

Mexico Retains a Structural Advantage Following the IEEPA Ruling and the Introduction of Universal Tariffs

Most Mexican Exports Still Have Preferential Treatment

On February 20, the U.S. Supreme Court, in a 6–3 decision, ruled that the International Emergency Economic Powers Act (IEEPA) does not authorize the President to unilaterally impose broad-based tariffs. The decision struck down most “reciprocal” and emergency tariffs and called into question billions of dollars in duties collected over the past year.

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Key Points

- The International Emergency Economic Powers Act (IEEPA) tariffs affected imports from nearly every country trading with the U.S. (these were the tariffs imposed on “Liberation Day”). Mexico and Canada were in a relatively stronger position, as the IEEPA tariffs applied only to exports that were not channeled through the USMCA framework.
- Following the Supreme Court ruling, President Trump imposed a temporary 10% global import surcharge for up to 150 days, the rate could be raised to 15%. Crucially, goods that qualify for duty-free treatment under the USMCA remain exempt, preserving preferential access for most Mexican exports.
- This latter decision allows Mexico to maintain a favorable relative position compared to most countries, and only Mexico and Canada currently retain the possibility of exporting without tariffs.
- The fact that goods exported under the USMCA framework (except for those subject to Section 232 tariffs, such as steel and automobiles) can enter the United States tariff-free means that the incentive to increase domestic content in exports remains in place, since non-complaint goods will now face a 10% to 15% tariff.
- This sends a constructive signal ahead of the USMCA review, underscoring that the agreement continues to receive preferential treatment relative to all other trade arrangements.
- While the decision represents a positive institutional counterbalance to the presidential authority to impose tariffs arbitrarily, the risk that President Trump may seek alternative mechanisms to reinstate them increases uncertainty for global trade.
- Mexico continues to benefit from strong structural fundamentals, particularly its geographic proximity, deep integration into North American value chains, and competitive labor costs, reinforcing its role as a strategic trade partner for the United States.

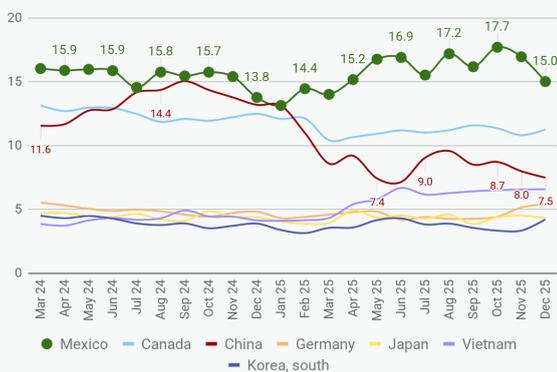
- All indications suggest that Mexico will retain a strong relative advantage in exporting to the U.S. However, the ultimate impact on Mexico’s tariff advantage will depend on President Trump’s subsequent decisions regarding how to compensate for the loss of the IEEPA instrument.

Background

Regardless of tariffs, Mexico remained the United States’ largest trading partner, serving both as the leading exporter to the United States and as the largest buyer of U.S. goods. In 2025, the United States recorded a goods trade deficit of USD 196.9 billion with Mexico. Exports to Mexico increased by USD 3.9 billion to USD 338.0 billion, while imports rose by USD 5.8 billion to USD 534.9 billion.

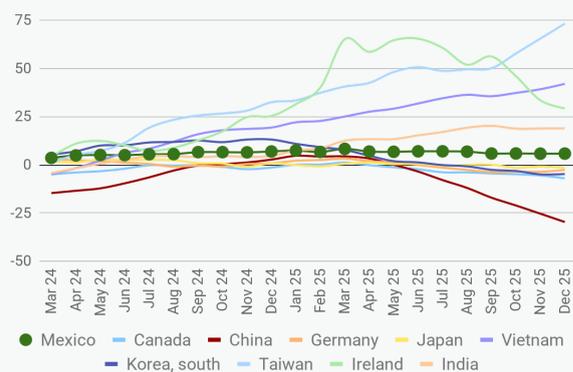
Notably, in 2025 Mexico became the leading destination for U.S. goods exports, surpassing Canada. This outcome reflects Mexico’s stronger relative position vis-à-vis its main competitors. In principle, the fact that most Mexican exports are exempt from the 10% tariff implies that Mexico will retain a significant advantage in remaining the United States’ primary trading partner.¹

