

Trade, tariffs, and local economies: Repercussions for the US, Canada, and Mexico

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North America Trade Partnership

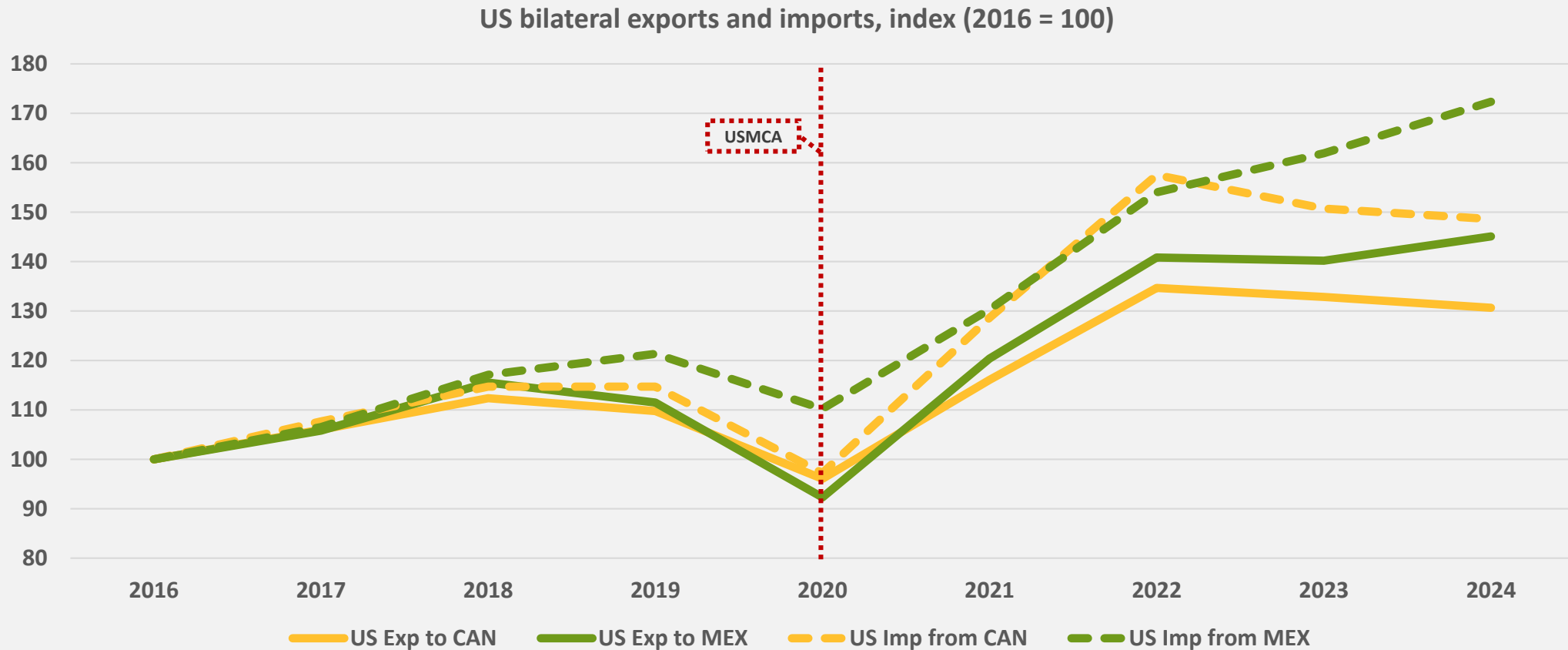
Some key introductory ideas:

- *It represents one of the world's most significant economic partnerships, even comparable with the European Union in terms of supply chain integration, and interdependence.*
- *With a combined GDP exceeding \$26 trillion, the United States, Mexico, and Canada form an economic powerhouse that drives prosperity across all three nations.*
- *Since NAFTA's inception in 1994 and its evolution into the USMCA in 2020, trade between these countries has quadrupled from \$290 billion to over \$1.2 trillion annually.*

Trade in North America: A story of integration

Through NAFTA and USMCA the US has gained market access:

US exports have grown alongside imports.



