Can Mexico and the US keep in step?

by Andrew Thompson

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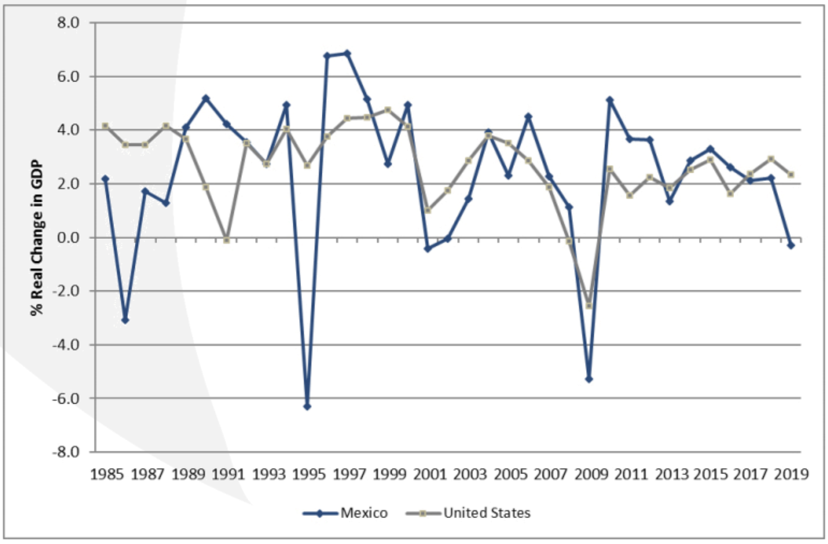
What happened?

Joe Biden's proposed US$1.9bn economic stimulus programme for the United States "is going to help re-activate the domestic Mexican economy" said president Andrés Manuel López Obrador (AMLO) after a telephone conversation with the new US president on 22 January.

The details

It is easy to see why Mexico stands to gain from US stimulus. The two countries share a long border and are closely integrated. In normal, non-pandemic times, bilateral trade exceeds US$600bn a year. Around 80% of Mexico's exports, mainly manufactures produced in northern Mexico, are shipped to the US market. If the US can begin to grow again, demand for Mexican exports will surge. The US has a population of nearly 333mn and over one in ten of them (38mn) are of Mexican heritage. If Biden's stimulus package increases Mexican American employment levels, remittances – the money they send home to family and friends – will rise further. They grew by 11% last year to US$36.9bn, more than Mexico earns from automobile exports to is northern neighbour.

Figure 7. GDP Growth Rates for the United States and Mexico



Source: CRS using data from the Economist Intelligence Unit.

CRS = US Congressional Research Service

It might be asked whether Mexico, where there is a consensus among economists that GDP contracted by 8.8% last year, should be announcing its own counter-cyclical stimulus measures. To some extent it has done so – on 20 January economy minister Tatiana Clouthier spoke of a "reactivation" plan with ambitious targets for innovation and investment. But perhaps strangely for a left-wing nationalist, AMLO has been extremely reluctant to launch big spending programmes that increase the fiscal deficit. Last year fiscal stimulus in the US – under right-wing president Donald Trump – was about 13.2% of GDP. In Mexico under leftist AMLO it was a miserly 0.7% of GDP. Relative fiscal austerity is set to continue in 2021. With total public debt at roughly 54.7% of GDP, Keynesian economists say Mexico could afford to spend a bit more of its own money to get its economy moving again this year. Current estimates are that Mexican GDP will grow by 3.8% this year remaining well below pre-pandemic levels.

Of course, if the stimulus is strong and comes mainly from the US, Mexico won't complain. Getting in-step with a Biden recovery will be a good thing. That said, there are a number of risks affecting the economic dance between the two countries. The biggest of course is that in one or other of the two countries, or in both of them together, the pandemic will last longer and deeper and vaccination programmes will progress more slowly than hoped. Secondly, relations within the USMCA free trade area (which also includes Canada) may not be friction free. AMLO's attempt to favour investment in fossil fuels and to discriminate against renewable energy companies clashes with Biden's commitment to green energy and could lead to trade dispute procedures within USMCA. There may also be disagreements over how to safeguard trade union rights and tackle corruption.

What does it mean?

Expect the Mexican and US economies to recover together this year, but there may be some jarring moves in their two-step dance. It will take more than one year for both countries to recover from the pandemic.

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

These stories are also available on Andrew's blog site, *La Rambla Research*.