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## The Impact of the U.S. Presidential Elections on Mexico

With the U.S. election less than a month away, poll-of-polls are signaling a very tight race, with seven swing states likely determining the election outcome, and most of these seem likely to be decided by a few thousand or tens of thousands of votes. Both presidential platforms potentially have a material impact on Mexico. The [EIU's Trump Risk Index](#) puts Mexico as the most at-risk country from the election result. Pinpointing the impact of either candidate on Mexico is difficult, as policy proposals on either candidate's side that can affect Mexico are a moving target, as agendas have been in constant and escalating flux over the past couple of months. Even estimates of the fiscal impacts of campaign promises seem to be usually discussed as ranges, because the election will not only determine the presidency, but also the legislative make-up and, hence, the capacity to implement some proposals, while the size of tax and spending proposals varies from one political rally to the next, particularly with regards to the GOP platform.

In this piece, we seek to identify the items from each of the two U.S. election platforms that present the most relevant impacts for Mexico (positive or negative), and discuss how they could affect the country, if implemented. Some of the elements are easier to quantify, while some have an indirect impact, and we can only hypothesize about the type of impact they can have.

Before we continue, we would like to present a historical comparison between the first few months in both former President Trump's and President Biden's terms and some of Mexico's economic and financial variables.

From a comparative perspective, setting apart all events that could have influenced the economic impact of the last two U.S. presidential elections on Mexico is challenging. However, it is crucial to highlight the developments in the quarters following the victories of the Republican and Democratic candidates in 2016 and 2020, respectively.

Former President Trump's victory generated a risk-averse sentiment in the international economic outlook owing to his protectionist rhetoric. However, this impact was particularly intense in Mexico, given the close bilateral relationship and the renegotiation of the North American Free Trade Agreement (NAFTA). As the election approached and Trump began to close the gap against Hillary Clinton, ultimately securing the victory, the USD/MXN experienced significant depreciation (see table on page 2) due to uncertainty over the potential effects of Trump's protectionist and anti-immigrant policies on the Mexican economy. Nevertheless, investors soon realized that institutional counterweights would mitigate the immediate implementation of these policies, reducing the anticipated severity of the impact.

Despite this, investment and exports faced negative outcomes from the protectionist measures, notably the announcement of the NAFTA renegotiation, which ended in the USMCA in 2020. This led to more modest annual growth rates. Similarly, Mexican GDP maintained a positive, albeit slower, growth trajectory during former President Trump's first year. Inflation was most affected, prompting the Bank of Mexico to adopt a more restrictive monetary policy, with the interest rate peaking at 8.25% in December 2018. This, coupled with economic uncertainty, resulted in an upward shift in the bond yield curve across various maturities.

On the other hand, analyzing the impact of President Biden's 2020 victory on the Mexican economy is complex due to the international context at that time. The pandemic caused declines in economic activity across all economies, along with both monetary and fiscal expansionary measures by most governments. In Mexico, the year-over-year economic change was affected by shutdowns in the second and third quarters of 2020. However, comparatively, the annual increases were smaller than those in the United States owing to the absence of counter-cyclical fiscal policies to address the emergency.

Mexico's Economic and Financial Indicators During the Quarters Following the Victories of Former President Trump and President Biden										
Mexico indicators	Trump					Biden				
	y/y% change					y/y% change				
	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Sep-20	Dec-20	Mar-21	Jun-21	Dec-21
1. GDP	0.9%	2.3%	3.4%	1.5%	1.4%	-8.1%	-3.5%	-2.6%	22.7%	1.9%
2. Inflation	3.0%	3.4%	5.4%	6.3%	6.8%	4.0%	3.2%	4.7%	5.9%	7.4%
3. FDI	-55.2%	4.5%	7.6%	9.7%	-10.1%	-83.7%	-40.9%	-2.1%	-19.3%	70.4%
4. Exports	1.6%	6.6%	14.5%	11.3%	8.4%	3.7%	11.6%	12.3%	29.0%	10.9%
5. Imports	1.7%	4.1%	15.0%	9.5%	8.4%	-8.5%	3.6%	31.4%	52.3%	27.7%
6. Industrial Production	-2.6%	-0.2%	6.1%	1.3%	-0.4%	-3.9%	0.7%	3.6%	11.6%	2.5%
Mexico indicators	Trump					Biden				
	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Sep-20	Dec-20	Mar-21	Jun-21	Dec-21
	7. USD/MXN	19.20	20.52	19.27	18.13	19.22	21.65	19.95	20.76	20.03
8. Banxico overnight rate	4.75	5.75	6.50	7.00	7.25	4.25	4.25	4.00	4.25	5.50
9. M BOND 3Y	5.66	6.90	6.85	6.58	7.58	4.65	4.65	4.65	6.15	7.39
10. M BOND 5Y	5.80	7.15	6.92	6.62	7.60	5.23	4.72	5.92	6.39	7.41
11. M BOND 10Y	6.05	7.42	7.01	6.78	7.65	6.11	5.53	6.84	6.97	7.56