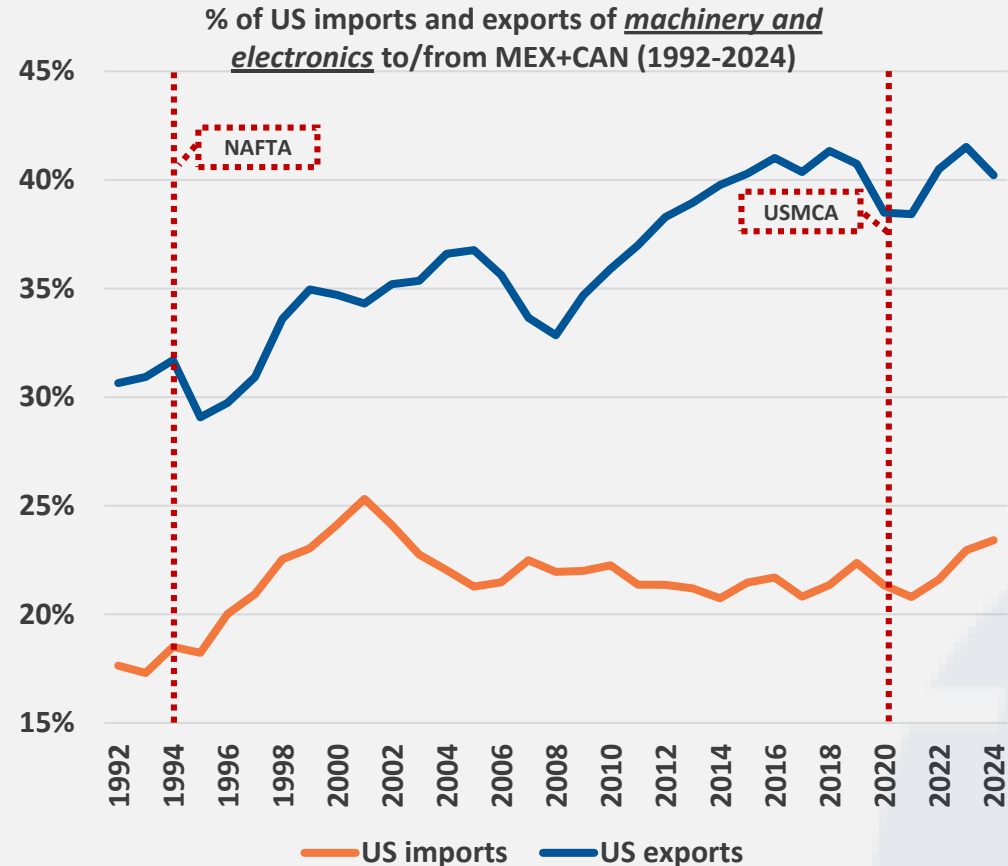
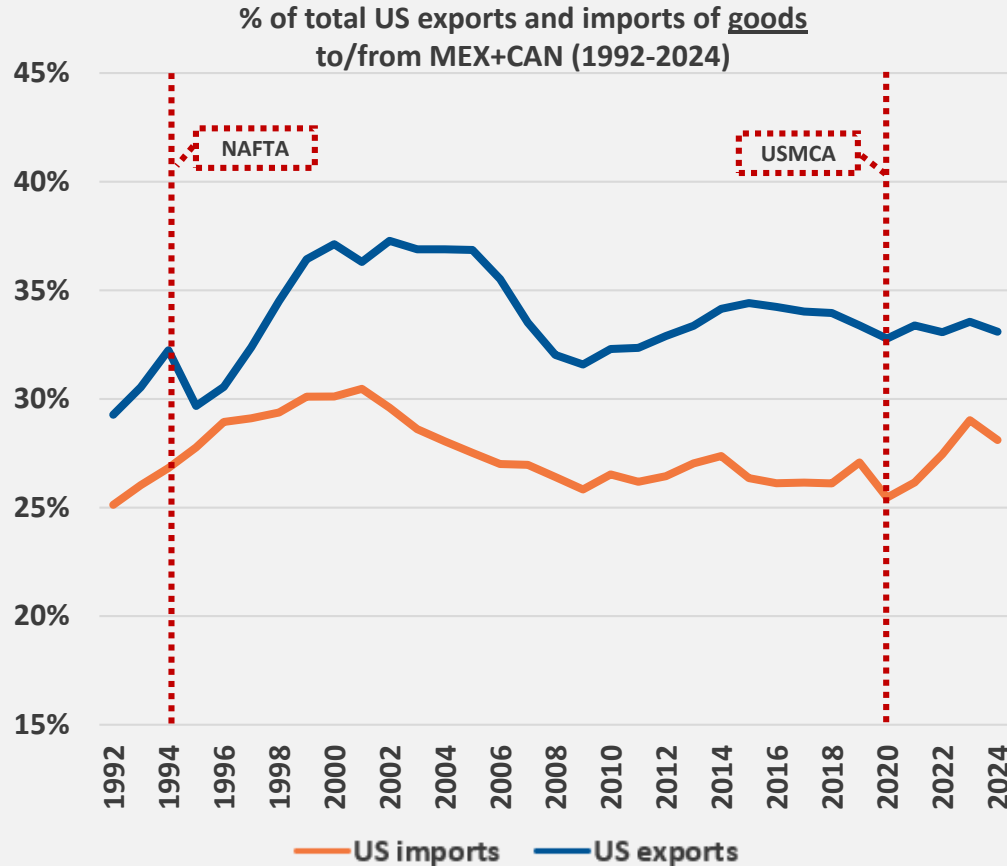
Source: Calculated with data from US Census Bureau.

