

# The Washington Post

## Trump's tariff threat to Mexico may upend trade deal, undermine the economy

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May 30, 2019

President Trump's surprise announcement of an escalating series of new tariffs on all goods imported from Mexico is likely to upend hopes for early congressional action on his proposed North American trade deal and trigger economic upheaval on both sides of the border, according to trade analysts and business executives.

Business leaders reacted with dismay to Trump's statement Thursday that he would impose a new 5 percent tariff on all goods from Mexico beginning June 10 to force the Mexican government to take more aggressive actions to prevent Central American migrants from crossing its territory en route to the United States.

And a prominent member of the president's party, Senate Finance Committee Chairman Charles E. Grassley of Iowa, blasted Trump's move as "a misuse of presidential tariff authority and contrary to congressional intent." Implementing the tariffs, he said, would "seriously jeopardize passage" of the United States-Mexico-Canada Agreement (USMCA).

If the administration determines that Mexican authorities have not done enough in response, the tariff would automatically jump to 10 percent on July 1 and then continue rising in 5 point increments at the start of each subsequent month until it reaches 25 percent on Oct. 1, according to a White House statement.

The tariffs could undermine an economic relationship that has been deepening for decades, and throw into chaos corporate and agricultural supply chains that have essentially worked in a system without tariffs since the 1994 North American Free Trade Agreement. Mexico is on track to become the United States' largest trading partner, ahead of China and Canada, according to census data through March.

The president's announcement came after the White House appeared to be making headway with its push for ratification of the USMCA. Mexican President Andrés Manuel López Obrador earlier Thursday sent the accord to the Mexican Senate, asking it to convene a special session to pass it before September.

Trump has been pressing House Speaker Nancy Pelosi (D-Calif.) to move forward with congressional approval, with the [administration sending a formal statement](#) of its plans to Capitol Hill hours before the abrupt tariff move.

Even by the standards of an unpredictable presidency, the announcement drew startled reactions from those involved in cross-border commerce.

Less than two weeks ago, the president agreed to lift 25 percent tariffs on steel and aluminum imports from Mexico, a move aimed at speeding ratification of the new trade deal by Congress.

Senior Republicans, including Grassley, insisted on scrapping the levies before they would vote on the new deal.

Farmers in states such as Iowa had been among those hardest hit by Mexico's retaliatory tariffs imposed to counter Trump's metals fees.

The president's new tariff increases would "essentially blow up USMCA," said Rufus Yerxa, president of the National Foreign Trade Council. "The economic impact will be devastating on both sides of the border."

Hardest hit would be Detroit's automakers, which have spread their supply chains across North America since NAFTA.

Two-thirds of U.S. imports from Mexico are intracompany trade, parts that an American company uses to produce another product, according to Torsten Slok, chief economist at Deutsche Bank Securities.

"Trade with Mexico is basically all about the supply chain, which essentially is all about cars," Slok said.

At a news conference, Mexico's deputy foreign minister for North America, Jesús Seade, said the suggested tariffs would be "disastrous" and promised that Mexico would respond "strongly."

He called the announcement an "ice bath" for U.S.-Mexico relations but did not detail how Mexico might retaliate. Last year, Mexico responded to U.S. steel and aluminum tariffs with a set of retaliatory tariffs on products including pork, potatoes and whiskey.

Trump's decision came just hours after López Obrador sent the new USMCA trade deal to Mexico's senate to be ratified, saying it would lead to "more foreign investment."

Seade said that the tariffs would be "impossible."

Within 30 minutes of Trump's tweet, the peso fell about 1.7 percent against the dollar. U.S. bond yields are also plunging, suggesting concerns about the economic impact of the tariffs.

The United States last year exported \$265 billion in goods to Mexico, more than to China, Japan and Germany combined. The United States imported \$347 billion in goods from Mexico.

Jorge Guajardo, a former Mexican diplomat now with McClarty Associates, said the new tariffs would run counter to the existing North American Free Trade Agreement, which provides for mostly duty-free trade among the United States and its two neighbors.

"Why even have a trade agreement if it means nothing?" he said.

Trump said he imposed the tariffs under the International Emergency Economic Powers Act (IEEPA), which grants the president sweeping authority to regulate commercial activity in the event of a crisis.

"IEEPA has a very broad scope, so a court challenge to the President's action here would be tough," said Simon Lester, a trade law expert at the Cato Institute. "The statute does give Congress the ability to block the president's action through a joint resolution, but Congress hasn't shown much willingness to act on these matters."

The president's tariff plan threatens to disrupt commerce with the country's largest trading partner as the economy is slowing, imperiling his goal of steady 3 percent annual economic growth.

Tariffs on goods imported from Mexico would be paid foremost by U.S. companies in need of Mexican goods, and a significant share of those importers would likely pass on the higher costs to consumers.

Trump said the new tariffs would encourage companies in Mexico to "start moving back to the United States to make their products and goods," leading to a "massive return of jobs back to American cities and towns."

Others were less certain.

"It's high risk and I'm having a hard time seeing the reward," said Dan Ujczko, a trade attorney with Dickinson Wright.