Trump’s Proposal to Impose Tariffs on Mexican Imports Creates Widespread Concern

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US President Donald Trump’s administration has threatened to impose a 20% tariff on all Mexican imports, a move that could cause major disruptions to trade between the two countries and increase the cost of many goods for US consumers. Trump’s presidential spokesperson, Sean Spicer, raised the possibility of the tariff after Mexican President Enrique Peña Nieto cancelled a meeting with Trump that had been scheduled for the end of January. At the meeting, Trump was reportedly going to press Peña Nieto for a commitment to pay for the construction of a massive wall along the US-Mexico border, a project that would cost as much as US$25 billion (SourceMex, Jan. 18, 2017).

Spicer raised the possibility that the Trump government might impose the tax during conversations with beat reporters. “By doing it that way, we can do US$10 billion a year and easily pay for the wall just through that mechanism alone. That’s really going to provide the funding,” the press secretary said. According to the Office of the US Trade Representative, Mexico’s exports to the US in 2015 were valued at $316.4 billion. The trade deficit is estimated to be $50 billion.

Economic and political observers generally agree that imposing a 20% tariff would have negative repercussions on both the Mexican and US economies, but particularly on the latter. “Who is going to pay? US consumers, because prices are going to increase a little bit,” said Gabriel Casillas, chief economist at Grupo Financiero Banorte.

**Gutting NAFTA**

The tariff would also have the effect of gutting the North American Free Trade Agreement (NAFTA, the free trade deal between Mexico, Canada, and the US), which could hurt employment levels in both the US and Mexico. Under NAFTA, the majority of Mexican exports do not pay an import tax in the US. At its inception, NAFTA established a timetable to reduce tariffs on products, and most of these have been met.

“As long as the agreement is in place, no taxes can be imposed on Mexican products,” columnist Enrique Quintana wrote in the daily business newspaper El Financiero. “If the Trump government decides to leave NAFTA, then it must give formal notification, and allow six months before the changes can be put in place.”

In an editorial, The New York Times noted that imposing a tariff on Mexico would mean “pulling out of NAFTA, a move that would severely disrupt the flow of parts and goods across North America and stall production in factories in the United States and Canada.”

The US economy relies strongly on imports from Mexico, with imports of motor vehicles and auto parts topping the list. The US imported US$21.5 billion in motor vehicles and US$51.6 billion in auto parts in January-November 2016, according to the US Department of Commerce. Imports of these products accounted for about one-fourth of total imports from Mexico. “Mexican auto parts are found in virtually all 11 million cars made in the United States,” The New York Times said.
Higher US consumer prices

The tariff could also have the effect of raising prices for gasoline and other hydrocarbons, as crude oil is a major US import from Mexico. According to the Commerce Department, the US imported about 200 million barrels of Mexican crude in January-November 2016 at a cost of US$7 billion.

Additionally, many other products are imported from Mexico, including foodstuffs, agricultural products, and beverages. According to the Office of the US Trade Representative (USTR), imports of fresh vegetables now amount to about US$4.8 billion a year. In addition, the US imports about US$1.7 billion in snack foods and US$1.4 billion in processed fruits and vegetables, said the USTR.

Beer is another popular import that could be affected by the tariff, and this has raised concerns among industry insiders. Constellation Brands, which imports popular Mexican beers like Corona, Modelo, and Pacífico, would have to charge more for these brands in the US market. In 2013, Constellation paid almost US$5 billion to acquire the exclusive rights to import popular beers brewed by Grupo Modelo.

The concerns go beyond the tariff and extend to Trump’s immigration policies. According to Robert Ottenstein, an analyst for the investment bank Evercore ISI, Trump’s immigration rhetoric or policies could also hurt the beer importer, as Mexican immigrants are among the top consumers of the Mexican brands. If undocumented immigrants are forced to return to Mexico or leave voluntarily, Constellation could lose an estimated 1.5 million to 2 million consumers.

According to observers, an unintended effect of the tariff would be shortages of fresh vegetables and fruits at grocery stores across the US. The possibility of higher prices for produce and many other items has drawn strong opposition from the US retail sector, which views the tariffs as a consumer tax.

“Retailers, oil companies, automobile manufacturers, and consumer goods manufacturers would be losers. They’re all dependent on imports. Department stores sell garments and furniture made overseas, which is why Wal-Mart is prominent among the opponents. Although the US is no longer a net importer of oil, it’s still a major importer,” said the Los Angeles Times.

“If this tax becomes a reality, the US would be violating not only the rules of NAFTA but also its commitment under the WTO,” financial columnist Maricarmen Cortés wrote in the daily newspaper Excélsior, referring to the World Trade Organization. “What is more absurd, it would unleash a trade war between Mexico and the US … and the ones most affected would be US consumers, who would pay higher prices for consumer goods.”

Futhermore, if the tariff goes into effect, Mexico would have no choice but to retaliate by enacting its own tariffs on imports of US products. The New York Times cited a 2014 study that estimated that 1.9 million US jobs depend on exports to Mexico.

“It’s very clear that we have to be prepared to immediately be able to neutralize the impact of a measure of that nature,” Mexico’s economy secretary, Ildefonso Guajardo, said in an interview.