FIGURE 1: US GOODS IMPORTS BY COUNTRY (SHARE % IN TOTAL IMPORTS)



Source: BBVA Research with data from Census

FIGURE 2: US GOODS IMPORTS BY COUNTRY (GROWTH % YoY)



Source: BBVA Research with data from Census

Beyond headline trade volumes, Mexico’s relatively lower effective weighted tariff constituted an additional structural factor underpinning its consolidation as the United States’ largest trading partner and manufacturing supplier. Prior to the U.S. Supreme Court’s decision, Mexico faced an effective tariff rate of 7.2% in 2025 (see Figure 9 below for details), well below that applied to China and several other major exporters to the U.S., reinforcing its attractiveness within regional value chains and nearshoring strategies.

The Supreme Court’s decision eliminating IEEPA-based tariffs altered this landscape by reducing tariff exposure not only for Mexico but for all United States trading partners. However, the subsequent announcement of blanket 10% tariffs means that Mexico will retain a comparative advantage in exporting to the U.S. market.²

¹ On February 20, a 10% tariff was published on the White House [website](#); however, one day later President Trump stated that the rate would be 15%. We are using the 10% figure, as it is the rate that has been officially published.

² *Idem*

US Supreme Court ruling in IEEPA³

Case background

The Supreme Court consolidated two cases (*Learning Resources, Inc. v. Trump and Trump v. V.O.S. Selections, Inc.*) to resolve whether IEEPA authorizes the President to impose tariffs. President Trump had invoked IEEPA after declaring national emergencies related to 1) the influx of illegal drugs from Canada, Mexico, and China; and 2) “*Large and persistent*” trade deficits that allegedly undermined U.S. manufacturing and supply chains. Under those emergency declarations, the Administration imposed:

- 25% tariffs on Mexican imports not complying with USMCA rules;
- 35% on non-USMCA-compliant Canadian exports;
- and 10% on most Chinese imports (drug-related measures), and
- A universal “reciprocal” tariff of at least 10% on all imports, with significantly higher rates for dozens of countries.⁴

The ruling

In a 6–3 decision, the Court held unequivocally that IEEPA does not authorize the President to impose tariffs. The majority concluded that the U.S. Constitution vests the taxing power—including the authority to impose duties and tariffs—exclusively in Congress, and that the President has no inherent peacetime authority to levy tariffs. Accordingly, clear statutory authorization would be required for such action, and IEEPA does not provide that authorization; rather, it authorizes the President to “*investigate, block..., regulate, direct and compel, nullify, void, prevent, or prohibit ... importation or exportation.*”

It further noted a constitutional problem: IEEPA also authorizes regulation of exports, but export taxes are expressly forbidden by the Constitution. Reading “regulate” to include taxation would therefore create constitutional tension. The Court ultimately concluded IEEPA’s grant of authority “falls short” of authorizing tariffs

Immediate legal and economic effects

The ruling has two structural implications:

1. **Restoration of congressional primacy over tariff policy. The Court reaffirmed that authority over tariffs resides fundamentally with Congress.** IEEPA cannot be used to implement sweeping trade barriers.
2. **Differentiation across legal bases for tariffs.** The decision does not affect tariffs imposed under other statutes (e.g., Section 232 or Section 301), but it removes IEEPA as a vehicle for broad-based emergency tariffs.

This reconfiguration of executive trade authority materially reduces the legal uncertainty surrounding unilateral, across-the-board tariffs justified on the basis of economic emergencies. This represents an important development for Mexico, Canada, and the majority of U.S. trading partners affected by the “Liberation Day” tariffs. However, the fact that the Trump administration is seeking alternative mechanisms to reimpose such tariffs could increase uncertainty.

³ Full document [available here](#).

⁴ See supra note 1.