The dip observed in 2020 can be attributed to the effects of the pandemic.

Trade in North America: A story of integration

Through NAFTA and USMCA the US has gained market access:

Mexico and Canada are the largest destination of US exports, especially of machinery and electronics.



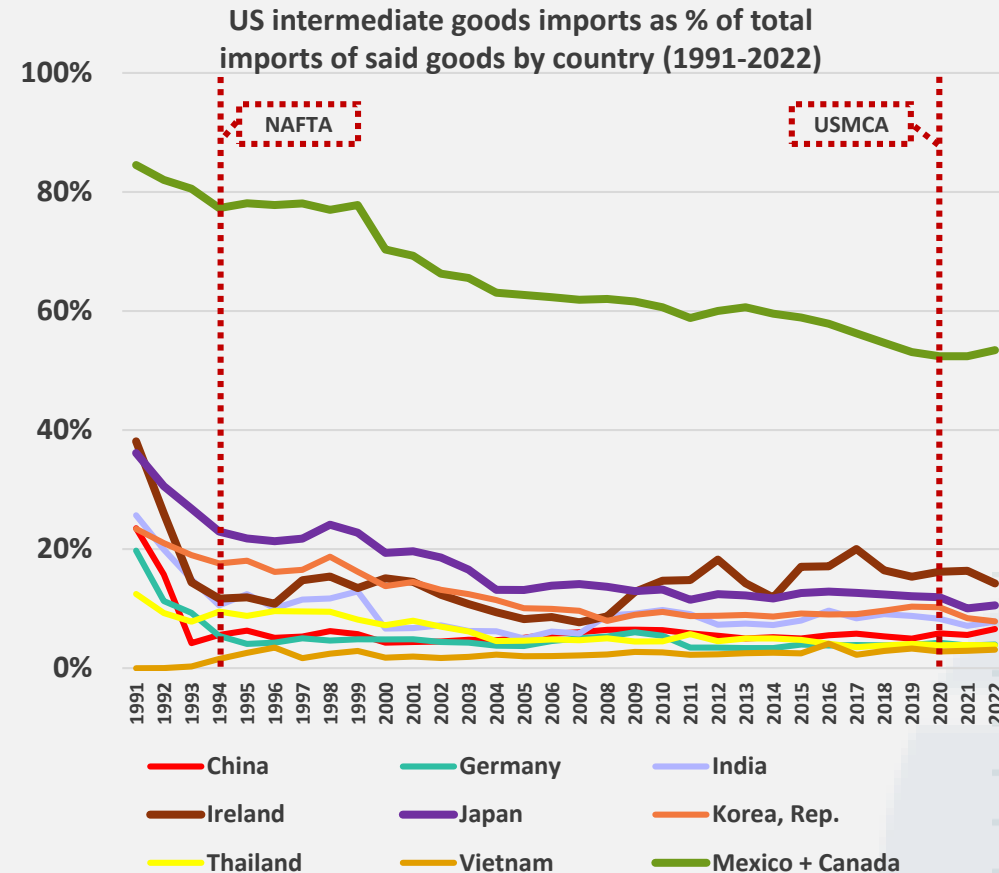
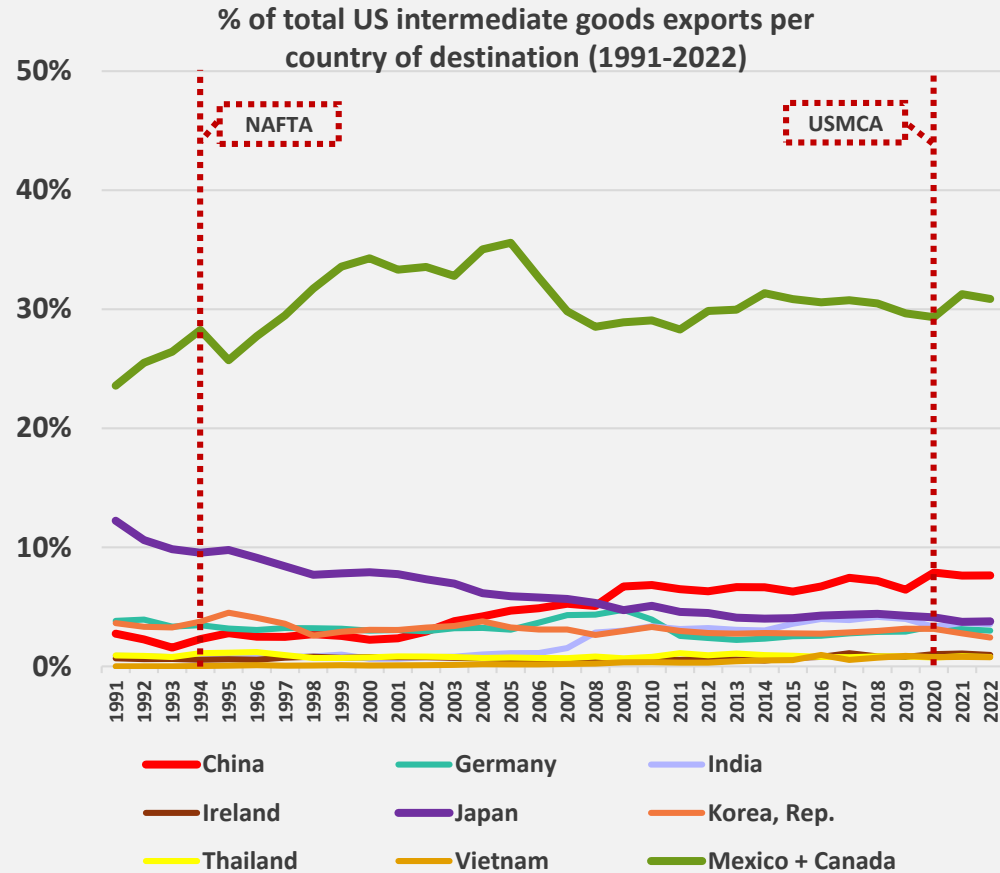
Source: Calculated with data from US Census Bureau.

