

# Mexico responds to Trump's trade war measures with tariffs on US goods

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In what it described as a “measured and proportionate response” to steel and aluminum import tariffs announced a week ago by the US against Mexico, Canada and the European Union, the government of President Enrique Peña Nieto imposed tariffs on some 71 products that Mexico currently imports from the United States.

They include agricultural products, steel, manufactured products, and some consumer products, such as bourbon whiskey [previously exempt under the NAFTA free trade agreement], with a value of US\$3 billion. Depending on the product, the tariffs will range from 7 to 25 percent. Mexico's economy ministry said that it was suspending “preferential treatment” that those 71 commodities have had since 2003. The ministry indicated that the tariffs would remain in effect until the US government cancels tariffs on Mexican steel and aluminum.

The US has imposed a 25 percent tariff on imported steel and a 10 percent tariff on aluminum. For Mexico, the effect will be felt in steel mills in Lázaro Cárdenas, in the state of Michoacán, and Monclova, in the state of Coahuila.

Mexico is a net importer of US steel, and most of the Mexican tariffs (56 out of 71) are directed against manufactured steel from the United States, including sheets, rolled steel, steel pipes, laminated steel and steel bars.

In addition to those 71 products from the US, Mexico also imposed tariffs on about 280 steel products that come from nations with which Mexico has no trade agreement, the ministry declared, supposedly to prevent the movement into Mexico of US products through third countries.

In addition to steel imports, Mexico imposed new tariffs on a range of manufactured products, ranging

from ships with inboard motors to electric fans. In addition to the tariff on bourbon, agricultural tariffs will be imposed on apples, some cheeses and a variety of pork products.

According to the Spanish daily *El País*, one of the criteria in selecting which products to impose tariffs on was to single out products that come from states like Texas and Iowa (pork) Tennessee (bourbon), Wisconsin (cheese) etc., considered to be Republican Party strongholds or crucial to Trump's 2016 election. However, also included are products from California (grapes) and Washington state (apples).

NAFTA members Mexico and Canada are major trading partners with the US and the tariffs have raised concern, particularly in the US agricultural sector.

The quick response of the Mexican government to the US tariffs was in part driven by pressure from the powerful Mexican steel lobby. Mexico's National Steel and Iron Industrial Chamber (CANACERO) warned ominously that “due to the breakdown in market rules and the distortions that it generates, the Mexican government must be prepared to respond adequately and immediately, to prevent the closure of plants and the loss of tens of thousands of jobs.” The announcement of the retaliatory tariffs had an immediate effect on the value of the peso, which on Tuesday dropped 1.62 percent to 20.78 pesos to the dollar.

Coming on the back of the depreciation of the Mexican peso relative to the US dollar in April and May, due to a general flight of capital from Latin America to Wall Street, for Mexican workers, peasants, and the lower middle class, the retaliatory tariffs are another harsh blow, particularly since many foods are imported from the US. They are expected to fuel an inflationary trend, and lead to austerity measures and

lower GDP growth.

A threat by the Trump administration to also impose tariffs on automobiles and automobile parts is a major concern for the Mexican government. Mexico will be one of the three most affected nations if automobile tariffs are imposed; the other two are Germany and Japan. Given Mexico's lower Gross Domestic Product, the impact of auto tariffs, if they are imposed, will be comparatively greater for Mexico. The Mexican auto parts industry is linked to US assembly plants north of the border, as part of "cluster" system, in which goods produced more cheaply from across the world flow into assembly plants throughout the world.

Canada and the European Union followed Mexico on Wednesday and Thursday, with their own retaliatory tariffs.

In addition to the trade war measures, Mexico plans to bring the case up before the court at the World Trade Organization. Canada also indicated that it would go to the WTO.

The US and Mexican trade war measures are coming into effect in the context of stalled negotiations over NAFTA and of the brutal attacks on Mexican and Central American families crossing the border into the United States, including the separation of children from their parents, who are accused of "smuggling" their own children across the border.

On Tuesday, June 5, Larry Kudlow, the White House economic advisor, signaled that the Trump administration is proposing to move away from NAFTA and negotiate separate trade treaties with Canada and Mexico. Both Mexico and Canada reject such a proposal. The prospect of separate negotiations are further weakening the peso, and increasing its volatility. After recovering some of its value on Wednesday, the peso sank on Thursday almost to Tuesday's level. Purchased at banks, the dollar sold for 20.75 pesos, while on the street the price of the dollar rose to 20.90 pesos. The dollars thus purchased fled to less risky financial assets; a splurge in demand for 10-year US treasury bonds forced a drop in the yield on that benchmark asset.

Mixed in with other demands, the US government is pressing for a treaty that is renewed every five years and that places limits on foreign components in Mexican manufactured products, affecting the auto industry, and that erases whatever trade surplus Mexico

has with the US.

President Trump has repeatedly linked NAFTA with immigration and the Dreamer act (DACA), demanding that Mexico take measures against border crossers and insisting on expanding the border wall, while pursuing cruel, inhumane and illegal measures that violate the human rights of immigrant families and their children.



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