Economic Analysis

Low Probability of Lasting 25% Tariffs

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As we know, the United States has stated that if Mexico fails to make significant progress in curbing migration and drug trafficking, it will impose 25% tariffs on all imports from our country. In principle, these advances will be evaluated on March 4. However, there are several reasons to believe that this measure has a low probability of materializing, as it would generate significant economic costs for both the U.S. and Mexico.

1. Negative Impact on U.S. Competitiveness

The U.S. and Mexican economies are deeply integrated into value chains, particularly in the manufacturing sector. About one-third of the content in Mexican exports originates in the U.S. Additionally, 43% of U.S. auto parts imports come from Mexico, and many of these components contain U.S.-sourced materials. Imposing tariffs of this magnitude would increase production costs for the automotive industry, making vehicles more expensive and reducing the competitiveness of U.S. companies in global markets.

Furthermore, the labor cost differential is a key factor in the productive integration between the two countries. Manufacturing wages in Mexico are just 14% of those in the U.S., which allows many American companies to rely on Mexican production to keep costs low and remain competitive globally.

2. Inflationary Pressure and Higher Interest Rates

Another direct impact of a 25% tariff on Mexico would be a significant increase in U.S. inflation. For instance, nearly half of U.S. agricultural imports come from Mexico, meaning that cost increases would quickly translate into higher consumer prices, as there are few lower-cost substitutes available. A rise in inflation would force the Federal Reserve to maintain higher interest rates for longer, negatively affecting economic growth and making credit more expensive for consumers and businesses.

3. Ineffectiveness of Tariffs as a Fiscal Tool

From a fiscal revenue standpoint, 25% tariffs would not be an efficient solution, nor would they help "enrich the United States." While they could theoretically generate additional government income, in practice, these benefits would be more than offset by lower economic dynamism. High tariffs tend to reduce trade volume and discourage investment, ultimately harming GDP growth and limiting tax revenues from other sources, such as income and consumption taxes.

4. Unintended Effects on Migration

Another key factor to consider is that maintaining a 25% tariff over time could slow economic growth in Mexico, significantly increasing migration flows to the U.S., as economic migration is primarily driven by growth differentials between the country of origin and the destination. This is a scenario the U.S. administration would likely want to avoid, given that migration remains a politically sensitive issue.

5. Mexico’s Cooperation

Mexico has been a key partner for the U.S. in strategic areas such as migration control and the fight against drug trafficking. The current administration has taken concrete measures on these fronts, and all indications suggest it will continue along this path.

6. Potential Mexican Retaliation

Finally, if the U.S. were to implement these tariffs, Mexico would have the ability to respond with strategic trade retaliation. Historically, when the U.S. has imposed trade restrictions, Mexico has countered with measures affecting key and politically sensitive sectors. A potential retaliation scenario could include tariffs on U.S. agricultural products, primarily impacting Midwestern states, which are politically significant as they include several swing states where agriculture plays a crucial economic role.

While the possibility of a 25% tariff on Mexican exports to the U.S. cannot be entirely ruled out, the economic and political costs of such a measure make it unlikely. Mexico is not a direct competitor to the U.S. in manufacturing but rather a partner that enhances its productivity. Therefore, despite the noise, I believe that in a few years, the economies of both countries will be even more integrated.

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