



## **US-Mexico Update: Assessing the so-called Trump Effect**

### **Summary**

- US policy shocks stemming from a possible Trump victory present potential risks for Mexico given its economic interconnectedness with the US.
- While hypothetically actionable, Trump's anti-Mexico proposals, to terminate the North American Free Trade Agreement (NAFTA) and impose 35% tariffs on Mexican imports) require extraordinary action, making it unlikely they will transpire.
- Analysis of Mexican social media reveals an anti-Trump sentiment, which could limit Mexican leaders from engaging with a Trump-led US government.

### **Overview**

Anti-trade and protectionist rhetoric during US presidential elections is a common feature. However, current Republican presidential candidate Donald Trump has raised concerns given his more extreme and bombastic tone including building a wall along the border, terminating NAFTA, imposing a 35% tariff on Mexican imports, and penalizing US businesses sending jobs to Mexico. For Mexico, US policy shocks as to trade relations pose potential risks given the high degree of interconnectedness between the two economies. However, what is the reality behind the Trump hype? What power does a US president possess as to terminating trade treaties and raising tariff levels? Moreover, if the trade relationship was opened for renegotiation, might Anti-Trump sentiment in Mexico constrain political action?

### **US-Mexico Economic Relationship**

Simply put, the US is *the* most significant trading partner for Mexico. In total, of Mexico's \$1.1 trillion GDP the value of goods exported to the US equaled \$316 billion (bn). The US is the largest recipient of Mexican goods, receiving 83% of total Mexican exports.<sup>1</sup> NAFTA has been instrumental in building US-Mexico trade relations by lowering tariffs and opening markets. Following NAFTA, US exports to Mexico increased dramatically going from \$51.1 billion in 1993 to \$245.3 bn in 2015. Imports from Mexico increased from \$40.7 bn in 1993 to \$294.7 bn in 2015.<sup>2</sup> The partners exchange about \$2.6 bn in merchandise on a daily basis with each other. This trade relationship also provides significant added benefit to the US as compared to other trade partners. According to a recent study, 40% imports from Mexico contain components originally produced in the US. "This means that forty cents of every dollar spent on imports from Mexico comes back to the US, a quantity ten times greater than the four cents returning for each dollar paid on Chinese imports."<sup>3</sup> Interruption of this trade relation by a US rejection of NAFTA and a significant increasing in tariffs would cause considerable damage to both economies (harming both US-Mexico and US-Canada trade) in absolute terms, but Mexico would suffer greater relative harm.

NAFTA remains controversial. In the US, NAFTA critics claim that it has resulted in the loss of US jobs to cheaper Mexican workers, specifically in low-skilled manufacturing.

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Supporters argue that the US has benefited from increasing exports to Mexico and Canada and lower cost imported goods. One estimate suggests that 6 million US jobs depend on trade with Mexico.<sup>4</sup> Public opinion is divided over NAFTA, not just in the US but also in Mexico. Recent polling suggests a strong “buy American” sentiment coupled with a plurality of respondents saying that NAFTA is bad for the US economy.<sup>5</sup> Yet, Americans remain positive about international trade generally.<sup>6</sup> Perhaps more surprising, a third of Mexicans polled favored leaving the trade agreement.<sup>7</sup> While still supported by a majority, many Mexicans feel their economy is dominated by the relationship with the US.

### **A Trump Presidency: Fact versus Fiction**

Putting aside the vitriol of Trump’s statements, is there any credibility regarding the enactment of his anti-Mexico trade proposals? What we find is a convoluted mix of US and international law, and congressional and presidential powers shaped by the domestic versus foreign policy settings. Any of these actions would likely prompt equal countermeasures by the Mexican government. Certain actions, especially increased tariffs, could run afoul of both US law and World Trade Organization (WTO) provisions. However, legal recourse against presidential actions in US or WTO tribunals could take months, even years, to resolve without any assurance of preliminary injunctive relief.

*Could President Trump terminate NAFTA?* The short answer is yes he could, but with limited expectant political support. The treaty permits any country to terminate their participation in six months following written notice. However, the provision is for total termination not just as to trade with one of the other parties or for specific provisions. Further, the treaty is silent as to renegotiating any terms indicative of a prohibition of such action.