Note: For the Mexican peso USD/MXN, the Banxico rate and the 3-, 5- and 10-year bonds, the end-of-month quote was used.  
Sources: Scotiabank Economics, INEGI, Banco de México, Bloomberg.

In this context, the Bank of Mexico, in line with the U.S. Federal Reserve and the central banks of most economies, reached its most accommodative stance at 4.00% in the first quarter of 2021, before starting a cycle of rate hikes due to price increases caused by supply-and-demand imbalances from the pandemic shutdowns. Nevertheless, thanks to the fiscal stimuli from the United States promoted by President Biden, the upsurge in Mexican exports drove the economic recovery, along with the double-digit increase in remittances, which helped maintain relatively resilient consumption in the absence of other types of transfers to households most affected by the activity shutdowns (see table above).

**BIPARTISAN ISSUES**

**U.S.-China rivalry.** The trade conflict between the United States and China is now a bipartisan issue, and regardless of who wins, these tensions will likely continue to escalate. This presents an opportunity for Mexico, regardless of the election outcome—so long as Mexico can credibly signal that it has become a reliable partner for the United States. Regardless of the outcome on November 5, 2024, we believe that the United States will continue to implement barriers to the entry of Chinese goods into its market, especially those linked to sectors deemed “strategic,” such as telecoms, infrastructure, the power grid, aviation, automotive, and so on. Hence, if Mexico is not able to credibly show it can prevent the transit of these goods into the USMCA market through it, we could see severe consequences to the Mexican economy down the line. It seems likely that in the 2026 USMCA re-ratification/update, and regardless of who is president, matters such as restrictions to Chinese investments and imports will be a major issue. At some point, it may serve Mexico well to abandon its longstanding tradition of remaining neutral on global geopolitical rivalries and acknowledge that the United States is a natural ally. This could help the country become more involved in more strategically sensitive parts of North American manufacturing chains.

In addition, boosting U.S. manufacturing jobs is now also a bipartisan issue, and there is a strong possibility that in 2026 we will see discussions of increasing U.S. labour content and potentially measures aimed at increasing Mexican labour costs.