Temporary Import Duty⁵

On the same day, the White House published a [fact sheet](#) announcing that President Trump was imposing a temporary import duty to address what it described as fundamental international payments problems. This measure appears to be the administration's response to the Supreme Court's decision. The President signed a proclamation under Section 122 of the Trade Act of 1974 imposing a temporary 10% import duty (subsequently raised to 15%) for up to 150 days to address "fundamental international payments problems," including the U.S. current account deficit. The proclamation imposes a temporary 10% (later increased to 15%) ad valorem duty on many imported goods.⁶

- Exempts certain goods (e.g., critical minerals, energy, pharmaceuticals, certain vehicles).
- **Exempts USMCA-compliant goods from Canada and Mexico from this duty.**

In this case, President Trump invokes section 122, instead of IEEPA. This fact sheet explicitly states that USMCA-compliant goods from Canada and Mexico are not subject to the 10% temporary duty (later increased to 15%).⁷ Two key points are worth highlighting:

1. Goods that qualify for preferential treatment under USMCA—because they meet the Agreement's rules of origin—will remain tariff-free; and
2. this exclusion is specific to the temporary 10% duty announced on this fact sheet; it does not apply to all other possible tariff actions.⁸

Mexico's tariff outlook just before the Supreme Court ruling

According to Figure 3, U.S. imports from Mexico in 2025 totaled USD 534.9 billion (100%). Of that amount, 81.3% (USD 435.0 billion) entered without tariff application, largely reflecting USMCA-compliant trade and product-specific exemptions and delays in implementation. The remaining 18.7% (USD 99.8 billion) was subject to tariffs under different legal instruments and sectoral measures such as described in the General Rates or Chapter 99.⁹

By category, 54.1% of total imports (USD 289.4 billion) correspond to goods classified under IEEPA (rest of goods). Of these, 52.7% entered duty-free under USMCA compliance, while 1.4% faced tariffs (25% on non-USMCA goods, with a previously announced 30% threat). Automotive trade accounts for a significant share: 12.8% (USD 68.5 billion) in automobiles and 30.9% (USD 165.4 billion) in auto parts.

Within automobiles, 7.3% entered without tariff under the USMCA U.S.-content exemption, while 5.5% was subject to a 25% tariff. For auto parts, 20.2% entered without tariff and 10.8% faced a 25% duty. Steel, aluminum, and derivatives represented 1.7% (USD 9.3 billion) of total imports, with 0.7% entering without tariff and 1.0% subject to a 50% tariff. Tomatoes accounted for 0.4% (USD 2.3 billion), subject to a 17.09% antidumping duty.

This composition suggests that the bulk of bilateral trade remains under USMCA coverage, although a non-negligible share (particularly in autos and certain non-USMCA goods) has been exposed to sectoral or IEEPA tariff measures.

⁵ Full document [available here](#).

⁶ See supra note 1.

⁷ *Idem*

⁸ *Idem*

⁹ See [Mexico | Trade & FDI Outlook 1H 2025 \(BBVA Research, 2025\)](#) for a full description of Chapter 99 implications to measure USMCA compliance.

FIGURE 3: US IMPORTS FROM MEXICO IN 2025
(BILLION USD AND SHARE)

	Section 232 Proclamation 10895 & 10896 Adjusting Imports of Steel, Aluminum & derivatives (Beer & Cans)	Section 232 Proclamation 10908 Automobiles	Section 232 Proclamation 10908 Auto Parts	Antidumping Agreement Suspension Tomato	IEEPA Executive Order 14194 Security and Migration (Rest of goods) ^(e)	Total
No tariff (USMCA exemption, incomplete/ no implementation)	0.7% 50% Executive Order ^(c)	7.3% 25% Executive Order US Content exempt for USMCA compliant cars^(a)	20.2% 25% Executive Order ^(b)	0.4% 17.09% Antidumping	52.7% 0% USMCA compliant	81.3% (435.0 B USD)
With Tariff (General rates or Ch. 99 rates applied)	1.0% 50% Executive Order ^(c)	5.5% 25% Executive Order	10.8% 25% Executive Order	0.0% 17.09% Antidumping	1.4% 25% non-USMCA ^(c) 30%-threat ^{(d)(e)}	18.7% (99.8 B USD)
Total	1.7% (9.3 B USD)	12.8% (68.5 B USD)	30.9% (165.4 B USD)	0.4% (2.3 B USD)	54.1% (289.4 B USD)	534.9 (100 %)

Source: BBVA Research, with data from Census Bureau and the US Federal Register.