It is unclear what impact a presidential termination order would have since the Treaty and its terms were incorporated into US law through enacting legislation. As an indication of the exceptional nature of terminating a free trade agreement, such action has not occurred since before World War II. Historically, presidential actions have been to lower not raise tariffs.<sup>8</sup> Furthermore, political support might be hard to come by as NAFTA support is an exercise of Myles’ Law - where you stand depends on which US state you live. Mexico is the top export destination for five states, California, New Mexico, Arizona, New Hampshire and Texas, and the second most important for another seventeen US states.<sup>9</sup>

*Could President Trump raise tariffs to 35% for Mexican imports?* Again, yes, he could, but the political reality is strained. A recent report by the Peterson Institute for International Economics offers an exhaustive accounting of potential tariff related actions that could be taken by a president.<sup>10</sup> In summary, raising tariffs to 35% would require several extraordinary steps. Terminating NAFTA would cause US tariffs against Mexico (and Canada) to revert to the Harmonized Tariff Schedule of the United States (HTS), specifically column 1. These rates default to Most Favored Nation (MFN) status by World Trade Organization (WTO) requirements. Trump by issuing a presidential proclamation, or by withdrawing from the WTO as threatened, could set tariffs to levels outlined in column 2 of the HTS, levels menacingly described as “the onerous Depression-era Smoot-Hawley levels.”<sup>11</sup>

Nevertheless, even these levels are still below 35%. To achieve this threshold, Trump would need to rely on existing authorizing legislation empowering presidential action. The Peterson Institute’s study notes that such does exist through provisions of the Trade Act of 1974, the Trade Expansion Act of 1962, Trading with the Enemy Act of 1917, and the International Emergency Economic Powers Act of 1977. Each statute contains broad

language which could be interpreted as presidential authority to unilaterally raise tariffs in conjunction with finding a national emergency or security threat. Such legal interpretations are open to contest and foreseeable litigation; however, the outcome of legal challenges is uncertain given judicial deference to presidential action when about national security matters.

**“Trump” on Twitter: A View of Mexican Popular Sentiment**

Given the possibilities of renegotiating the US-Mexico trade relationship, what would be the ability of Mexican leaders to work with a potential President Trump led US government? The resignation of Finance Minister Luis Videgaray due to his role in organizing Trump’s meeting with Mexican President Enrique Nieto provides anecdotal evidence of Mexicans’ anti-Trump sentiment. Gauging public sentiment, we conducted our own analysis of social media usage, specifically Twitter, to capture the Trump effect within Mexican society.

Analyzing all tweets within a 200-mile radius of Mexico City containing the word “Trump,” between September 5, 2016 to September 16, 2016 (the Monday before, to the following Friday surrounding Trump’s visit to Mexico on September 7<sup>th</sup>), we were able to observe an assemblage of individual views within that time frame. Many characters (e.g. #, %, \$, ½, etc.) along with names (Trump, Clinton, Nieto, etc.) and general English and Spanish words were cleaned from the individual tweets to separate out the words with actual meaning.<sup>12</sup> Once that was done, the frequency of each word was counted and visualized (Figures 1 and 2, below).

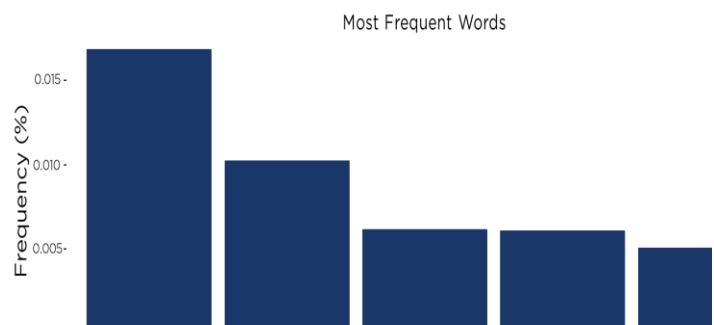
Not surprisingly, the first word, which has 1.5x the frequency of the second most frequent word is “muro.” In English, that means “wall.” The second word follows as “visita” or “visit.” The third is “amenaza” or “threat.” The fourth is “videgaray,” which is the name of the former finance minister, Luis Videgaray Caso, who resigned days following Trump’s visit to Mexico. Finally, the fifth most frequent word, “guerra” means “war.” These five could be thought of as “buzzwords” surrounding Trump’s visit to Mexico. However it should be noted that while “wall,” “threat,” and “war” may seem menacing on their own, they give no indication as to the context in which they were used.

