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Mexico remains in a favorable position in the face of the new U.S. tariffs, which are justified—albeit without supporting evidence—as a measure to combat forced labor.

The exemption for USMCA-compliant goods limits the direct impact on Mexican exports

On July 23, the USTR announced the imposition of new tariffs under Section 301 of the Trade Act of 1974 on imports from 60 economies. Mexico became subject to an additional 10% tariff, on the grounds that the country has a ban on imports of goods produced with forced labor but does not enforce it effectively. This constitutes a violation of the USMCA.

Diego López / Carlos Serrano / Samuel Vázquez
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Key points

- The USTR imposed tariffs of 10% or 12.5% on goods from 60 economies, which account for 99.4% of U.S. imports, subject to multiple exclusions.
- The United States argues that these tariffs apply to countries that do not effectively combat forced labor. However, it has not presented robust investigations supporting that claim. Rather than responding to a genuine concern over forced labor, the measure appears intended to replace the temporary tariffs imposed under Section 122 following the Supreme Court's decision questioning the legality of the IEEPA tariffs.
- Mexico, Canada, and 15 other trading partners became subject to a 10% rate because they have an import ban, a partial regime, or commitments to establish and enforce a ban on imports produced with forced labor.
- For the European Union and Taiwan, the total tariff, including the most-favored-nation (MFN) rate, is capped at 10%; for Japan, South Korea, and Switzerland, the cap is 12.5%. All other economies are subject to an additional 12.5% tariff.
- Mexican and Canadian goods entering duty-free under the USMCA are exempt.
- Products subject to Section 232 tariffs are also excluded, including numerous steel, aluminum, and copper goods, automobiles, auto parts, heavy vehicles, lumber, and semiconductors.
- The measure also provides exemptions for raw materials, pharmaceutical products, civil aircraft, and goods whose imposition could cause shortages in the U.S. economy. However, in the absence of a specific list of tariff lines subject to the measure as of the date of this report, it is not possible to assess whether the scope is identical to, broader than, or narrower than that applied under Section 122.

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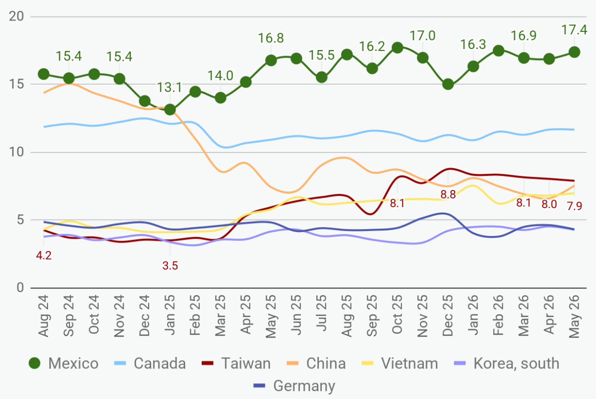
Background

In February 2026, the U.S. Supreme Court ruled that the International Emergency Economic Powers Act (IEEPA) does not authorize the President to impose broad-based tariffs unilaterally. The decision eliminated this mechanism for imposing emergency tariffs and the so-called “reciprocal” tariffs introduced by the Trump administration.[1]

The IEEPA ruling did not affect tariffs imposed under other statutes, such as Section 232 of the Trade Expansion Act of 1962 or Section 301 of the Trade Act of 1974. This distinction became particularly relevant because it allowed the Executive Branch to continue using trade instruments that expressly provide tariff authority, although subject to specific requirements and procedures.

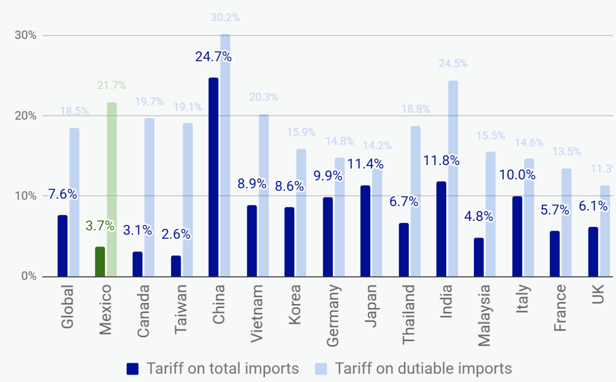
Following the ruling, the administration turned to Section 122 of the Trade Act to impose a temporary, broad-based tariff, citing fundamental problems in the U.S. balance of payments. That provision allows tariffs to be imposed for a maximum of 150 days, and they remained in effect as of July 24, 2026. Goods from Mexico and Canada that complied with the USMCA were exempt, preserving preferential access for the majority of Mexican exports. Against this backdrop, Mexican exports to the United States have remained resilient, growing 7.7% year-on-year based on the annualized May 2026 figure. In the same month, Mexico’s share of total U.S. imports reached a record high of 17.4%. The average effective tariff was 3.7% for total imports and 21.7% for the subset of imports that paid tariffs during the January-May 2026 period.