Machinery and electronics are composed of HS codes 84 and 85.

Trade in North America: A story of integration

No other trade deficit "culprits" are as reliant on US inputs:

Like no other major US trade partner, Mexico and Canada have been deeply reliant on US intermediate goods (inputs) that are then exported to the US.



Source: Calculated with data from WITS (World Bank).

Countries shown are the ones with which the US had the largest bilateral trade deficits with in 2024.

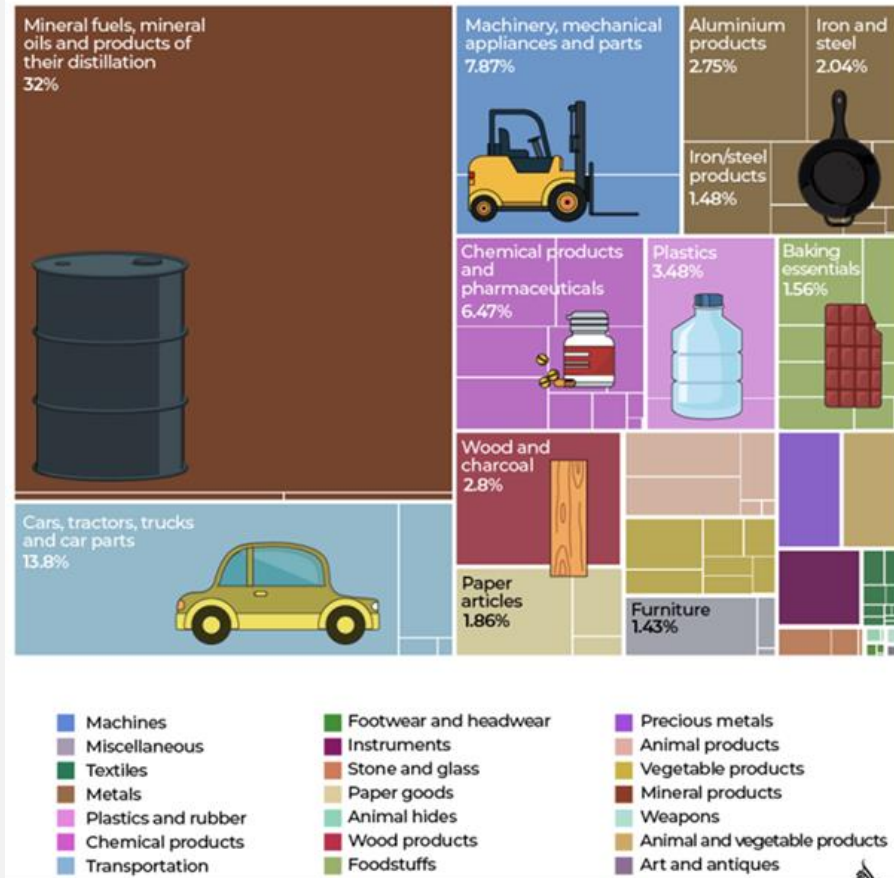
Taiwan, a top US trade partner, is excluded due to unavailability of intermediate goods trade data.

