interaction of the market to avoid economic distortions that may affect the relocation of the production sectors considered strategic for the country, as well as the attraction of new companies and industries with high value added.”* However, it has been reported that this measure is mainly a response to the United States' accusations regarding the triangulation via Mexico of products and investments from China, in the midst of trade tensions between these countries and current electoral processes in the United States and Mexico.

Subsequently, on May 8, 2024, a second decree was published eliminating tariffs for unalloyed and alloyed raw aluminum under the argument of avoiding an impact on the supply chains of the automotive, auto parts, and electronics industries, among others, due to the lack of domestic output and the insufficient availability of such merchandise in trading partners. In addition, the tariff for ammonium sulfate is increased under the argument that imports displace domestic output and that there is idle installed capacity of the national fertilizer Industry.

Domestic output and export on the rise overall

We begin the analysis by reviewing the current state of Mexico's trade balance. We delve into the figures of exports and imports of the main goods considered in the decree cited above, ending with the national output and the impact on other sectors that use these goods. Overall, the numbers show a positive trend in both exports and domestic output; while imports from Asian countries decrease.

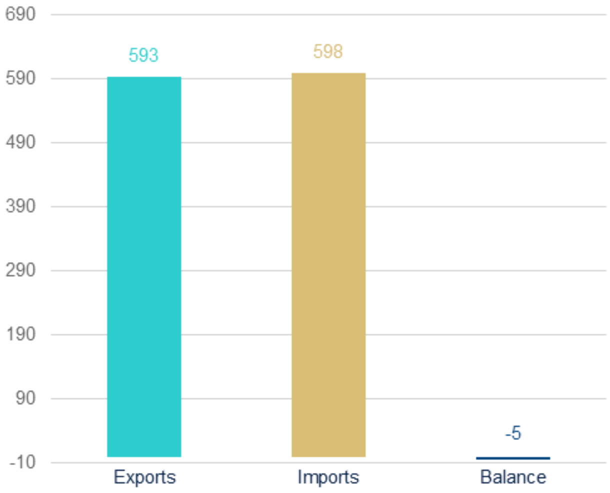
Foreign trade of goods on the rise in the decree

At the end of 2023, Mexico's trade balance is negative at 5.463 billion dollars. This is the result of the difference between total exports of 593.0 billion dollars and total imports of 598.5 billion dollars. In the same period, Mexican merchandise exports grew 2.6%, also in current figures; while imports fell by 1.0%. Of the $593 billion in exports in 2023, manufactured goods accounted for 89.2% of the total. Manufacturing exports grew 4.0% in 2023, with heavy industry accounting for 76% of these 402 billion dollars of the total 529 billion dollars of the entire sector.

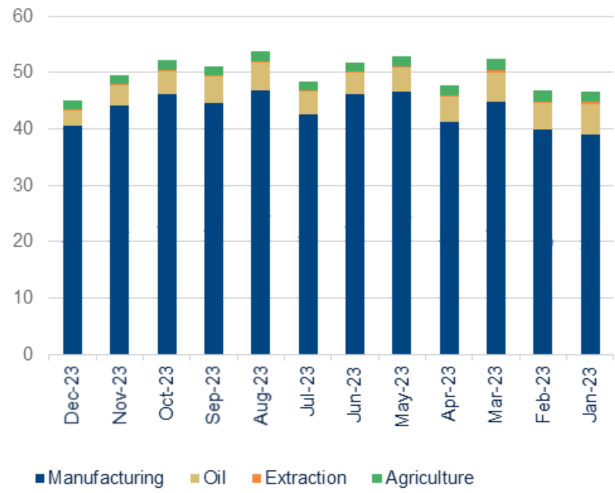
Figure 1. **TRADE BALANCE GOODS 2023**
(BILLIONS OF CURRENT DOLLARS)

Figure 2. **MEXICAN IMPORT OF GOODS**
(BILLIONS OF CURRENT DOLLARS)

Honduras - the countries of the Pacific Alliance - e.g. Colombia, the countries of the agreement with the European Free Trade Association -Iceland, Liechtenstein, Norway, Switzerland-, Israel, Panama, the United Kingdom and Uruguay.



Source: BBVA Research with data from Inegi



Source: BBVA Research with data from Inegi

On the import side, manufactured goods participated with 87.3% of the total, equivalent to 522.5 billion dollars; which resulted in an advance of only 3.3% above 2022. Metal products, machinery and equipment totaled $307.0 billion in 2023, up 6.0% from the previous year. Within this manufacturing classification, imports of electrical and electronic equipment and appliances totaled 118.1 billion dollars, 3.2% more than in 2022. Imports of the chemical industry, as well as plastic and rubber products maintained their relevance in terms of share with 7.9% and 6.6%, respectively; although in the first case they increased 1.0% and in the second they decreased 1.6%. In second place are oil imports, with a total amount of 51.8 billion dollars, 30.2% less than the previous year. On the other hand, agricultural imports decreased 2.0% in the same period, to end 2023 with 21.1 billion dollars.[2]