Figure 2: Word Cloud of Mexican “Trump” Tweets



Sources: Northwest Passage; Twitter

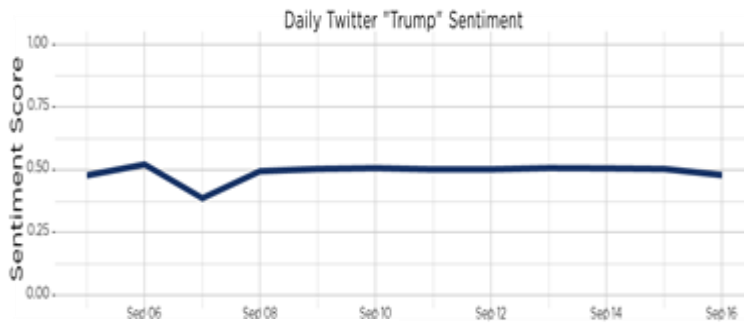
Figure 1: Mexican “Trump” Tweets



Sources: Northwest Passage; Twitter

Diving deeper, we turn to contextual analysis to assess the positive or negative nature of the tweets' sentiment.<sup>13</sup> We analyzed each tweet in its original context, whether it was written in English or Spanish. For this analysis, scoring is scaled from 0 to 1 with scores closer to 1 reflecting positive sentiment and scores approaching 0 indicating negative sentiment.<sup>14</sup> A score of .5 reflects indifference, neither positive nor negative. The scores are reported in Table 1 and visually represented in Figure 3, below.

Figure 3. Daily Twitter "Trump" Sentiment



Sources: Northwest Passage; Twitter

Table 1. Sentiment Scores for "Trump" Tweets

9/5/2016	9/6/2016	9/7/2016	9/8/2016	9/9/2016	9/10/2016
0.4779	0.5213	0.3869	0.4946	0.5035	0.5066
9/11/2016	9/12/2016	9/13/2016	9/14/2016	9/15/2016	9/16/2016
0.5019	0.5021	0.5070	0.5057	0.5033	0.4791

Sources: Northwest Passage; Twitter

As shown in Figure 3, there is a clear dip toward negative sentiment from hovering around indifference on the day of Trump's visit. Indeed, the score on the day of the visit was 0.38, dropping from a slight positive score of 0.52 the day before. Over the following days, the score never again surpassed the indifference threshold and moved negative on the last day of captured tweets (September 16). We suspect that if news organizations, given their reporting versus editorial function, were removed from the data a pronounced drop below the steady hover around the 0.50 sentiment line would appear. Although the opposite could also be correct, we are confident of a negative sentiment tilt given the word frequencies; "war," and "threat," are not positive words.

In sum, Mexican social media usage appears to confirm a negative sentiment regarding Trump. This raises the question as to whether Trump would be a credible negotiating partner. As evidence already suggests, Mexican politicians could suffer electoral repercussions by engaging with President Trump. Even if they do, they would need to stake out a hard bargaining position so to avoid being seen as capitulating. Such bodes poorly for any constructive relationship should the two countries find themselves at the negotiating table.

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<sup>1</sup> Cervantes, Fernando Perez. "Trade Flows over the US-Mexico Border." Presentation prepared for the Banco de Mexico. April 8, 2016. Accessed September 19, 2016. <https://www.dallasfed.org/assets/documents/research/events/2016/16tex-perez-cervantes.pdf>

<sup>2</sup> Bloomberg ECTR.

<sup>3</sup> Wilson, Christopher E. Working Together: Economic Ties Between the United States and Mexico. Report prepared for the Woodrow Wilson International Center for Scholars. December 11, 2011. Accessed September 18, 2016. <https://www.wilsoncenter.org/sites/default/files/Working%20Together%20Full%20Document.pdf>

<sup>4</sup> Ibid.

<sup>5</sup> McCormick, John, and Terrence Dopp. "Bloomberg Politics National Poll: Free-Trade Opposition Unites Political Parties." Bloomberg.com. March 24, 2016. Accessed September 22, 2016. <http://www.bloomberg.com/politics/articles/2016-03-24/free-trade-opposition-unites-political-parties-in-bloomberg-poll>.