Note: For each executive order, only the specified tariff lines are considered. ^(a) The U.S. content of vehicles and their components is excluded from the tariff calculation. For Mexico, this content represents an average of 18.3% of the value of an exported automobile. ^(b) On Thursday, May 1, CBP announced an additional 0% ad valorem duty rate on the HTSUS provisions listed in subdivision (g) until the U.S. Department of Commerce issues its FRN with guidance. Therefore, we are maintaining the 25% threshold until the criteria are clarified. [See details here.](#) ^(c) On June 3, the Executive Order was issued increasing tariffs on steel, aluminum and derivatives from 25% to 50%. [See details here.](#) ^(d) A 30% tariff on Mexican imports was announced on July 12, set for August 1 but later deferred by 90 days. This tariff is considered separate from sectoral duties. ^(e) As this table reflects the tariff structure in place during 2025, we show 0% for USMCA-compliant goods and 25% for non-USMCA goods under IEEPA Executive Order 14194 (with the previously announced 30% threat treated separately). The Supreme Court's ruling eliminates these tariffs under IEEPA.

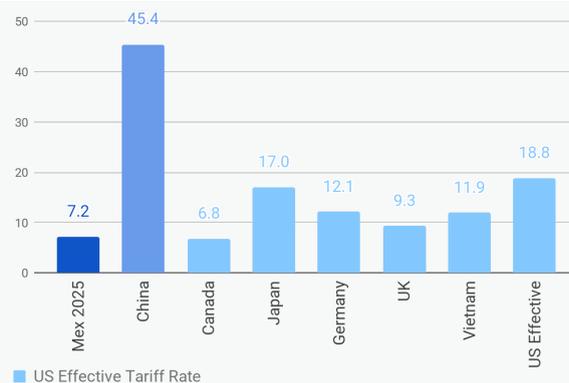
Under our baseline scenario, based on total U.S. imports from Mexico of USD 534.9 billion, the estimated weighted average tariff for 2025 was 7.2%. This reflects the end-of-year effective configuration of sectoral measures and exemptions. If IEEPA-related tariffs are permanently removed following the recent U.S. Supreme Court ruling, the weighted average tariff would decline further to 6.8%, according to our “Baseline + No IEEPA” scenario. Although the effective tariff for other countries would also decrease (depending on whether the tariff was higher or lower than 15%), Mexico’s relative position would remain broadly favorable.

FIGURE 4: MEXICO: ESTIMATED WEIGHTED AVERAGE TARIFF (%)

Scenario	Assumptions	Average weighted tariff
Baseline Effective 2025 tariff	\$534.9 bn USD imported by the US from Mexico	7.2%
Baseline + No IEEPA	Scenario based on a permanent elimination of IEEPA and based on the composition/volume of trade in 2025	6.8%

Source: BBVA Research, with data from Census Bureau

FIGURE 5: US EFFECTIVE TARIFF RATE (%)



Source: BBVA Research estimates for Mexico tariff rate, with data from Census Bureau, US Federal Register. Other countries tariff from: IMF World Economic Outlook October 2025

In relative terms, Mexico’s effective tariff rate in 2025 (7.2%) was substantially lower than China’s (45.4%) and below that of several major trading partners, including Japan (17.0%), Germany (12.1%), the UK (9.3%), and Vietnam (11.9%). It also stood well below the overall U.S. effective tariff rate (18.8%).

Furthermore, to evaluate Mexico's relative tariff position by industry, we estimated effective weighted tariff rates for the top suppliers of U.S. imports at the 3-digit NAICS level. This analysis draws on product-level tariff and trade data from the [Tariff Tool by IQOM](#)¹⁰, which provides the total applied tariff rate and corresponding U.S. import value for each tariff line based on US imports. The total applied rate reflects all duties and surcharges that actually affect trade flows, rather than statutory rates alone.

