

Mexico missive

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Thoughts on 'The Don'

As a British citizen with temporary residence rights in Mexico, the rhetoric of Donald Trump regarding the country in which I currently live is a source of much amusement. While I have enjoyed the news coverage of Trump's golf course adventures in Scotland,¹ perhaps the most widely reported of the proposed policies has been the building of a wall to secure the southern border of the United States. If – and that's a gigantic IF – such a wall could ever be built,² true to his form I very much doubt that Mr Trump has seriously thought through who would really benefit. Here's a clue: it wouldn't be the United States.

As Trump is obviously an avowed capitalist, his supporters might well be surprised to learn that the also avowedly capitalist Bloomberg has warned against the negative effects Trump's immigration policy would have on the US economy.³ In just the service industries, for instance, 'unauthorized immigrant workers' account for double those who were US born. Akin to a markedly similar situation in the UK, some of the indigenous population seemingly consider themselves above serving food in restaurants, mopping floors in hospitals and other general manual labour. Providing the

1 Locals who live next to his Aberdeen golf course raised Mexican flags next to their own St Andrew's Crosses in a spirit of unity. See <<https://www.theguardian.com/us-news/2016/jun/21/trump-golf-course-scotland-mexican-flag>>. Naturally, this made me prouder than ever of my own partly Scottish ancestry.

2 See 'An Engineer Explains Why Trump's Wall Is So Implausible' at <<http://www.nationalmemo.com/an-engineer-explains-why-trumps-wall-is-so-implausible/>>.

3 See 'What Would Happen to the Economy If Trump Got His Way' at <<http://www.bloomberg.com/news/articles/2015-08-18/here-s-what-the-u-s-economy-would-look-like-if-trump-deported-undocumented-immigrants>>

backbone to the US economy, these workers keep it functioning yet remain largely unseen and unacknowledged. Mr Trump and his kind at the top of the tree know very well that without such people their businesses – and thus the US economy – would rapidly grind to a halt. Coming from a country where the official minimum *daily* wage is approximately \$4.25,⁴ both legal and illegal immigrant Mexican workers are ripe for exploitation.

Additionally, any 'wall' that might be raised along the remaining undefended southern border would play into the hands of the most organised and technically able drugs cartels. By this I mean the gangs that already have tunnels that run underneath the border at multiple urban locations all along the frontier.⁵ In the eventuality that a 'wall' is built, the cartels – who are involved in people smuggling as well as drug smuggling – would be able to hike their prices to astronomical levels.

I doubt if Mr Trump has thought about any of that.

Mexico City's response? They like a laugh!

In possibly the most amusing political counter offensive in history, legislatures in Mexico City voted unanimously earlier this year for an appeal to the Federal Government to ban Donald Trump from entering the country. During the debate of the motion, speakers cited Trump's 'repeated anti-Mexican comments.'⁶ No surprise there then.

Sadly, the vote was largely symbolic and mainly an attempt to pressurise Mexico's President Enrique Peña Nieto

4 See the report by 'the largest global employment and labor law practice' at <<https://www.littler.com/publication-press/publication/mexico-approves-increase-daily-minimum-wage-2016>>.

The Mexican minimum wage is equivalent to 69c per hour for a 48 hour week and is one third of the minimum hourly wage in Chile and only 11% of that for Slovenia. The Organisation for Economic Co-operation and Development provides an online comparison table at <<https://stats.oecd.org/Index.aspx?DataSetCode=RMW>>.

5 One such tunnel is featured in a video from CCN at <<https://www.youtube.com/watch?v=6EFsFAoAEMw>>.

6 See <[http://www.huffingtonpost.com/entry/mexican-legislators-ask-to-ban-donald-trump-from-theircountry_ us_56d7755ee4b0ffe6f8e825d0](http://www.huffingtonpost.com/entry/mexican-legislators-ask-to-ban-donald-trump-from-theircountry_us_56d7755ee4b0ffe6f8e825d0)>

into taking some action against the slanderous comments of the Republican Presidential candidate. Indeed, today Trump crossed the border to meet President Peña Nieto while on the campaign trail between California and Arizona. During the press conference, I noticed that Mr Trump displayed none of his renowned bluster, which has regularly been on show at his campaign rallies in the US. President Peña Nieto spoke first, while the Republican Presidential hopeful stood by looking for all the world like a naughty schoolboy. Trump spoke second, reading from notes – a unique occurrence to my knowledge – and he was as boring as hell.