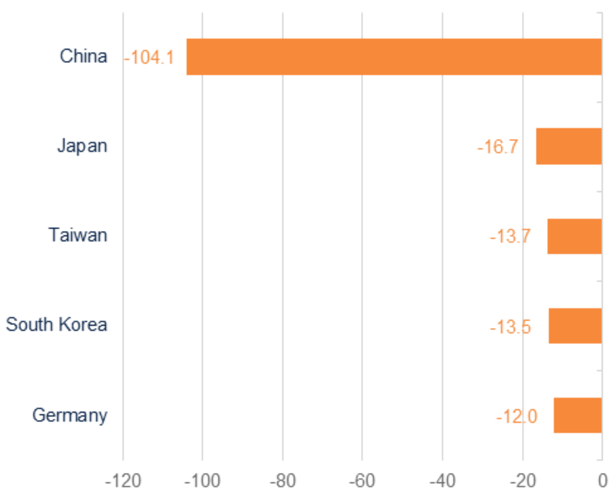
The United States of America (U.S.) remains Mexico's main trading partner. During 2023, the total value of trade between the two countries reached 745.6 billion dollars, of which 490.2 billion dollars were sales of goods from Mexico to the U.S. This represents a trade surplus favorable to Mexico of 234.7 billion dollars. On the other hand, China maintains its position as Mexico's second main supplier contributing 19.1% of Mexico's imports in 2023, while only 1.7% of our exports go to China. This results in a deficit of 104.1 billion dollars in this bilateral trade relationship.

Figures 5 and 6 below show the main trading partners with which Mexico has a deficit or trade surplus at the close of 2023. A contrasting result is that the trade deficit is generally with Asian countries, while the trade surplus is with countries of the Americas. The trade surplus bias is with the U.S., totaling more than 200 billion dollars, which represents more than double the deficit with China. However, there is less dispersion between the different levels of deficit with Asian countries than with American countries in terms of Mexico's positive balance.

Figure 3. **TRADE DEFICIT BY COUNTRY 2023**
(BILLIONS OF CURRENT DOLLARS)

Figure 4. **TRADE SURPLUS BY COUNTRY 2023**
(BILLIONS OF CURRENT DOLLARS)

[2]: See in our article "Mexico | Mexico is now the largest exporter to the U.S.", a complete analysis of the trade situation in Mexico



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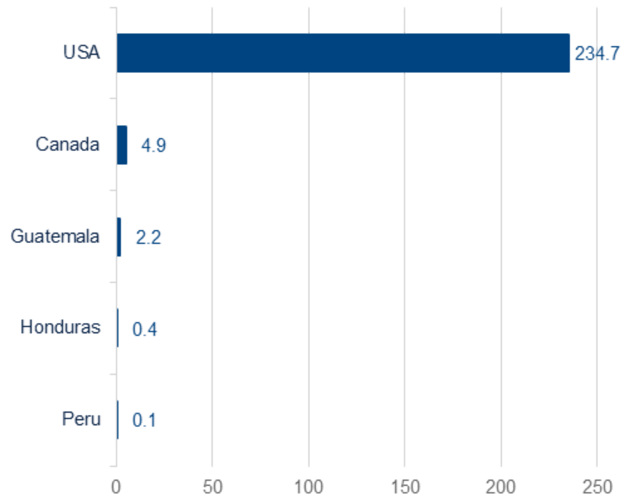


Source: BBVA Research with data from Inegi

Tariffed chapters performing well in the foreign market

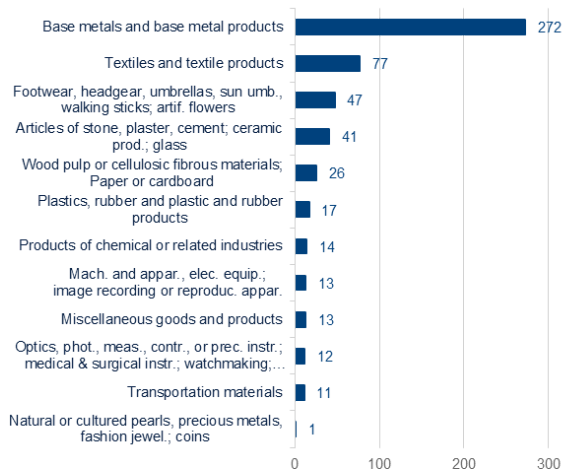
According to the decree, it is observed that base metals and base metal products accumulate 50% of modified tariff fractions, followed by textile materials and their manufactures with 14.2%, as well as footwear, hats and artificial flowers with 8.6%. By tariff item, iron, cast iron or steel products are the ones that receive the most tariff changes, accumulating 23.3%, followed by cast iron, steel iron with 18.2%.[3] 63.6% of the amended tariff items carry an import tax of 35%, while 30.7% are taxed at 25%. The highest rates of 50% apply to wire rod products of iron or non-alloy steel, and the lowest rates of 5% cover condensers for steam engines and wind turbines.

During 2023, the tariff chapters with the highest share of Mexican imports were: 1) chapter 85, electrical machinery and equipment (20.3%), 2) chapter 84, mechanical appliances, boilers and their parts (16.0%), 3) chapter 85, land vehicles and their parts (10.2%), 4) chapter 39, plastics and plastic products (5.1%); and 5) chapter 72, iron and steel castings (3.6%). In current terms, the value of these imports shows an upward trend since 2021. The largest increase in these imports are in chapter 87, land vehicles and their parts, which increased 26.9% from 2022 to 2023. The rest had variations of up to 3.5% or even negative as in the case of chapter 39, plastics and their manufactures, which fell 6.1%; in all cases in current figures. In constant figures there are no substantial differences, let alone changes in trend.

Figure 5. **TAXED SECTIONS**
(NUMBER OF FRACTIONS)

Figure 6. **TAXED CHAPTERS**
(NUMBER OF FRACTIONS)

[3]: See Appendix 1 and 2 for details by Section and Chapter.