For each tariff line, the total applied tariff rate and import value were aggregated to industry level, allowing us to compute an import-value weighted average tariff for each supplier country within each sector. This weighted average captures the real tariff burden embedded in U.S. imports, as it accounts for both the magnitude of trade flows and the effective duty rates charged on those flows. The underlying data thus provide a robust foundation for comparing the tariff exposure of competing supplier countries in each sector.¹¹

First, we can notice that Mexico features prominently across U.S. import sectors, appearing among the top 5 suppliers in 23 out of 27 industries and ranking as the #1 supplier in 12 of them. Mexico's limited absence from only 4 sectors highlights how important its export footprint is across manufacturing and agriculture. This broad presence aligns with broader trade data showing Mexico as one of the leading sources of U.S. imports overall, driven by key categories such as vehicles, machinery, electronics and electrical equipment, where Mexican products account for a significant share of total U.S. sectoral imports. The combination of geographic proximity, trade integration and a competitive tariff position has helped Mexico solidify its role as the U.S.'s largest trading partner.

FIGURE 6: MEXICO'S ROLE AS A TOP SUPPLIER IN U.S. IMPORTS (POSITION)

Category	Count of sectors (out of 27)	Sectors where Mexico ranks
1st top supplier	12 out of 27 sectors	Agriculture; Beverages; Non-metallic minerals; Machinery; Computers & measurement; Electrical equipment; Transportation equipment; Food; Paper; Printing; Metallic manufacturing; Plastics & rubber
2nd top supplier	6 out of 27 sectors	Livestock; Forestry, Fishing & hunting; Petroleum & coal products; Basic metals; Fabricated metal
Among Top 5 suppliers	23 out of 27 sectors	Includes all above plus sectors like Leather, Wood products, Petroleum & coal products, etc.
Not in Top 5	4 out of 27 sectors	Chemical Manufacturing; Textile Mills; Textile Product Mills; Apparel – where China, India and Vietnam dominate.

Source: BBVA Research, with data from Census Bureau and the US Federal Register.

In four of the leading U.S. import industries (Agricultural goods, Computers & Electronics, Equipment & Transportation, and Machinery & Equipment) Mexico ranks as the top supplier. In Agricultural goods, Mexico accounts for 32.7% of U.S. imports, compared with 11.6% from Canada, and faces an estimated weighted average tariff of just 0.1%, the same as Canada, but significantly lower than Vietnam's 5.4% and India's 23.2% in this sector. In Computers & Electronics, Mexico's share is 19.8%, slightly below Taiwan's 22.5%, while Mexico faces an effective average tariff of around 1.3%, compared with 18.9% for Taiwan.

In Transportation Equipment, Mexico represents 35.8% of U.S. imports, versus 14.4% from Canada, and faces a weighted tariff of approximately 10.3%, marginally below Canada's 10.8%. Finally, in Machinery & Equipment, Mexico supplies 14.2% of U.S. imports, ahead of China's 11.8%, and faces an estimated tariff of 9.0%, substantially lower than China's 47.6% and Japan's 23.3%.

¹⁰ The platform allows users to consult, at the tariff classification level (Harmonized System), the trade volume and the (weighted) tariff by country. BBVA Research was responsible for processing this original data (aggregation and conversion to the NAICS system).

¹¹ For the "Tariff under 122" column, the tariff classifications established in Annexes I and II of the [Executive Order](#) were matched to the NAICS level. For this preliminary exercise of the adjusted "122" weighted average tariff by sector and country, the 2025 trade volume is used.

FIGURE 7: SHARE IN US IMPORTS AND EFFECTIVE TARIFF IN 2025. AGRICULTURAL GOODS (%)



FIGURE 8: SHARE IN US IMPORTS AND EFFECTIVE TARIFF IN 2025. COMPUTER & ELECTRONICS (%)