As was referenced by both parties at the press conference, commercial trade between Mexico and the United States involves a total of about \$4 billion of goods crossing the border every day. At a Washington symposium in July of this year, Jose Eduardo Calzada Roviroso (the Mexican Minister of Agriculture, Livestock, Rural Development, Fisheries and Food) stated that 'You could not comprehend the United States economy without Mexico and you could not comprehend Mexico's without the U.S.'⁷ It was also noted that about 6 million U.S. jobs are dependant on Mexican trade. The North American Free Trade Agreement (NAFTA) has played a huge part in developing this bilateral relationship since its introduction in 1994.

The Petroleum Problem

Mexico still has a nationalised petroleum industry and Petroleos Mexicanos or 'Pemex' is its name. The only petrol/gas stations that you will see are Pemex, although a deregulation of the industry is *supposed* to be coming any year now. This stranglehold unfortunately does lead to some sharp practices at the pump, so you need to be careful where you fill your tank otherwise you may find yourself leaving with the gauge confusingly where it was when you drove in.

Unbelievably Pemex, as a business, has been losing

⁷ See the Cronkite News (a division of Arizona PBS) report online at <<https://cronkitenews.azpbs.org/2016/07/11/mexican-officials-call-strengthening-trade-relationship-u-s/>>.

floods of money for the last three years. A total of 59 billion in pesos in losses. This is in spite of Pemex being 'Mexico's largest company by sales and the world's eighth-largest oil producer' and the fact that it 'contributes nearly 20% of the federal budget.'⁸ Even with an exchange rate which has seen the peso-dollar rate dive from 12 pesos to the dollar to very nearly 19 pesos to the dollar,⁹ it doesn't take a degree in mathematics to assess that 59 billion pesos is still an enormous sum of money.

Historically, Pemex has suffered from a highly unusual tax structure (a nearly 100% tax rate) from the government, which has even lead to tax payments exceeding gross income.¹⁰ In 2012, the comparable tax rates for other Latin American nationally-owned petroleum companies were 69% for the Venezuelan state-owned oil company PDVSA and 25% for Brazil's Petrobras. In 2013 Reuters reported that President Peña Nieto

'... proposed energy reform that would bring in new capital to help exploit Latin America's third-largest proven oil reserves. The president hopes that by offering profit-sharing contracts with oil companies, crude output will jump, generating additional tax revenues and spurring faster growth. But that revenue will probably only come if companies like Exxon Mobil Corp and BP Plc return to a country that seized foreign-owned oil holdings in 1938.'¹¹

Peña Nieto's statement also promised a more lenient tax rate, although many industry analysts speculated that what was

⁸ See *The Wall Street Journal* online at <<http://www.wsj.com/articles/mexico-government-to-support-pemex-with-4-2-billion-1460563616>>.

⁹ The chart at <<http://www.bloomberg.com/quote/USDMXN:CUR>> is defaulted to the current day's trading but click the 'five year' tab and you will see a truly graphic representation of the peso climbing a mountain of dollar power.

¹⁰ 'The Unusual Pemex Tax Burden' in chapter 3 of John R. Moroney and Flory Dieck-Assad, *Energy and Sustainable Development in Mexico* (College Station, Texas: The Texas A&M University Press, 2005)

¹¹ See the Reuters report 'Mexico to keep pumping Pemex for tax money despite promised reforms' at <<http://www.reuters.com/article/mexico-reforms-pemex-idUSL1N0IB00I20131030>>.

proposed would not actually lead to much of a difference financially. Indeed, as former Pemex Chief Executive Officer Jesus Reyes Heroles stated in the Reuters story, 'Actually, they don't reduce the tax burden on Pemex. They change the structure.'