Intermediate goods trade is a very useful variable to measure supply chain integration and interdependence.

Trade in North America: What is the export basket per partner (Canada)

Canada's main exports to the US

Canada is the second largest trading partner of the United States after Mexico. The country's top exports to the US include oil (32 percent), cars and car parts (13.8 percent), machinery, medicines, plastics and wood.



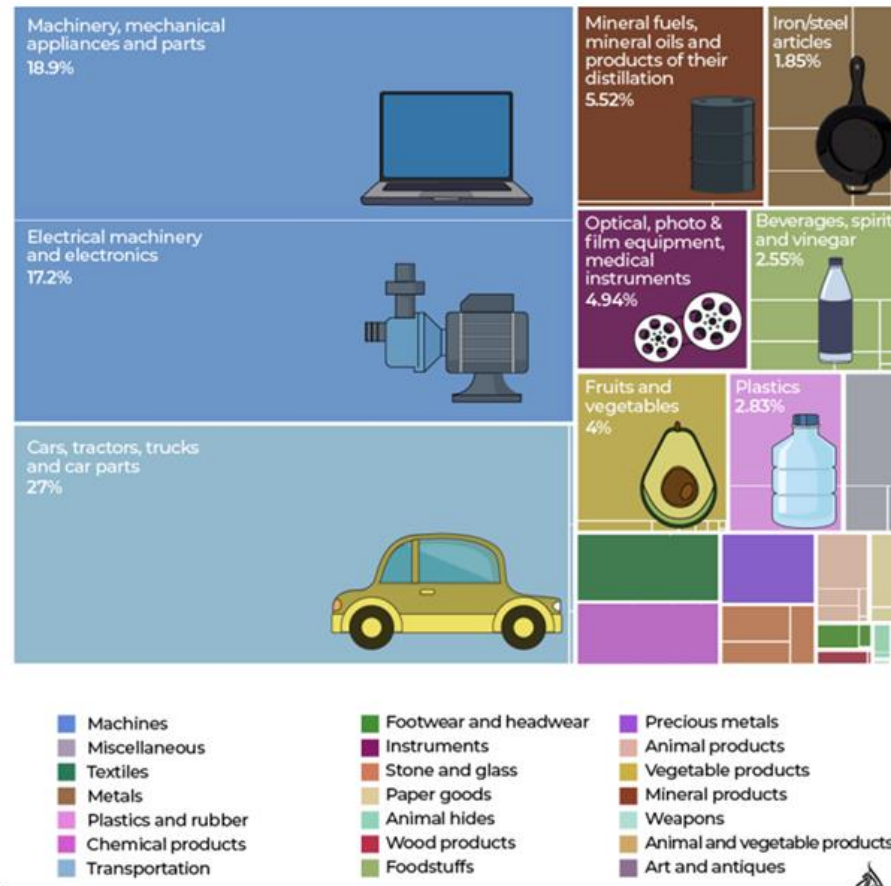
Trade with Canada is marked by the energy trade, while the US has had significant trade surpluses in areas such as machinery and electronics trade.

Source: Observatory of Economic Complexity

Trade in North America: What is the export basket per partner (Mexico)

Mexico's main exports to the US

Mexico is the largest trading partner of the United States. The country's top exports to the US include machinery (36 percent), cars and car parts (27 percent), oil, medical equipment and agricultural products.