Source: BBVA Research with data from the Ministry of Economy

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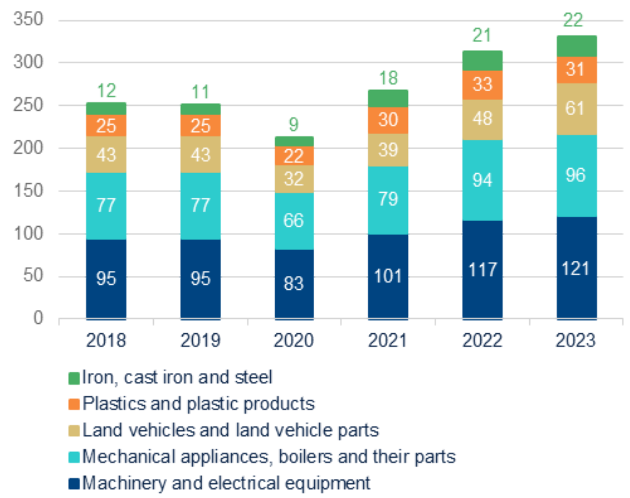
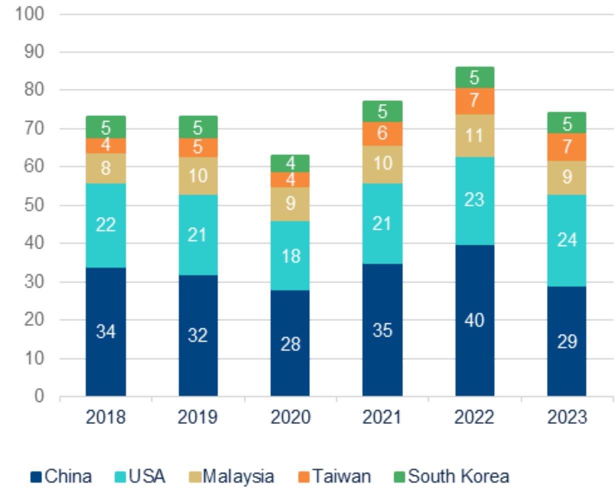
The U.S. is the main supplier to the Mexican economy of the goods included in chapters 84, 87, 39 and 72. China accounted for 28.1% of Chapter 85 imports, a total of 29.1 billion dollars, followed closely by the U.S. with 23.7 billion dollars during 2023. Although China is the leader in this chapter, in 2023 imports from that country decreased 27.9%, since in 2022 the amount was 40.4 billion dollars. In contrast, imports from the U.S. increased 2.1%, from 23.2 billion dollars in 2022 to 23.7 billion dollars a year later.

Figure 7. **IMPORTS MAIN CHAPTERS (BILLIONS OF CURRENT DOLLARS)**



Source: BBVA Research with data from Inegi

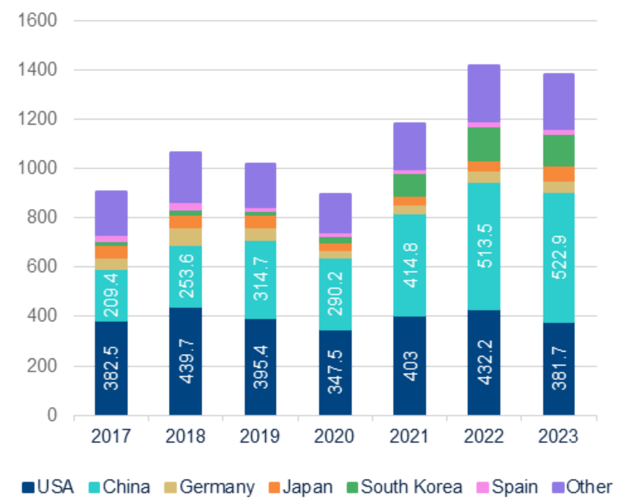
Figure 8. **IMPORTS CHAPTER 85 (BILLIONS OF CURRENT DOLLARS)**



Source: BBVA Research with data from the Ministry of Economy

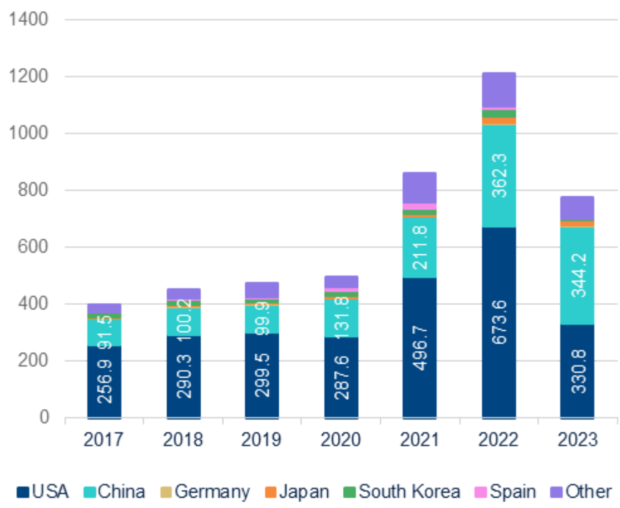
Breaking down imports under Chapter 85 Electrical Machinery and Equipment, two subheadings considered in the decree Electric Motor Parts, Generator Parts and other (Subheading 8503.00) and Fiber Optic Cables (Subheading 8544.70). In the first case of motor parts, China is Mexico's main supplier in 2023, reaching 522.9 million dollars followed by the U.S. with 381.7 (consistent with the general trend of chapter 85). In the second case of Fiber Optic Cables, in 2023 there is a strong contraction of 36% in current terms, mainly due to the fall in imports from the U.S., resulting in China becoming the main supplier of these products by the end of this year. The new tariffs on Motor parts (35%) and Fiber Optic Cables (5%) will have a direct impact on imports from China.