Guajardo warned that the tariff proposed by the Trump administration would “have a wave of impacts that can take us into a global recession.”
The proposed tariff, whether it is 20% or an earlier estimate of 38%, might face a series of obstacles, including opposition from the US Congress, even from some members of Trump’s Republican Party. A huge problem for the administration is that the import tax might have repercussions beyond NAFTA. All tariffs are set in compliance with the rules of the WTO, and the import taxes proposed by Trump would violate the US commitments under that international trade body.

Some analysts suggest that the Trump government is bluffing and that tariffs will not be imposed, at least not at the 20% level. Even White House advisers acknowledged when the tax proposal first came up during the campaign that the measure was a simple ploy to force Mexico’s hand. In an interview with CNNMoney during the electoral campaign, Peter Navarro, who now heads the White House National Trade Council, said the threat of a tariff would be a strategy to get Mexico into a better trade deal. Trump wants to renegotiate NAFTA.

“The tariff is not an end game, it’s a strategy—a strategy to renegotiate trade deals,” Navarro said at the time. “Tariffs wouldn’t put US jobs at risk.”

After suggesting the tariff in January, Spicer said that the administration wanted to demonstrate there were several ways to obtain funding for the wall. “Imports [are] one way,” he said. “I just want to be clear that we’re not being prescriptive in saying that is the only way, nor is the rate prescriptive.”

Writing in Excélsior, the financial columnist Alicia Salgado predicted that an escalation of a trade war would be disastrous for all parties involved. “It would cause a recession for Mexico, and the same would happen with Canada,” she said. “And it would be catastrophic for the US, too.”

**Reaching out to other countries**

Some observers have noted that the Trump government has shown little flexibility and an unwillingness to move from its position, which precludes the possibility of a negotiated solution to the conflict.

“There is no path with Trump. It’s a done deal,” columnist Enrique Campos Suárez wrote in the daily business newspaper El Economista. “All that remains is for Mexico to use its negotiating prowess to reach out to everyone else, from the state governments in the US to the business organizations that have a lot to lose with the disappearance of NAFTA, to everyone else who is convinced that this president is a danger.”

Campos Suárez added, “We have to negotiate with the world, too. We have to whet the appetite of China and all the other Asian countries and reach out to the Europeans to fill the spots that the US would be leaving vacant.”

The Peña Nieto government is also thinking in those terms. On Jan. 30, Foreign Relations Secretary Luis Videgaray Caso announced that Mexico had begun discussions with governments in Latin America, Europe, Asia, and Africa to expand agreements and trade relations. In a meeting with the delegation of the governing Partido Revolucionario Institucional (PRI) in the Senate, Videgaray offered reassurances that relations with the US are not broken, but he also promised that Mexico would not have conditions imposed during negotiations, including a commitment on the construction of the wall.
Videgaray specified several Latin American countries with whom Mexico is seeking to expand economic relations, including Guatemala, Honduras, and El Salvador in Central America, and Peru, Chile, Colombia, Brazil, and Argentina in South America. “There is no more opportune moment than now,” Videgaray said, mentioning in particular the latter two countries, which form part of the Southern Cone Common Market (MERCOSUR).

**Peña Nieto restores his standing**

Peña Nieto’s decision to stand up to Trump and cancel the planned meeting at the end of January has restored, at least temporarily, his standing among Mexican citizens. The Mexican president’s popularity hit an all-time low at the beginning of January when his administration decided to proceed with the first step in the plan to end government subsidies for gasoline prices, which had the effect of raising costs at the pump (SourceMex, Jan. 4, 2017).

Peña Nieto entered the second-to-last year of his administration with already low ratings, attributed in part to a series of scandals that tied the president and his party to corrupt practices (SourceMex, April 29, 2015, and Oct. 12, 2016), to the president’s decision to invite Trump to Mexico for a meeting during the US electoral campaign (SourceMex, Sept. 7, 2016), and to his initial unwillingness to speak out forcefully against the US comments on trade (SourceMex, Jan. 11, 2017) and immigration (SourceMex, Jan. 18, 2017).

Trump and Peña Nieto were scheduled to meet in Washington on Jan. 31, but the Mexican president cancelled the meeting when it became apparent that his US counterpart was going to insist on a commitment by Mexico to pay for construction of a massive wall along the US-Mexico border.

Peña Nieto’s decision to cancel the meeting appeared to bring Mexicans together, including his more vocal critics in the political opposition. Andrés Manuel López Obrador, who is expected to seek the presidency in 2018, was among those who supported the move. López Obrador, the president of the center-left Movimiento Regeneración Nacional (Morena), said he was confident that Peña Nieto would represent Mexico “with dignity” in future dealings with Trump.

López Obrador, who is planning trips to Los Angeles and Chicago in February, said he wants to form a civic front in the US “against xenophobia and against hate toward foreigners.”

Others suggested that Peña Nieto has to remain firm against Trump if he is to retain his newly found standing among Mexican citizens.

“Under a national crisis, people rally around a leader. Now he’s got to keep leading, that’s important,” said Peter Schechter, senior vice-president for strategic initiatives at the Atlantic Council. “There has to be the perception that he continues to lead.”

Billionaire Carlos Slim, chairman of the telecommunications empire Grupo Telmex, said, “We have to support the President of Mexico so he can defend the country’s interests. I would be very interested in seeing this unity last.”

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