

Flash Note 27/01/2017

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Mexican-US conflict. Not so fast. This is not going to be that easy

Indeed, the US clearly holds the upper hand but the Mexican government still has some bargaining power.

1. The US relies on its neighbor to help stem the flow of immigrants (I'm not talking about the Mexican ones, but all those coming from other Central and South American countries).
2. The US also relies on Mexico to stem illegal drugs across the border. Thus, a continuation of the hostilities and further pressure on the Mexican government (and its economy), would surely cause a souring of relations. Nothing good, between two countries that are doomed to understand each other, specially knowing that each one alone has a clear capacity to answer by paying back using the same coin (inflicting pain), instead of yielding to the pressure of the other.
3. Mexico retains also some bargaining power from the fact that it is still an attractive place to manufacture. Mexican manufacturing wages are low by global standards (hourly compensation costs are 17% of the costs in the US, much lower than the costs in Argentina (60% of costs in the US) or even lower than in Brazil (20% of the costs in the US). Thus, there will be still significant incentive for manufacturing firms to shift low skilled jobs to Mexico, even to serve markets outside of NAFTA.
4. Mexico's proximity to the US gives it a natural advantage over other Emerging Markets. It is well placed for further moves towards 'just-in-time' manufacturing. Not to mention that the sharp fall in the peso against the dollar since President Trump's victory has given a major boost to Mexico's external competitiveness.

In sum, the Mexican president maintains certain capacity of response to the aggressions that may come from the neighboring country. Either because of the necessary collaboration of Mexico to control the flow of immigrants, or to help control the smuggling of narcotics, or because of the Mexican competitiveness itself. Not to mention that President Peña-Nieto is sinking in local opinion polls and he won't want to be seen as giving into Mr Trump's every whim (In fact, the economy minister has said that they would rather pull out of NAFTA than accept a bad deal for Mexico).

All this suggests that Peña Nieto will not accept the imposition of conditions, and therefore, we can witness conflict of certain importance, with potentially disruptive effects (in both sides). It seems to me that this is not going to be that easy.

Best regards,

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