<sup>6</sup> U.S. Polling Shows Strong Opposition to More of the Same U.S. Trade Deals from Independents, Republicans and Democrats Alike." Public Citizen. July 2015. Accessed September 21, 2016. <https://www.citizen.org/documents/polling-memo.pdf>

<sup>7</sup> Grillo, Ioan. "Forget Trump's Wall: For Mexico, the Election Is About Nafta." The New York Times. September 23, 2016. Accessed September 23, 2016. [http://www.nytimes.com/2016/09/25/opinion/sunday/forget-trumps-wall-for-mexico-the-election-is-about-nafta.html?\\_r=0](http://www.nytimes.com/2016/09/25/opinion/sunday/forget-trumps-wall-for-mexico-the-election-is-about-nafta.html?_r=0).

<sup>8</sup> See footnote 10 in Noland, Marcus et. al., "Assessing Trade Agendas in the US Presidential Campaign," PIIE Briefing 16-6. Published by the Peterson Institute for International Economics, September 20, 2016. Accessed September 21, 2016. <https://piee.com/publications/piee-briefing/assessing-trade-agendas-us-presidential-campaign>

<sup>9</sup> Wilson center study

<sup>10</sup> Noland, et. al., "Assessing Trade Agendas in the US Presidential Campaign,"

<sup>11</sup> Ibid., p. 8.

<sup>12</sup> See Appendix A for a list of all the words that were cleaned from the data.

<sup>13</sup> Text Analytics suite provided by Microsoft Cognitive Services was used for the contextual analysis.

<sup>14</sup> Sentiment score is generated using classification techniques. The input features of the classifier include n-grams, features generated from part-of-speech tags, and word embeddings.

## Appendix A: Words removed from tweets before analysis

Initial words					
"clinton"	"donald"	"Hillary"	"mexico"	"m�xico"	"epn"
"nieto"	"obama"	"pena"	"pe�a"	"trump"	

Spanish Words	"de"	"la"	"que"	"el"	"en"	"y"	"a"
	"los"	"del"	"se"	"las"	"por"	"un"	"para"
	"con"	"no"	"una"	"su"	"al"	"lo"	"como"
	"m�s"	"pero"	"sus"	"le"	"ya"	"o"	"este"
	"s�"	"porque"	"esta"	"entre"	"cuando"	"muy"	"sin"
	"sobre"	"tambi�n"	"me"	"hasta"	"hay"	"donde"	"quien"
	"desde"	"todo"	"nos"	"durante"	"todos"	"uno"	"les"
	"ni"	"contra"	"otros"	"ese"	"eso"	"ante"	"ellos"
	"e"	"esto"	"m�"	"antes"	"algunos"	"qu�"	"unos"
	"yo"	"otro"	"otras"	"otra"	"�l"	"tanto"	"esa"
	"estos"	"mucho"	"quienes"	"nada"	"muchos"	"cual"	"poco"
	"ella"	"estar"	"estas"	"algunas"	"algo"	"nosotros"	"mi"
	"mis"	"t�"	"te"	"t�"	"tu"	"tus"	"ellas"
	"nosotras"	"vosotros"	"vosotras"	"os"	"m�o"	"m�a"	"m�os"
	"m�as"	"tuyo"	"tuya"	"tuyos"	"tuyas"	"suyo"	"suya"
	"suyos"	"suyas"	"nuestro"	"nuestra"	"nuestros"	"nuestras"	"vuestro"
	"vuestra"	"vuestros"	"vuestras"	"esos"	"esas"	"estoy"	"est�s"
	"est�"	"estamos"	"est�is"	"est�n"	"est�"	"est�s"	"estemos"
	"est�is"	"est�n"	"estar�"	"estar�s"	"estar�"	"estaremos"	"estar�is"
	"estar�n"	"estar�a"	"estar�ais"	"estar�amos"	"estar�ais"	"estar�an"	"estaba"
	"estabas"	"est�bamos"	"est�bais"	"estaban"	"estuve"	"estuviste"	"estuvo"
	"estuvimos"	"estuvisteis"	"estuvieron"	"estuviera"	"estuvieras"	"estuvi�ramos"	"estuvierais"
	"estuvieran"	"estuviese"	"estuvieses"	"estuvi�semos"	"estuvieseis"	"estuviesen"	"estando"
	"estado"	"estada"	"estados"	"estadas"	"estad"	"he"	"has"
	"ha"	"hemos"	"hab�is"	"han"	"haya"	"hayas"	"hayamos"
	"hay�is"	"hayan"	"habr�"	"habr�s"	"habr�"	"habremos"	"habr�is"
	"habr�n"	"habr�a"	"habr�ais"	"habr�amos"	"habr�ais"	"habr�an"	"habr�a"