The Harris/Walz Platform																																																							
Policy and Impact	Impact Details																																																						
<p><b>"Care Economy" and Inclusion Platforms</b></p> <p><b>Mixed:</b></p> <ul style="list-style-type: none"> <li>Positive for Mexican exports.</li> <li>Negative for investment in Mexican manufacturing.</li> </ul>	<p>Although details are still emerging on plan specifics, Vice President Kamala Harris has indicated she plans to boost the so called "care economy" (a welfare plan with some elements that could boost female participation in the labour force) as well as put forth a stronger inclusion agenda. The World Bank recently published a report that showed that flexibility and telework can increase female labour force participation, as it did during the pandemic ("<a href="#">Understanding the Main Determinants of Telework and Its Role in Women's Labor Participation</a>," G. Inchauste, M. C Siravenga: World Bank: September 2024). Details on Harris' plans on this front are still scant, but the United States has among the lowest female participation rates in the OECD (at 68% vs. 80%+ in some northern European nations) and boosting it would relax one of the strongest constraints the United States has in absorbing more global investment-labour scarcity. On one hand, a higher female participation rate in the United States would boost the size of its labour force, adding to its capacity to attract investment (making it a competitor for Mexico in some sectors), but on the other (positive) side it would also raise the number of double-income households that would add to U.S. demand which, in turn, benefits Mexican exports. Hence, we believe the impact of this is mixed.</p> <div style="text-align: center;"> <p><b>Women's Labour Participation</b></p> <table border="1"> <caption>Women's Labour Participation (%)</caption> <thead> <tr> <th>Country</th> <th>Participation (%)</th> </tr> </thead> <tbody> <tr><td>Italy</td><td>58</td></tr> <tr><td>Chile</td><td>58</td></tr> <tr><td>Greece</td><td>62</td></tr> <tr><td>Poland</td><td>68</td></tr> <tr><td>USA</td><td>68</td></tr> <tr><td>Belgium</td><td>68</td></tr> <tr><td>Spain</td><td>70</td></tr> <tr><td>Czechia</td><td>70</td></tr> <tr><td>Luxembourg</td><td>72</td></tr> <tr><td>France</td><td>72</td></tr> <tr><td>Ireland</td><td>72</td></tr> <tr><td>Hungary</td><td>72</td></tr> <tr><td>Slovenia</td><td>74</td></tr> <tr><td>Portugal</td><td>74</td></tr> <tr><td>Austria</td><td>74</td></tr> <tr><td>Latvia</td><td>76</td></tr> <tr><td>Germany</td><td>76</td></tr> <tr><td>Norway</td><td>78</td></tr> <tr><td>Lithuania</td><td>78</td></tr> <tr><td>Denmark</td><td>78</td></tr> <tr><td>Finland</td><td>78</td></tr> <tr><td>Switzerland</td><td>80</td></tr> <tr><td>Estonia</td><td>80</td></tr> <tr><td>Netherlands</td><td>80</td></tr> <tr><td>Sweden</td><td>82</td></tr> <tr><td>Iceland</td><td>84</td></tr> </tbody> </table> </div> <p>Sources: Scotiabank Economics, OECD.</p>	Country	Participation (%)	Italy	58	Chile	58	Greece	62	Poland	68	USA	68	Belgium	68	Spain	70	Czechia	70	Luxembourg	72	France	72	Ireland	72	Hungary	72	Slovenia	74	Portugal	74	Austria	74	Latvia	76	Germany	76	Norway	78	Lithuania	78	Denmark	78	Finland	78	Switzerland	80	Estonia	80	Netherlands	80	Sweden	82	Iceland	84
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<p><b>Increase U.S. Corporate Taxes</b></p> <p><b>Positive:</b></p> <ul style="list-style-type: none"> <li>Adds to U.S. costs, making Mexico more competitive.</li> </ul>	<p>Harris has stated she plans to increase U.S. corporate tax rates from 21% to 28%. The U.S. has very low corporate tax claims relative to much of the world, including its USMCA partners (1.8% of GDP vs. close to 4% of GDP in both Canada and Mexico), but increasing them would have a modest increase in the relative cost of investing in the United States; hence, potentially giving investment in Mexico a moderate push.</p>																																																						