Figure 9. **IMPORTS ELECTRICAL AND OTHERS (MILLIONS OF CURRENT DOLLARS)**



Source: BBVA Research with data from the Ministry of Economy

Figure 10. **IMPORTS OPTICAL FIBERS (MILLIONS OF CURRENT DOLLARS)**



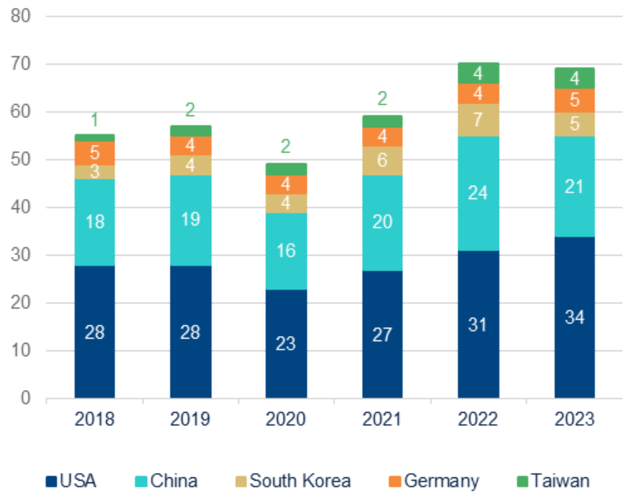
Source: BBVA Research with data from the Ministry of Economy

In the rest of these five main chapters, the U.S. is the leader in market share in the Mexican market, followed by China, with the exception of chapter 72 where Brazil is the second source of supply of these goods for Mexico. Other countries in the top five in these chapters include Malaysia, Taiwan, South Korea and Japan. In general, imports from Asian countries have declined, with the exception of those from China and Japan in chapters 87 and 72, although they have not come close to the U.S.'s share, not even jointly. Between the two countries, they add up to 15.2 billion dollars in Chapter 87 and 3.6 billion dollars in Chapter 72; while the US exported to Mexico 24.2 billion dollars in the first case and 18.8 billion dollars in the second; in both cases with double-digit growth compared to 2022.

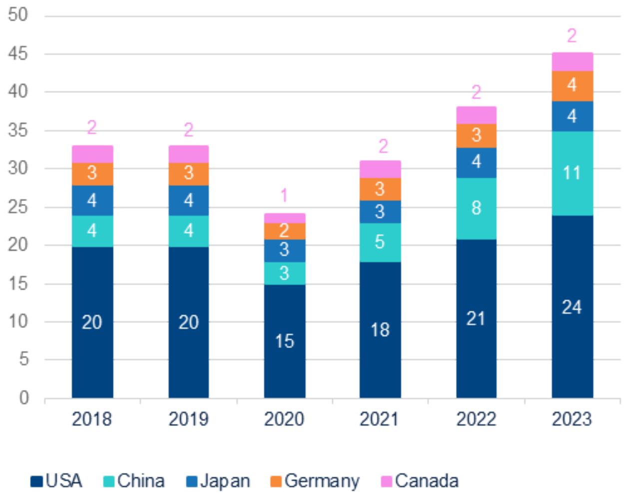
On the export side, the five chapters with the highest share at the end of 2023 are 87 Land vehicles and their parts (35.5%); 85 Electrical machinery and equipment (23.5%); 84 Mechanical appliances, boilers and their parts (21.2%), 94 Furniture; medical-surgical; not elsewhere specified (2.9%) and 39 Plastics and plastic products (2.7%). Chapter 72 exports represent only 1.0% of the total, occupying the ninth position on this list. In the same period, the trade balance is negative only in Chapter 87. The deficit amounts to $95 billion. The rest of these chapters show a total surplus of 56.4 billion dollars.

Figure 11. **IMPORTS CHAPTER 84 (BILLIONS OF CURRENT DOLLARS)**

Figure 12. **IMPORTS CHAPTER 87 (BILLIONS OF CURRENT DOLLARS)**



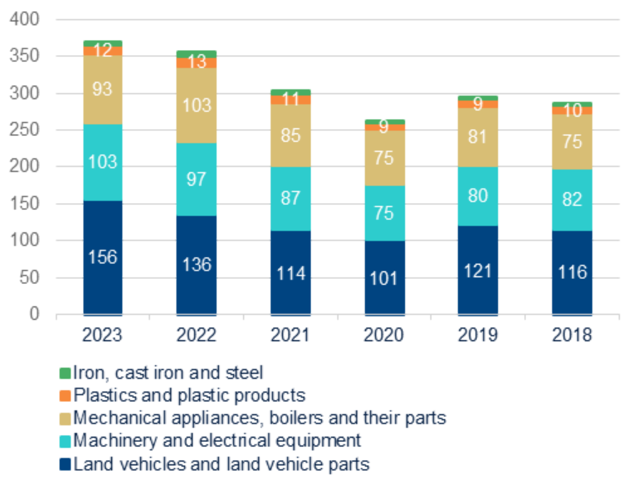
Source: BBVA Research with data from the Ministry of Economy