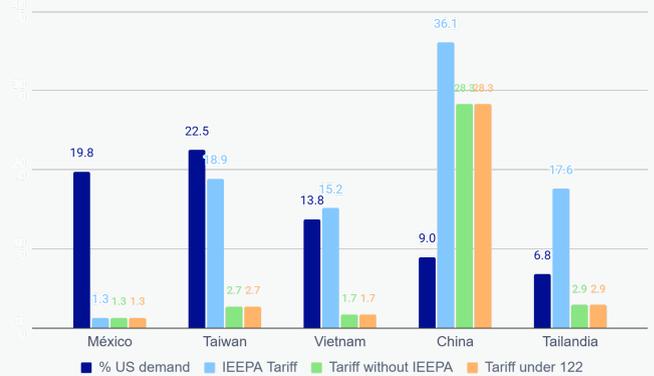
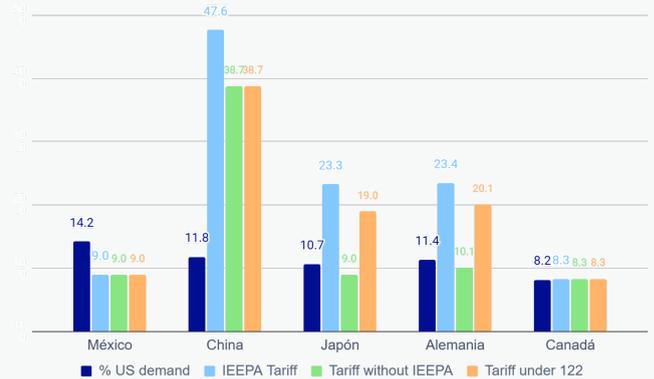


FIGURE 9: SHARE IN US IMPORTS AND EFFECTIVE TARIFF IN 2025. EQUIPMENT & TRANSPORTATION (%)



FIGURE 10: SHARE IN US IMPORTS AND EFFECTIVE TARIFF IN 2025. MACHINERY & EQUIPMENT (%)



Source: BBVA Research, with data from de IQOM, Census, Inegi.

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These relative tariff differences reinforced Mexico’s competitive advantage in these key U.S. markets, aligning with broader data showing that Mexico’s overall trade-weighted effective tariff into the United States has been lower than many competitors, supporting its role as a leading export partner despite shifts in U.S. tariff policy.

Taken together, these estimates indicate that, just prior to the Supreme Court’s ruling on IEEPA, Mexico remained among the least-penalized large U.S. trading partners. Under a scenario in which IEEPA-based measures were rolled back, Mexico’s effective tariff burden would have declined further, to around 6.8%, reinforcing its relative position. However, the elimination of IEEPA tariffs would also reduce tariff exposure for other trading partners. In particular, it remains unclear what tariff regime other countries will face once the 150-day period expires. Consequently, the net competitive effect for Mexico will depend on the composition of U.S. imports and the relative trade mix across countries.

Mexico may retain a better relative position thanks to the USMCA exemption

The Supreme Court’s ruling represents a structural shift in the U.S. trade policy framework. By eliminating IEEPA as a vehicle for broad emergency tariffs, the Court reduced the Executive’s discretionary space to impose across-the-board duties without explicit Congressional authorization. From a macro perspective, this enhances institutional predictability.

Prior to the ruling, Mexico benefited from a low effective tariff burden (7.2%), significantly below that of China and several other major suppliers. While a rollback of IEEPA-based measures reduces Mexico's weighted average tariff to around 6.8%, it simultaneously lowers tariff exposure for other trading partners. As a result, Mexico's absolute tariff burden declines, but its relative advantage compresses. The net competitive outcome depends on the sectoral composition of U.S. imports and the distribution of trade across countries.

President Trump's decision to invoke Section 122 of the Trade Act of 1974 to impose a temporary 10% - 15% global tariff increases duties on imports from all countries.¹² However, the exemption for USMCA-compliant goods provides a relative advantage to Mexico and Canada and reinforces incentives to export to the U.S. market. At the same time, this is an important incentive to invest in both countries. Mexico's structural integration with the U.S. economy likely prevents a sharp loss of market share. Geographic proximity, deep supply-chain integration, competitive labor costs, and USMCA institutionalization continue to underpin its position as the U.S.' largest trading partner.

By now, the combined effect of the U.S. Supreme Court's decision and President Trump's imposition of a 10%¹³ global tariff (with an exemption for USMCA-compliant goods) reinforces the advantage for USMCA members and creates a more favorable environment for Mexican exports to the U.S. and for investment in the country. Moreover, the fact that USMCA-compliant goods were exempted from the 10% tariff constitutes, in our view, a positive signal regarding the outcome of the USMCA review process scheduled for July this year.¹⁴

Finally, the fact that only goods complying with USMCA provisions are eligible to enter the United States tariff-free means that the incentive to increase domestic content in Mexican exports remains in place.

¹² See supra note 1.

¹³ *Idem*

¹⁴ *Idem*

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