

Mexico Knows How to Fight a Trade War

By Shannon K O'Neil

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Its retaliatory tariffs will swat at Trump's political base.



Remember the Battle of the Trucks.

Photographer: Sandy Huffaker/Getty Images

Trump has turned on longtime allies, labeling them a national security threat in order to levy 25 percent tariffs on steel and 10 percent on aluminum. For neighboring Mexico, this will affect some \$3 billion in exports. While not insignificant, it is just a speck of the \$300 billion-plus the nation sends north each year (for Canada, steel and aluminum comprise \$11.5 billion of more than \$300 billion in U.S.-bound trade).

Yet the size of the tariffs belies their true import. They officially bury the already dying Nafta renegotiation. They threaten the integrated industries that send basic inputs back and forth across the border, hurting manufacturers, workers and consumers alike. And more broadly, notwithstanding the president's repeated claims, they demonstrate that trade wars aren't easy to win.

Take Mexico, which responded to the tariffs with its own counter-salvo. While many observers anticipated a fight with the EU, fewer expected it from Mexico. The nation is utterly reliant on the United States. As one of the world's most commercially open countries, Mexico has turned trade into its main economic motor. And of the \$400 billion Mexico exports each year, 8 out of 10 cents head north. Among Trump's ever-

growing number of combative trade fronts, Mexico might therefore stand out as the most likely to fold.

But Mexico is prepared for this fight. As Economy Minister Ildefonso Guajardo [declared](#) after the tariffs were announced, "we always said that we were going to be ready to react." It immediately announced punitive measures. Certain types of steel made [the list](#); so did lamps, cheese, pork, apples, grapes and cranberries. This menagerie wasn't haphazard. Instead, it was designed to gain both economic justice and political leverage, targeting key congressional districts and Trump supporters.

Mexico has been down this road before, during a decade-long battle over cross-border trucking. Nafta promised, alongside goods and services, to open up transportation markets: After a phase-in period, Mexican and American truckers were supposed to be able to take their loads straight from the factories to their final customers on the other side of the border. Yet the U.S. government continued to block Mexico's rigs on safety fears and more than a little pressure from the Teamsters. After years of cajoling, after the creation and then cancellation of pilot programs, Mexico in 2009 finally [invoked retaliatory tariffs](#) to the tune of \$2.4 billion a year. Nearly 100 products, ranging from Oregon Christmas trees, Wisconsin paper and Washington pears to New York jewelry, Florida orange juice and Idaho potatoes, were hit with levies of 5 to 25 percent. As the tariffs rose, so too did the constituent phone calls to influential representatives and senators of both parties. Two years later, the Obama administration developed a new pilot program to allow vetted trucking companies and their drivers to cross the border, and the tariffs ended.

As a trade tit-for-tat begins anew, the Mexican government is deploying the same strategy. This time it isn't alone. Several U.S. manufacturers along now well-developed supply chains are supporting their neighbor. [Canada](#) and the [EU](#) are joined in the fight, and their initial lists look notably similar to Mexico's initial trucking foray, penalizing cosmetics, manicure and pedicure products, felt tip pens, toilet paper, and hair products among dozens of others items produced in targeted congressional districts of influential House members.

At home, these steps are proving popular. Despite being in the middle of a heated and ugly election season, all the candidates support the Mexican Commerce Department's moves. President Enrique Pena Nieto looks to gain at least his citizen's sympathy, if not their political approval, from his stance.

The nation's business community also has the government's back. Granted, Mexico was careful to not put tariffs on the types of steel used in the auto industry, and domestic dairy producers may even benefit. But overall a mix of patriotism and justified indignation has overridden anxieties among Mexico's manufacturers. This stands in stark contrast to the United States. The U.S. Chamber of Commerce condemned Trump's tariff move, and agricultural interests [announced the tariffs will](#) "take American farm operations to the breaking point."

No one knows yet where this skirmish will lead. Despite its initial bravado, Mexico will suffer, particularly if the U.S. ups the ante with further tariffs or threats to Nafta. The nation is also facing a political transition that could have its own severe economic repercussions. But the initial round already shows that there are no easy trade war wins, and that the U.S. government would be wise not to underestimate the weapons of the seemingly weak.

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