Source: BBVA Research with data from the Ministry of Economy

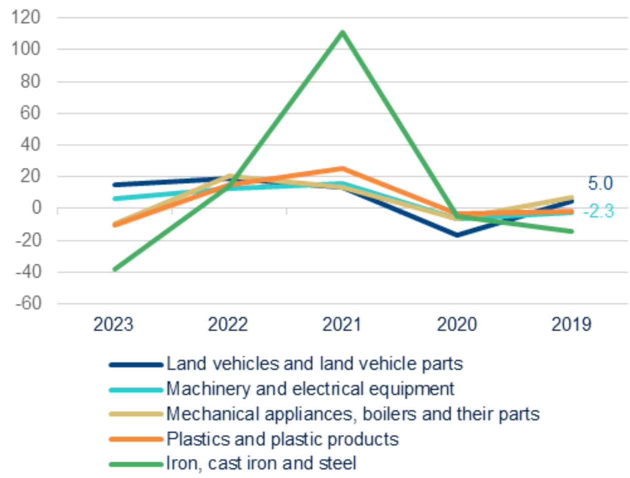
Mexican exports grew 2.6% from 2022 to 2023 in current terms, reaching 593 billion dollars. A year earlier, the advance was 16.7%, very close to the 18.6% growth in 2021. Although there is a slowdown, there has not been a fall since 2020. The amount of exports in 2023 were almost 30% higher than what was observed in 2019, prior to the pandemic. Therefore, it is difficult to claim that national production chains have seen their competitiveness in the international market affected. While competitiveness is more complex to measure, at least by the index of revealed comparative advantage, this has not happened. Moreover, it is precisely the trade frictions between the US and China that have benefited, albeit marginally, Mexico. According to Census figures, Mexico has a 15.4% share of the U.S. 's imports, while China dropped to 13.9% by the end of 2023. In that same year, Mexico consolidated its position as the main U.S. supplier, displacing China to the second position.

Figure 13. **EXPORTS CHAPTER**
(BILLIONS OF CURRENT DOLLARS)



Source: BBVA Research with data from Inegi

Figure 14. **EXPORTS CHAPTER**
(ANNUAL % CHANGE)



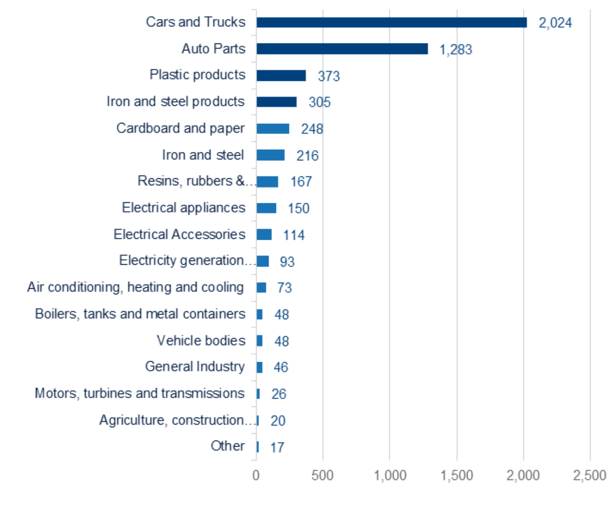
Source: BBVA Research with data from Inegi

By tariff chapter, exports for chapters 87 and 85 continued to grow in 2023 as they have done since 2021. In the first case, exports went from 136.1 billion to 156.5 billion dollars, 15.0% more. Chapter 85 exports reached $103.4 billion at the end of the previous year, which represents 6.2% more than the previous year. Of the five most relevant chapters analyzed in this document, exports for chapters 84, 39 and 72 did decrease in 2023. In the first case the contraction was 9.2%, and in the rest the fall was 10.7% and 38.3% respectively.

National output of the goods included in the decree grows

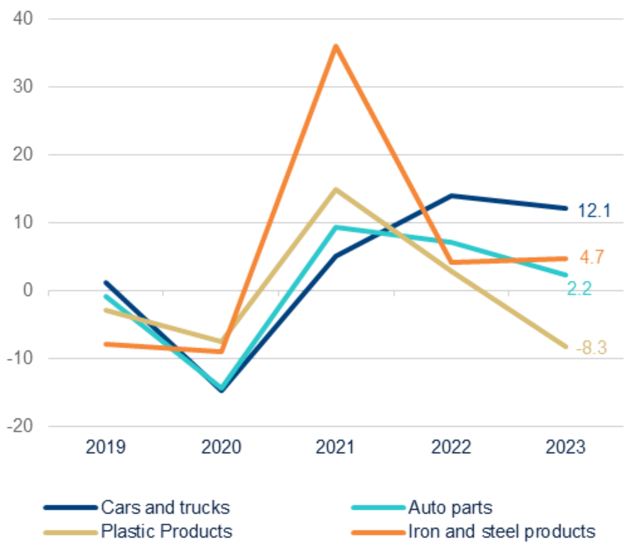
On the side of the domestic market, the output of the industries related to the tariff fractions with modifications according to the decree continues to grow. Most of these manufactures show a rising value of production in recent years. In 2023, the branches of economic activity that contain the tariff items included in the decree totaled a production value of 5.3 trillion pesos. Only 4 of these 18 branches accounted for 75.8% of this value. In first place Cars and Trucks (3361) with a total of 2.0 billion pesos and a share of 38.5%; followed by Auto parts (3363) with 1.3 billion pesos and 24.4% of the total value. In third and fourth place are Plastic Products (3261) and Iron and Steel Products (3312) with 373 billion pesos and 305 billion pesos, respectively. With the exception of Plastic Products, the production value of these industries has grown steadily since 2021. In particular, in 2023 the production value of Cars and Trucks grew 12.1%, Auto parts 2.2%, as well as Iron and Steel Production 4.7%. There is only a contraction in the case of Plastic Products, where the value of production fell 8.3% in the same year of analysis.

