

US risks alienating Mexico

The Trump administration must avoid raising tensions with its southern neighbour



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by: William R Rhodes

There are two conflicting narratives emerging from Washington on US relations with Mexico. One calls for a hard line that risks alienating Mexico; the other is a more constructive effort involving detailed negotiations on the troika of security, trade and migration.

We do not know which of these narratives will prevail. The former would be disastrous. There have been many times in the first half of the 20th century when enmity, not friendship, prevailed. Just look back to such events as the US occupation of Veracruz in 1914; US General John J Pershing's 1916 excursion into Mexico; and the 1917 "Zimmermann telegram" when Germany's foreign minister called on Mexico to enter the war against the US. And in 1938, Mexican President Lázaro Cárdenas nationalised oil and other companies — mainly US ones. By contrast, recent decades have seen highly constructive and solid relations between the two countries.

Commerce Secretary Wilbur Ross is expected to play the leading role for the Trump administration in Nafta trade renegotiations. He has solid experience as a negotiator and, while seeking to attain a good and fair deal for the US, he needs to ensure that sound relations between the two countries are maintained.

I negotiated many sovereign debt deals with governments and one cardinal principle dictated my strategy: always ensure that the final deal leaves both sides believing that they achieved the best possible outcome and both could publicly show that they secured benefits. Reaching this kind of outcome is usually difficult and demands patient efforts by the negotiators to respect each other in the dealmaking process, while also ensuring the final deal secures public support.

The right approach now is for the US to work with our Nafta partners, both Mexico and Canada. However, it appears that some in the White House would like to scrap Nafta altogether and negotiate bilaterally with these two neighbours. The administration has also stated that the trade deficit is unacceptable — while the US trade deficit with Mexico is large at \$63bn, it pales by comparison with the \$347bn deficit with China.

There is urgency to concluding an agreement. If this cannot be achieved in the next few months, then Mexico will move into a general election phase that will probably make it impossible for the current president, Enrique Peña Nieto, to secure the domestic support for a new pact. Mexican presidential and parliamentary elections will be held in July 2018 and the next Mexican government will only be in a position to pursue negotiations with the US in 2019.

Politics is making prospects for a constructive and fair deal increasingly complicated. One factor is the White House's insistence that Mexicans pay for the proposed multibillion-dollar border wall. Then, Mr Peña Nieto's poll rating is now well below 20 per cent due to a combination of oil price tax increases, perceptions that he has been weak in confronting President Trump, security concerns and charges of corruption in his administration.

The US Treasury is preparing a major overhaul of the tax system that could involve a general tax on imported goods, which might be perceived in Mexico as targeted at them to finance the wall. It is the kind of issue that probably would further weaken domestic support for the present Mexican government. It would also strengthen the already substantial popular backing for 2018 presidential candidate Andrés Manuel López Obrador, the veteran left-of-centre politician who is leading in all of the polls.

As a first order of business in Washington, Mr Ross and the team from the office of the US Special Trade Negotiator need to be given full authority from the White House to lead on trade talks with Mexico. If they can secure this, then they need to lower the temperature in US-Mexican relations and begin talks that yield lead tangible benefits for both sides.

Members of the US administration know that American consumers benefit from low-cost Mexican imports, just as American farmers gain from substantial exports to Mexico. They also know that the Mexicans will see a trade deal as part of a package that embraces security and immigration.

After all, the US needs Mexican co-operation to pursue President Trump's policies to deport illegal immigrants (including people who travelled from elsewhere in Latin America through Mexico to reach the US). The US also needs Mexican police and military co-operation on fighting the narcotics trade and curbing the massive smuggling of guns from the US into the hands of Mexico's drug cartels.

These are going to be complicated negotiations with the ever-present danger that they are seen as forcing Mexico to accept concessions that could badly damage its economy. Such perceptions would send negative signals across Latin America with regard to the US as a reliable hemispheric partner. If Mexicans believe that they are being humiliated, then we could return to the past difficult times of acute border tensions.

The challenge now to the Trump Administration is to pursue negotiations that guard against rising political tensions and that conclude with a trade pact that both governments can sell to their citizens as both good, fair and enforceable. I believe this is attainable and, if this outcome is achieved, then it could serve as a template for a series of prospective deals with the US's other major trading partners.

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