<p><b>Aggressive Industrial Policy</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Makes the U.S. cheaper for producers, undermining Mexican competitiveness.</li> </ul>	<p>During the Biden/Harris administration, the U.S. government essentially spent the equivalent of Mexico's GDP (close to US\$2 trillion) on supporting the re-industrialization of the United States, with particular focus on the semiconductor and renewable energy sectors. There have been indications that these policies will remain a focus. This one is particularly difficult to quantify, as there is uncertainty over which sectors and amounts we would be looking at. In addition, there is also uncertainty over how much of this support, if any, can have a spillover into Mexico (either because as part of USMCA, investments in Mexico can also benefit, or because investments in Mexico could be complements to U.S. counterparts). However, our sense is that, on aggregate, a continued strong use of subsidies and other tools to re-shore manufacturing can range from a moderate positive to a moderate negative for Mexico.</p>																																																						
<p><b>Make Payrolls Up to US\$50k Tax Deductible</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Makes U.S. labour cheaper for companies, hurting manufacturing investment in Mexico.</li> </ul>	<p><b>The average U.S. manufacturing worker makes US\$34.4</b> per hour (US\$5,488 per month) and the <b>sum of payroll taxes</b> add up to 8.25% for employers. Setting the payroll tax deduction at US\$50,000 would make 75% of the average U.S. manufacturing workers' payroll tax deductible and would save manufacturing employers about 6% of the total cost of employing U.S. manufacturing workers. This could moderately undermine the attractiveness of manufacturing in Mexico.</p>																																																						
<p><b>Making Tips Deductible</b></p> <p><b>Positive:</b></p> <ul style="list-style-type: none"> <li>Boosts in remittance flows.</li> </ul>	<p>Although we don't have data specifically on Mexicans working in the United States, the <b>DOL reports that roughly one-fourth of Hispanics</b> in the United States work in the food-preparation business. This measure could give remittance flows to Mexico a moderate boost. During the pandemic, the increase in remittance flows to Mexico was almost identical in proportion to the increase in worker disposable income. If this pattern holds, and given that data suggests there are roughly 10 million Mexicans working in hospitality, for which <b>studies suggest</b> roughly US\$867 of tip income per month, we estimate that remittance flows into Mexico could increase by about US\$500 million per month (assuming an <b>income tax bracket of 12%</b> for these workers).</p>																																																						
<p><b>Improve Border Security</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Organized crime will find new markets locally.</li> </ul>	<p>It is expected that Harris will bring back the bipartisan border security bill, where she would increase resources and change policies to close loopholes being exploited by criminal cartels. That may affect safety in Mexico since criminal cartels will look locally to replace the U.S. market loss.</p>																																																						
<p><b>Increase in U.S. Debt and Steeper U.S. Yield Curve</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Higher and steeper Mexican and U.S. yield curves.</li> </ul>	<p>A study by the <b>Committee for Responsible Budget Watch</b> puts the range of the potential increase in the U.S. Federal Debt by 2035 under the Harris proposals at about half that of the Trump platform. Although lower than under Trump, this still means an increase in U.S. public debt of somewhere in the range of US\$0 trillion-US\$8.1 trillion. This would likely lead to higher U.S. yields and a steeper yield curve. Historically, the impact of U.S. yield increases has been reflected in Mexican yields with a beta of 1.2x.</p>																																																						
<p><b>USMCA Re-Ratification Risk?</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Undercuts manufacturing investment in Mexico.</li> </ul>	<p>On her "X" account, Harris stated that she was one of only 10 Senators who voted against USMCA, as she did not think the agreement did enough to protect U.S. workers. She stated she would use the revision mechanism to implement such protections. It's unclear which measures she would resort to, but potential mechanisms we can imagine being on the table include (1) higher U.S. labour content provisions and (2) provisions that raise Mexican wages.</p>																																																						