Figure 15. **MANUFACTURING PRODUCTION VALUE (CONSTANT BILLIONS OF PESOS)**



Source: BBVA Research with data from Inegi

Figure 16. **MANUFACTURING PRODUCTION VALUE (ANNUAL % CHANGE)**



Source: BBVA Research with data from Inegi

The result is similar in terms of GDP, in fact even stronger. The GDP of Car and Truck manufacturing grew 11.3% in 2023, while the GDP of Auto parts grew 4.5%. In both cases growth has been sustained from 2021, and in both cases they are above the level of 2019, prior to the pandemic. The GDP of Iron and Steel Products also adds its third consecutive year of expansion, in 2023 at an annual rate of 7.7%, which is 21% above the level reached in

2019. In the same sense as the value of production, the GDP of Plastic Products contracted in 2023, 2.9%, after adding two years on the rise.

To identify the weight of imports in the production structure of the industries involved in the decree, we used the Input-Output Matrix (IOM) at 2018 prices and associated the tariff items (classified in Harmonized System) with the industrial classes available in the IOM classified in SCIAN (See Table 1).

The Manufacture of Synthetic Resins within the chemical industry consumes in the country 284.1 billion pesos (mdp) of 2018 and imports 71.8% of its apparent national consumption (CNA)[4]. The Iron and Steel Complexes within Basic Metals consumes 278.9 billion pesos and imports 55.7% of its CNA. With a lower apparent domestic consumption, but with a greater stake of imports, the Manufacture of equipment and appliances for the distribution of electrical energy stands out with a ratio of 88.7%. At the other extreme, within the industries considered in the decree, the Manufacture of plastic bottles is the one with the lowest proportion of imports in the CNA with 6.8% being this same plastic products industry the one that presented the greatest drop in 2023 in terms of production value. (See Figure 16).

Table 1. **APPARENT NATIONAL CONSUMPTION AND PARTICIPCIÓN OF IMPORTS IN UTILIZATION (MILLIONS OF PESOS IN 2018 AND PERCENTAGE %)**

Tariff item	Product (SCIAN Classification at the Class level)	Apparent National Consumption (CNA) Millions of pesos in 2018	Imports / CNA	Exports / CNA
3926.90.06	Manufacture of synthetic resins	$278,917	55.7%	14.7%
8716.40.91	Steel mills	$186,945	15.1%	117.8%
8503.00.99	Truck and tractor manufacturing	$186,254	88.7%	85.0%
8708.29.99	Manufacture of electrical power distribution equipment and apparatus	$174,231	37.2%	17.8%
8708.10.99	Manufacture of die-cut metal parts for automotive vehicles	$148,592	28.5%	84.8%
3923.30.02	Manufacture of seats and interior accessories for motor vehicles	$96,897	84.0%	39.6%
7213.99.99	Manufacture of other plastic products without reinforcement	$54,930	48.0%	32.8%
8712.00.05	Manufacture of primary roughing and ferroalloys	$47,823	78.2%	18.0%
8433.90.04	Motorcycle manufacturing	$39,317	48.5%	34.0%
8431.49.99	Manufacture of agricultural machinery and equipment	$37,199	72.1%	57.2%
3920.59.99	Manufacture of construction machinery and equipment	$31,715	6.8%	8.3%
8419.50.03	Plastic bottle manufacturing	$15,820	54.2%	33.9%
8515.31.99	Industrial boiler manufacturing	$14,949	89.4%	5.3%
8539.29.99	Manufacture of bottling and packing machinery and equipment	$12,174	57.3%	7.8%

Note: Apparent National Consumption = Production + Imports - Exports estimated from the IOM 2018 Product by Product/ Total Economy / Domestic and Imported Origin/ SCIAN Class.
Source: BBVA Research with data from Inegi.

A complementary analysis that IOM allows, from a network economy approach, is to identify the influence that an industry has as a customer and supplier to the rest of the production structure. From a network approach, a node (Industry) is as important as its neighbors. Centrality, therefore, becomes a function of the centrality of the

[4]: Apparent domestic consumption = output + imports – exports.

neighbors of a node and of its neighbors. We present a modification of the PageRank algorithm based on Zhang *et al*. (2021) to synthesize the degree of inbound (customer) and outbound (supplier) into an aggregate measure of centrality for the industries considered in the decree (See Table 2).

The IOM at the class level identifies 834 industries, and the modified Page-Rank (mPR) algorithm allows us to rank each of these industries according to their influence (a higher percentage implies a greater influence on the rest of the economy). We can see, for example, that the Manufacture of synthetic resins is the most influential industry among those considered in the decree with an mPR of 1.18%,[5] being a supplier of 31.1% of the rest of the industries while being a client (supplied) of 23.8%. By contrast, Light Bulb Manufacturing, despite being a supplier to 81.5% of the rest of the industries, has the lowest mPR of 0.04% with limited influence to the rest of the economy.

Table 2. **TARIFF ITEMS FROM A NETWORKING APPROACH**
(SHARE AS A SUPPLIER/CLIENT AND PAGE-RANK CENTRALITY MODIFIED*)

Tariff item	Product (SCIAN Classification at the Class level)	Supplier to % of industries	Customer of % of industries	Modified PageRank
8708.22.01	Manufacture of synthetic resins	31.1%	23.8%	1.18%
3926.90.06	Steel mills	76.7%	26.9%	0.97%
8716.40.91	Truck and tractor manufacturing	5.2%	26.7%	0.80%
8503.00.99	Manufacture of electrical power distribution equipment and apparatus	32.5%	25.0%	0.76%
8708.29.99	Manufacture of die-cut metal parts for automotive vehicles	34.3%	30.7%	0.42%
8708.10.99	Manufacture of seats and interior accessories for motor vehicles	9.7%	31.2%	0.57%
3923.30.02	Manufacture of other plastic products without reinforcement	38.3%	30.6%	0.33%
7213.99.99	Manufacture of primary roughing and ferroalloys	18.4%	19.9%	0.25%
8712.00.05	Motorcycle manufacturing	3.5%	21.0%	0.07%
8433.90.04	Manufacture of agricultural machinery and equipment	13.0%	33.1%	0.08%
8431.49.99	Manufacture of construction machinery and equipment	10.3%	21.5%	0.07%
3920.59.99	Plastic bottle manufacturing	52.2%	20.0%	0.13%
8419.50.03	Industrial boiler manufacturing	7.4%	22.1%	0.03%
8515.31.99	Manufacture of bottling and packing machinery and equipment	6.5%	21.1%	0.01%
8539.29.99	Manufacture of light bulbs	81.5%	31.3%	0.04%