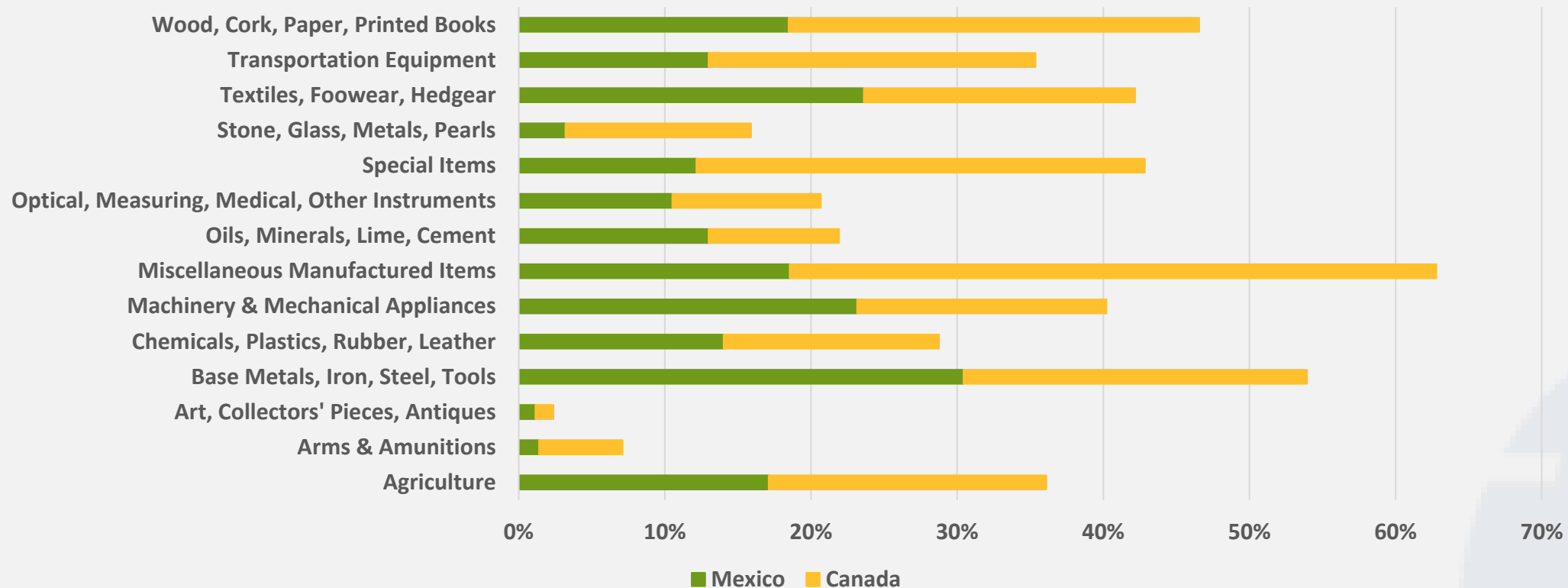
Source: Observatory of Economic Complexity

Trade with Mexico is more centered in manufactured products, electronics, and the auto industry, which are highly dependent on US inputs.

Trade in North America: How do US exports to Mexico and Canada look like?

In key areas like manufactured goods USMCA is a key market for US exports.

US exports to Mexico and Canada per category as a % of total exports (2024)



Source: Calculated with data from US Census Bureau.

In 2024, Mexico and Canada accounted for over 33% of US total exports.

The Benefits of the USMCA Trade Partnership

Some key metrics:

- **50%** growth in trade since the implementation of USMCA.
- **65%** growth in the US digital trade surplus with Canada and Mexico.
- **\$20 billion** annual contribution by digital trade to the US economy from its North American partners.
- **75%** minimum North American auto content for vehicles under USMCA.

Tariffs affect every city, and every citizen

So, what are they and how do they threaten exports?

Some key ideas:

What are tariffs?

A tariff is a tax imposed by one country's government on goods and services from a foreign country, making them more expensive to encourage local purchases.