The Trump/Vance Platform	
Policy and Impact	Impact Details
<p><b>Across-the-Board Tariff of 10%-20%</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Mexican peso hit.</li> </ul>	<p>As seen in 2016–2017 when Trump threatened to eliminate NAFTA and then renegotiated it, the Mexican peso took the bulk of the hit. At the time, without NAFTA, Mexico would have faced the United States' 26% most-favoured nation tariff under WTO. The Mexican peso's adjustment at the time was slightly over 30%, representing a moderate overshoot of what the tariff would have been. This would essentially have absorbed the tariff hit, with Mexican peso weakness. We expect a similar impact if Trump implements tariffs in a second administration.</p>
<p><b>Tariff of 70% on China</b></p> <p><b>Neutral to Modestly Negative:</b></p> <ul style="list-style-type: none"> <li>Mexican peso hit.</li> </ul>	<p>The impact of tariffs on China will depend on how China responds. Possible responses by China include (1) implementing retaliatory tariffs, which would be more of a symbolic response given modest exports from the United States to China (and would also have a mild impact on Mexico), and (2) depreciate the Chinese renminbi to compensate for China's loss of competitiveness. This could be challenging given <a href="#">China has about US\$2.5 trillion in external debt</a>, of which little more than half is short term and the bulk of this external debt belongs to the corporate and banking sectors. However, if China does go down this road, the Mexican peso would also likely experience a depreciation to offset Mexico's corresponding competitiveness loss vs. China.</p>
<p><b>Reverting Green Energy Push</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>It could undermine Mexico's plans to boost renewable power as solution to rising domestic power scarcity.</li> </ul>	<p>Mexico's economy is facing power shortage risks, having one of the lowest spare power generation capacities the country has had in almost four decades. However, the new administration is planning to accelerate investments in renewable energy, including hints that Public Private Partnership frameworks could be employed. Under the right contract structure, and offering appropriate returns to investors, we believe this could help alleviate Mexico's "power crunch." If Trump pulls the United States out of global climate accords and cuts fiscal support for renewable energy companies, the plans of the new Mexican administration could receive a material blow.</p>
<p><b>Tariff of 100% on Chinese Cars from Mexico, or Mexican Cars.</b></p> <ul style="list-style-type: none"> <li>Impact ranges from positive to majorly negative, depending on the application.</li> </ul>	<p>Over recent weeks on the campaign trail, Trump's promises regarding auto-sector tariffs have been fluctuating constantly. At times, he speaks about 100% tariffs on Chinese vehicles, other times this threat includes cars with Chinese parts coming from Mexico, and other times the threat also extends to Mexican-assembled cars. Tariffs on Chinese vehicles are likely a positive, since around 31% of Mexican exports to the United States are related to the auto industry. We don't believe that at this stage tariffs on Mexican cars could materialize in the near term (it could be later if investments from the Asian giant are not curbed), but tariffs on Mexican-assembled cars would be a major blow to the Mexican economy.</p>
<p><b>Mass Deportations</b></p> <p><b>Mixed:</b></p> <ul style="list-style-type: none"> <li>Potential indirect impact on Mexican monetary policy, negative, and labour supply positive/negative depending on the application.</li> </ul>	<p>Given still-tight U.S. labour markets, mass deportations could fuel inflation once again (see our recent report, <a href="#">Waiting for the U.S. Election: Forecasts Largely On Hold</a>), this could, in turn, delay U.S. rate cuts and force Banxico to put the brakes on its own easing cycle driven by caution over the impact on relative monetary conditions. In addition, it could mean a boost to Mexico's own labour supply, depending on how deportations are implemented, and if skilled workers are deported too. Even though this increase on the labour force could be positive, it also could also increase the number of people turning to organized crime and gangs, thereby worsening safety and governing conditions.</p>
<p><b>Migration Policy</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Decrease in migrant remittances, increase in poverty.</li> </ul>	<p>It is expected that Trump will reduce the total population of migrants in the United States during his mandate by deportations and by closing the border; hence, this could create a big decrease on migrant remittances, which are not only an important support on household income/consumption, but which also contribute to investments, poverty reduction, and economic growth in the country. According to <a href="#">Bloomberg estimates</a>, securing the border lowers accumulated remittances by close to 0.6% of GDP relative to the baseline. Deporting recent unauthorized immigrants cuts a further 0.9% of GDP. Deporting the entire group brings the blow to 3.4% of GDP.</p>
<p><b>Cutting U.S. Corporate Taxes from 21% to 15% or 11%.</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Undermines Mexico's cost competitiveness relative to the United States.</li> </ul>	<p>Former President Trump's tax plans, and their potential impact on Mexico's yield curve are discussed below. However, the impact of cutting taxes on U.S. corporations would mean a cut to the cost of operating in the United States, and, hence, would represent a moderate blow to Mexico's cost competitiveness relative to its northern neighbour. It's worth bearing in mind that Mexico's taxes on corporate taxes (4% of GDP) already represent a bigger burden than in the United States (1.8% of GDP).</p>
<p><b>Increase in U.S. Debt and a Steeper U.S. Yield Curve</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Higher &amp; steeper Mexican &amp; U.S. yield curves.</li> </ul>	<p>A study by the <a href="#">Committee for Responsible Budget Watch</a> puts the range of potential increase in the U.S. Federal Debt by 2035 as substantial under the Trump campaign platform, surging by US\$1.5 trillion–US\$15 trillion. This would likely lead to materially higher U.S. yields and a steeper curve. Historically, the impact of U.S. yield increases reflected in Mexican yields with a beta of 1.2x.</p>
<p><b>Energy</b></p> <p><b>Mixed:</b></p> <ul style="list-style-type: none"> <li>Impact ranges from positive to major negative depending on the application.</li> </ul>	<p>Given that many of the top states producing traditional energy in the United States are part of Trump and the GOP's major supporters, we will see increased pressure on Mexico to open sections of its energy sector. However, there could be some leeway on how this is carried out, and President Claudia Sheinbaum's signals that she is open to Public Private Partnerships could be enough. This policy could negatively affect the renewable energy industry and related commodities extraction and transformation industries (e.g., hybrid and electric automobile industry).</p>
<p><b>USMCA Re-Ratification Risk?</b></p> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>Higher export prices, drop in international trade.</li> </ul>	<p>A full renegotiation of the USMCA treaty is expected in 2026, with the aim of extracting concessions, including more migration management from Mexico. Additionally, it's also expected that any strain by the Republican candidate would risk a full collapse of negotiations, hence potentially ending in the United States withdrawing the agreement.</p>
<p><b>Making Tips Deductible</b></p> <p><b>Positive:</b></p> <ul style="list-style-type: none"> <li>Boosts in remittance flows.</li> </ul>	<p>Although we don't have data specifically on Mexicans working in the U.S., the <a href="#">DOL reports that roughly one-fourth of Hispanics</a> in the United States work in the food-preparation business. This measure could give remittance flows into Mexico a moderate boost. During the pandemic, the increase in remittance flows into Mexico was almost identical in proportion to the increase in worker disposable income. If this pattern holds, and given that data suggests there are roughly 10 million Mexicans working in hospitality, for which <a href="#">studies suggest</a> roughly US\$867 of tip income per month, we estimate that remittance flows into Mexico could increase by about US\$500 million per month (assuming an <a href="#">income tax bracket of 12%</a> for these workers).</p>

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