Source: BBVA Research with data from Inegi. Note: Modification of the PageRank algorithm based on Zhang et al. (2021)

Valuation: Protectionist measure with limited effect

At this point it is important to remember that one of the basic principles of international trade is comparative advantage,[6] a general principle of international trade where an open economy should specialize (concentrate) in the production of those goods in which it is most competitive; this principle allows for expanded consumption possibilities increasing welfare for the nations involved.

[5]: As a reference; in the IOM 2018 the maximum value of modified Page-Rank of 5.2% corresponds to class 324110 Petroleum Refining, highlighting the influence that hydrocarbons have in the Mexican production structure.
[6]: See: Comparative Advantage and Trade Performance, Kowalski, P. (2011)

In this sense, tariff policies that are not a direct result of a final resolution to unfair international[7] trade practices have mainly a protectionist approach, contrary to exploiting the potential gains of comparative advantage. The current trade deficit with China does not even represent half of the trade surplus that Mexico currently has with the U.S.; taking this deficit to argue against China is equivalent to the arguments that President Trump outlined before the trade deficit that the U.S. had with Mexico; both without confirming an unfair trade practice by applying protectionist measures for its national industry. A trade deficit is not evidence of unfair practices. On the contrary, it comes from mercantilist frameworks of thought.

As a result of the trade war between China and the U.S., it was recently talked about[8] a growth in steel and aluminum exports (items contained in this decree) under the argument that products from China would be triangulated through Mexico to reach the U.S. market. However, Mexico's imports from China contracted 3.8% in 2023. The triangulation argument has no validity.

From the Mexican private sector, Mexican trade associations and clothing and textile manufacturers such as the National Association of Supermarkets and Department Stores (ANTAD) and the National Chamber of the Apparel Industry (Canaive) have spoken out against the use of e-commerce platforms (mainly of Asian origin such as Shein and Temu) of tariff exclusions (section 321 De Minimis) that allow them to import exempt from VAT and other tariffs products with a declared value of less than 50 dollars. The fractions considered in the decree cover various textile products (See Tables 1 and 2 in the Annex).

As mentioned in our article “Repatriation of North American value chains, a unique opportunity for Mexico”[9] Mexican manufacturing is highly competitive internationally and with a high level of trade integration in North American value chains. We quantify the competitiveness of the different sectors of the Mexican economy through the Revealed Comparative Advantage (RCA) indicator[10]. The results suggest that Mexican[11] global manufacturing has a high degree of competitiveness in the sectors of Transportation Equipment (0.93); Electronic and computer equipment (0.83); Electrical Equipment (0.79), Basic Metals (0.73), Machinery and Equipment (0.57), Metal Products (0.48), Food (0.13) and Chemicals (0.12). In all these sectors Mexico is a candidate to attract investments that China is currently losing in the nearshoring process.

While the tariff increase established in the decrees is consistent with the tariffs consolidated by Mexico in the World Trade Organization, and it seeks to promote national industry and strengthen the internal market, this increase in tariffs:

- It does not capitalize on the opportunities of sectors in which Mexico has a Revealed Comparative Advantage.
- They do not consider the sufficiency of products in the national output or of trading partners to supply the requirements of industry and consumers. Such an analysis was only carried out for unalloyed and alloyed aluminum, for which temporary tariffs were eliminated.
- It negatively impacts consumers by increasing the final price of these products, which is caused by hindering supply and making the inputs used in various production chains more expensive. It makes it more difficult for

[7]: The most common unfair practices are dumping and subsidies granted by a Government to boost its export industry;
[8]: On February 29, 2024, in a virtual dialogue between the U.S. trade representative, Katherine Tai and the Ministry of Economy, concern was expressed about a possible triangulation of Chinese products to the U.S. through Mexico. Resuming the possible reactivation of tariffs on Mexico under Section 232 of the US Customs and Borders Protection that have been inactive from May 2019.
[9]: Available in Regional Sectoral Outlook 22H1.
[10]: The indicator compares the weight of a certain sector in the total exports of an economy, and divides by the weight of the same type of sector in exports at world level. The RCA is normalized between -1 and 1, so that sectors that have a comparative advantage obtain a value greater than zero.
[11]: **Global** manufacturing encompasses the value of goods produced by economic entities that import a large part of their inputs, and of which their output is destined almost exclusively for export. That is, they are manufacturing entities strongly interdependent on the global market of goods. Non-global manufacturing records the value of goods produced by manufacturing companies that depend on and allocate most of their production to the domestic market.

consumers to organize and have a unified voice, unlike the producers who do have a unified voice and benefit from protectionist measures. But aggregate welfare declines with protectionist policies.