For example:

A Chinese exporter sells a pair of jeans to a US importer for \$10

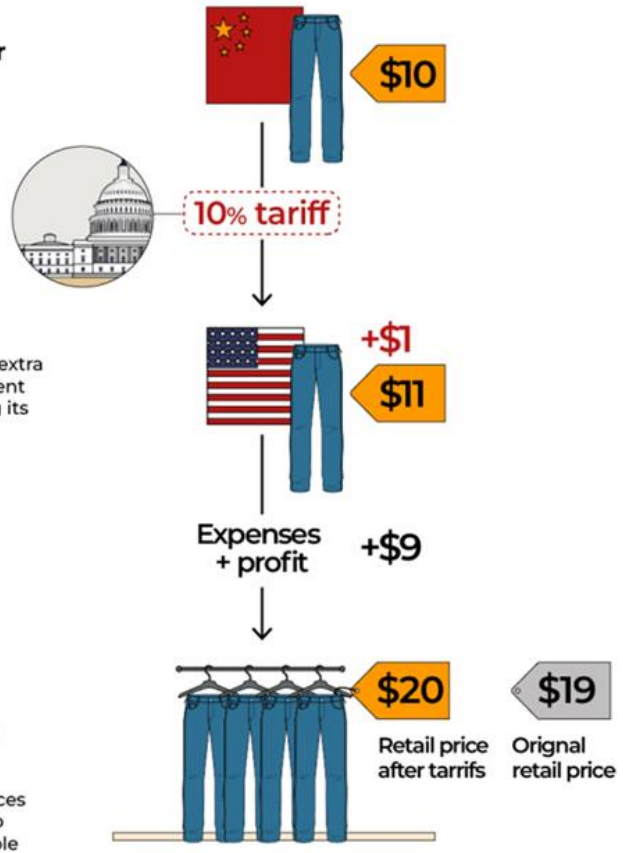
Tariff imposed
The US government imposes a 10% tariff on Chinese products

The US importer will now have to pay \$1 extra to the federal government for the jeans, increasing its cost to \$11

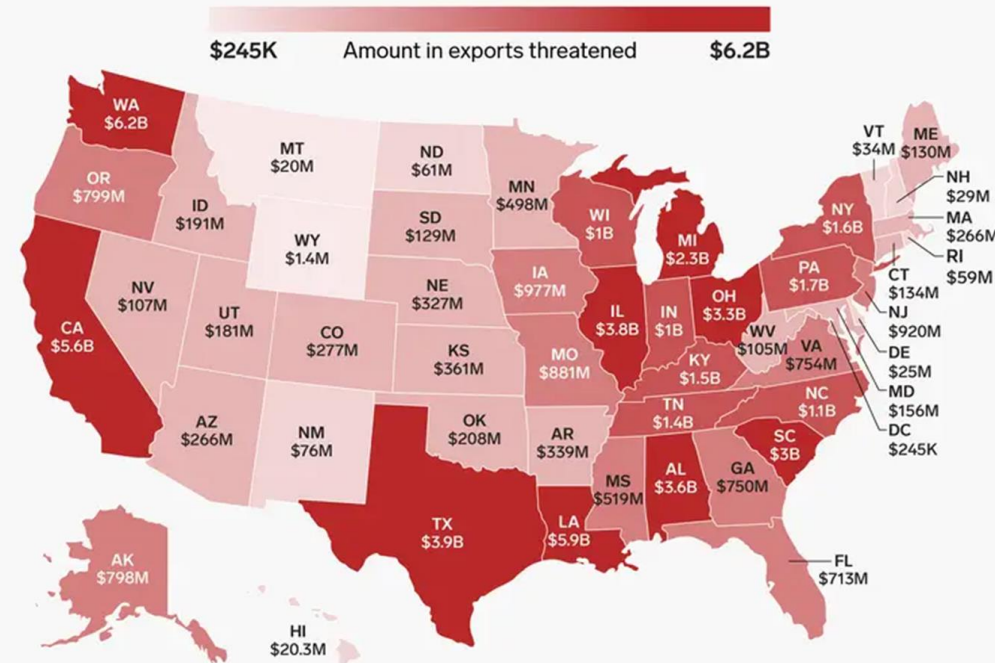
After adding expenses and profit, the jeans will be sold for \$20

A US consumer will most likely pay more for the jeans

- In some cases:
- the exporter absorbs the tariff by lowering their prices
 - Or
 - the US business reduces their profit margins to keep retail prices stable