"habías"	"habíamos"	"habíais"	"habían"	"hube"	"hubiste"	"hubo"
"hubimos"	"hubisteis"	"hubieron"	"hubiera"	"hubieras"	"hubiéramos"	"hubierais"
"hubieran"	"hubiese"	"hubiesen"	"hubiésemos"	"hubieseis"	"hubiesen"	"habiendo"
"habido"	"habida"	"habidos"	"habidas"	"soy"	"eres"	"es"
"somos"	"sois"	"son"	"sea"	"seas"	"seamos"	"seáis"
"sean"	"seré"	"serás"	"será"	"seremos"	"seréis"	"serán"
"sería"	"serías"	"seríamos"	"seríais"	"serían"	"era"	"eras"
"éramos"	"erais"	"eran"	"fui"	"fuiste"	"fue"	"fuimos"
"fuisteis"	"fueron"	"fuera"	"fueras"	"fuéramos"	"fuerais"	"fueran"
"fuese"	"fueses"	"fuésemos"	"fueseis"	"fuesen"	"siendo"	"sido"
"tengo"	"tienes"	"tiene"	"tenemos"	"tenéis"	"tienen"	"tenga"
"tengas"	"tengamos"	"tengáis"	"tengan"	"tendré"	"tendrás"	"tendrá"
"tendremos"	"tendréis"	"tendrán"	"tendría"	"tendrían"	"tendríamos"	"tendríais"
"tendrían"	"tenía"	"tenías"	"teníamos"	"teníais"	"tenían"	"tuve"
"tuviste"	"tuvio"	"tuvimos"	"tuvisteis"	"tuvieron"	"tuviera"	"tuvieras"
"tuviéramos"	"tuvierais"	"tuvieran"	"tuviese"	"tuvieses"	"tuviésemos"	"tuvieseis"
"tuviesen"	"teniendo"	"tenido"	"tenida"	"tenidos"	"tenidas"	"tened"

<b>English Words</b>	"i"	"me"	"my"	"myself"	"we"	"our"	"ours"	"ourselves"
	"you"	"your"	"yours"	"yourself"	"yourselves"	"he"	"him"	"his"
	"himself"	"she"	"her"	"hers"	"herself"	"it"	"its"	"itself"
	"they"	"them"	"their"	"theirs"	"themselves"	"what"	"which"	"who"
	"whom"	"this"	"that"	"these"	"those"	"am"	"is"	"are"
	"was"	"were"	"be"	"been"	"being"	"have"	"has"	"had"
	"having"	"do"	"does"	"did"	"doing"	"would"	"should"	"could"
	"ought"	"i'm"	"you're"	"he's"	"she's"	"it's"	"we're"	"they're"
	"i've"	"you've"	"we've"	"they've"	"i'd"	"you'd"	"he'd"	"she'd"
	"we'd"	"they'd"	"i'll"	"you'll"	"he'll"	"she'll"	"we'll"	"they'll"
	"isn't"	"aren't"	"wasn't"	"weren't"	"hasn't"	"haven't"	"hadn't"	"doesn't"
	"don't"	"didn't"	"won't"	"wouldn't"	"shan't"	"shouldn't"	"can't"	"cannot"
	"couldn't"	"mustn't"	"let's"	"that's"	"who's"	"what's"	"here's"	"there's"
	"when's"	"where's"	"why's"	"how's"	"a"	"an"	"the"	"and"
	"but"	"if"	"or"	"because"	"as"	"until"	"while"	"of"
	"at"	"by"	"for"	"with"	"about"	"against"	"between"	"into"
	"through"	"during"	"before"	"after"	"above"	"below"	"to"	"from"
	"up"	"down"	"in"	"out"	"on"	"off"	"over"	"under"
	"again"	"further"	"then"	"once"	"here"	"there"	"when"	"where"
	"why"	"how"	"all"	"any"	"both"	"each"	"few"	"more"
"most"	"other"	"some"	"such"	"no"	"nor"	"not"	"only"	
"own"	"same"	"so"	"than"	"too"	"very"			