- It would negatively affect the attraction of foreign direct investment and the relocation of companies, since it increases uncertainty for planning if investors perceive difficulties in accessing inputs at competitive prices, as well as difficulties in exporting such products to markets that apply tariffs to Mexico in retaliation.
- It is not accompanied by an increase in investigations and determinations on unfair international trade practices, nor is it accompanied by the imposition of countervailing duties even when an unfair trade practice is determined to exist, nor by the effective application of sectoral or promotion programs.
- Imposing tariffs on the grounds that it will encourage domestic industry may lead to a loss of competitiveness. On the other hand, it harms domestic industries that require these imported goods as inputs, making their output more expensive and decreasing their competitiveness.
- A better policy, especially in the case of the textile industry, is to combat imports of goods that do not respect intellectual property (piracy) or those that are stolen, by strengthening customs procedures.

For all of the above, we believe that the increase in tariffs is not appropriate to meet the purposes stated in the decree itself and does not align the incentives of investors and national actors that allow the consolidation of a production network that generates efficiencies.

Additionally, in a context of tensions between China and the United States, aggravated by the electoral processes in Mexico and the United States, it is likely that this increase in tariffs will not be sufficient to address the concerns of various groups regarding products and investments from China and it will be necessary to seek cooperation alternatives that avoid the imposition of tariffs on Mexico and combat smuggled goods at customs.

According to the treaties signed by Mexico, including the USMCA, even when goods produced in Mexico contain parts and components from other countries, if these products have the domestic content value required by the treaty, these products are legally considered to be from the region and therefore should enjoy the benefits conferred by such agreements. Mexico should focus on complying at all times with the provisions of the USMCA on rules of origin, but not adopt protectionist measures, since this would reduce competitiveness to North America.

Annex

Table 1. **NUMBER OF TARIFFS MODIFIED BY SECTION**

Section	Modified tariffs
XV Base metals and base metal products	272
XI Textiles and textile products	77
XII Footwear, hats and other headgear, umbrellas, parasols, canes, whips, riding crops, and their parts; prepared feathers and feather articles; artificial flowers; wigs and other manufactured hair products	47
XIII Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glass products	41
X Pulp made of wood or other fibrous cellulosic materials; paper or cardboard for recycling (waste and scrap); paper or cardboard and paper/cardboard products	26
VII Plastics and plastic products; rubber and rubber products	17
VI Products of the chemical or allied industries	14
XVI Machinery and devices, electrical equipment and components; sound recording or reproduction devices, devices for recording or reproducing images and sound on television, and their parts and accessories	13
XX Miscellaneous goods and products	13
XVIII Instruments and devices for optical, photographic, cinematographic, measuring, monitoring, precision; medical or surgical instruments and devices; clocks and watches; musical instruments; their parts and accessories	12
XVII Transport equipment	11
XIV Natural or cultured pearls, precious or semi-precious stones, precious metals, plated precious metals and articles made of them; jewelry; coins	1

Source: BBVA Research

Table 2. **NUMBER OF TARIFFS MODIFIED BY CHAPTER**

Chapter	Modified tariffs
73 Iron, cast iron or steel products	127
72 Iron, cast iron and steel products	99
64 Footwear, gaiters and similar articles; parts of these articles	45
70 Glass and glass products	26
48 Paper and paperboard; Articles of cellulose pulp, paper or paperboard	21
62 Apparel and accessories, not knitted or crocheted	20
76 Aluminum and aluminum products	19
61 Apparel and accessories, knitted or crocheted	15
83 Miscellaneous base metal products	15
63 Other manufactured textile articles; sets; clothing and textiles	14
39 Plastics and plastic products	13
52 Cotton	13
55 Synthetic or artificial staple fibers	12
92 Musical instruments; their parts and accessories	12

94 Furniture; medical and surgical furniture; bedding and similar items; lighting fixtures not elsewhere specified or included; illuminated advertisements, signs, and similar items; prefabricated buildings	11
87 Motor vehicles, tractors, bicycles and other land vehicles; their parts and accessories	10
69 Ceramic products	8
68 Articles made of stone, moldable plaster, cement, asbestos, mica or similar materials	7
82 Tools and implements, cutlery and table cutlery, of base metal; parts of these articles, of base metal	7
85 Electrical machinery, apparatus and equipment and their parts; sound recording or reproducing apparatus, apparatus for recording or reproducing image and sound on television and their parts and accessories	7
29 Organic Chemicals	6
84 Nuclear reactors, boilers, machinery, apparatus and mechanical appliances; parts of these machines or apparatus	6
28 Inorganic chemicals; inorganic or organic compounds of precious metal, radioactive elements, rare earth metals or isotopes.	5
49 Printed books and newspapers and other products of the printing industry; handwritten or typed texts and blueprints	5
40 Rubber and rubber products	4
74 Copper and copper products	4
34 Soap, organic surface-active agents, washing agents, lubricating agents, artificial waxes, prepared waxes, polishing and scouring agents, candles and similar articles, modeling pastes, dental waxes and plaster-based compositions for dentistry	2
65 Hats, other headgear and their parts	2
96 Miscellaneous manufactures	2
35 Albuminoidal substances; modified starches; glues; enzymes; starch products	1
54 Synthetic or artificial filaments	1
56 Padding, felt and non-woven fabrics; special yarns; twine, cordage, ropes and cables and products made of them	1
60 Knitted fabrics	1
71 Natural or cultured pearls, precious or semi-precious stones, precious metals, plated precious metals and products made of them; jewelry; coins	1
75 Nickel and nickel products	1
88 Aircraft, space vehicles and their parts	1

Source: BBVA Research

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ENQUIRIES TO:
BBVA Research: Paseo de la Reforma 510, Colonia Juárez, C.P. 06600 Mexico City, Mexico.
Tel.: +52 55 5621 3434
www.bbvaresearch.com