FIGURE 1: US IMPORTS BY COUNTRY
(% SHARE)



Source: BBVA Research, based on US Census data

FIGURE 2: AVERAGE EFFECTIVE US TARIFF
(%, JANUARY-MAY 2026)



Source: BBVA Research, based on US Census data

USTR Determination under Section 301[2]

On March 12, 2026, the USTR initiated 60 investigations into the absence of effective bans on imports of goods produced wholly or partly with forced labor. Following two rounds of hearings, the USTR determined on June 2 that the practices of the economies under investigation were unreasonable and restricted and burdened U.S. commerce.

The USTR’s new action under Section 301 comes as the application period for that temporary instrument draws to a close. In this sense, it forms part of a broader process through which the administration has moved successively from IEEPA to Section 122 and now to Section 301 in order to maintain broadly applicable tariffs.

[1] See Mexico Retains a Structural Advantage Following the IEEPA Ruling (BBVA Research, 2026)
[2] USTR Takes Action in Forced Labor Section 301 Investigations

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The tariffs apply to goods entered for consumption, or withdrawn from warehouses for consumption, as of 12:01 a.m. on July 24, 2026. Products that had already been loaded and were in transit before that date were excluded, provided they entered the country before July 28.

Unlike IEEPA, Section 301 expressly authorizes the USTR to respond to foreign acts, policies, or practices that are unjustifiable, unreasonable, or discriminatory and that burden U.S. commerce. It also allows tariffs or trade restrictions to be imposed on goods from the economy under investigation, even when the affected products are not directly involved in the challenged practice.

The determination establishes three main tariff treatments:

1. An additional 10% tariff applies to goods from Argentina, Bangladesh, Cambodia, Canada, Ecuador, El Salvador, Guatemala, Honduras, India, Indonesia, Jordan, Malaysia, Mexico, Pakistan, Sri Lanka, Trinidad and Tobago, and the United Kingdom. These countries either have a ban on imports produced with forced labor, have undertaken commitments to adopt one under an Agreement on Reciprocal Trade, or maintain a partial regime with equivalent effects.
2. For products from the European Union and Taiwan, the Section 301 tariff will be set at the level necessary for the combined most-favored-nation tariff and the new tariff to equal 10%. If the most-favored-nation tariff is already equal to or greater than 10%, no additional tariff will apply.
3. For Japan, South Korea, and Switzerland, the same mechanism caps the combined MFN and Section 301 tariff at 12.5%. All other economies under investigation are subject to an additional 12.5% tariff.

The USTR determined that Mexico has adopted a ban on imports produced with forced labor but has not enforced it effectively. For this reason, Mexican goods are formally subject to a 10% tariff. Nevertheless, the determination includes an important exemption under the USMCA.[3]

The determination exempts a list of products on the grounds of avoiding shortages, economic disruptions, or disproportionate costs for U.S. consumers and businesses. The main categories include:

- Informational materials, humanitarian donations, and accompanied baggage.
- Civil aircraft, engines, components, simulators, and certain parts.
- Products intended for pharmaceutical applications.
- Products already subject to Section 232 measures, including steel, aluminum, and copper goods; vehicles and auto parts; medium- and heavy-duty vehicles; wood products; and semiconductors.
- Raw materials and goods not produced in the United States in sufficient quantities or at reasonable prices.
- Products whose inclusion could generate broad-based disruptions.
- Certain goods whose exclusion is intended to encourage specific countries to comply with their forced-labor commitments.

The USTR added 471 additional products to the exclusion list. These include, among others, seeds, quota-covered sugar, unflavored instant coffee, fertilizer and pesticide inputs, hides and skins, wood products, minerals, metals, scrap, semiconductor manufacturing equipment, medicines, used clothing, art, and antiques.

Assessment

This new action confirms that the Trump administration's trade policy will continue to be characterized by the intensive use of tariffs and by the search for alternative legal grounds to maintain coverage close to universal.

Unlike IEEPA, Section 301 provides a stronger legal basis because it expressly allows tariffs to be imposed in response to foreign practices that burden U.S. commerce. An application of this magnitude resembles a general tariff policy more than a specific retaliatory action against particular practices. Otherwise, it would be difficult—if not

[3] See Mexico faces the USMCA Review (BBVA Research, 2026)

impossible—to explain the imposition of tariffs on the European Union, for example, on the grounds that its Member States do not effectively combat forced labor.

The determination includes an exemption for Mexican products entering under the USMCA. For Mexico, the direct impact appears limited because most goods that comply with USMCA rules will retain the exemption. This allows the country to maintain a stronger relative position than competitors subject to tariffs of 10% or 12.5% on a broader share of their exports. This differentiated treatment for Mexico—and Canada—reinforces two signals. First, the USMCA continues to serve as the main mechanism protecting Mexico's preferential access to the U.S. market. Moreover, this new action signals the United States' intention to maintain the USMCA. Second, the incentive remains to increase the regional content of exports and properly document compliance with rules of origin.

Overall, the determination is favorable for Mexico in relative terms, but negative for the predictability of global trade. It will therefore create inefficiencies across several economies, including the U.S. economy. U.S. consumers will ultimately bear part of the cost of these tariffs through higher prices.

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