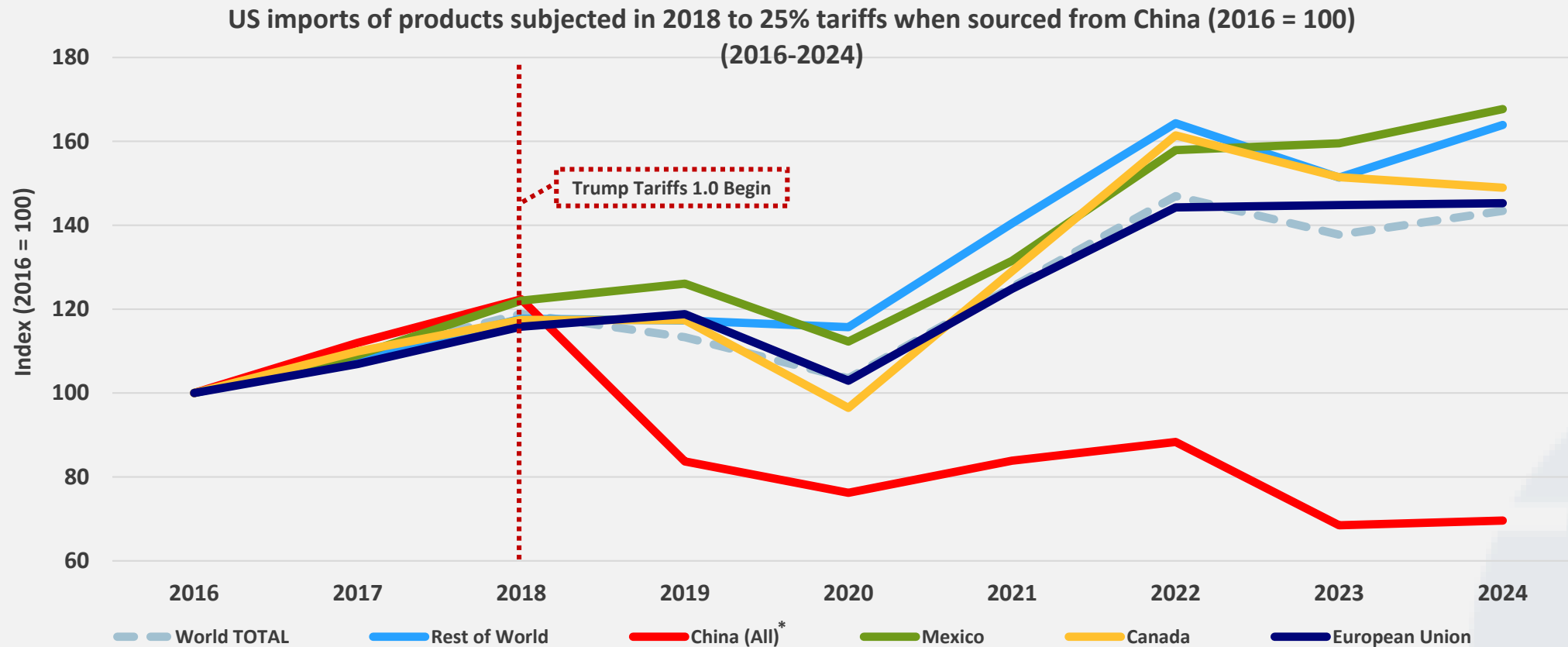
How tariffs threaten exports in each US state



Source: Tax Foundation (2025) and US Chamber

Tariffs have not worked in the past: Instead, they have simply redirected trade

In 2018-19, the Trump administration-imposed tariffs on a wide array of products from China, fueling trade redirection to other trade partners.



Source: Calculated with data from US Census Bureau, inspired by Chad Brown's (2022) methodology. Source data was in US dollars.

Goods subject to 25% tariffs included electronic equipment, semiconductors, furniture, and auto parts, among others.

*China includes Hong Kong and Macau.

What can cities do to navigate new trade rules:



Advocate Collectively

- Leverage the U.S. Conference of Mayors to advance local interests in national trade policy
- Develop unified positions on USMCA implementation and enforcement
- Communicate local economic impacts to federal policymakers



Diversify Economic Partnerships

- Explore alternative international markets, including CAFTA-DR nations
- Strengthen domestic trade with other U.S. regions
- Conduct targeted trade missions to develop new relationships



Invest in Resilience

- Map regional supply chains to identify vulnerabilities
- Create small business assistance programs for trade-affected firms
- Develop workforce training aligned with emerging opportunities



Monitor and Adapt

- Establish economic indicators tracking systems
- Form cross-departmental trade impact task forces
- Create public-private partnerships for trade adaptation

Thank you

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