

## Mexico | How could Trump's immigration and migrant remittance policies affect Mexico?

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During the election campaign, the US president, Donald Trump, promised to make mass deportations of Mexicans and tax migrant remittances, the later as a way to finance his border wall. What consequences could these actions have on the Mexican economy?

Some 12 million Mexicans live in the United States (2015 figures, the most recent available). Of these, around half are undocumented. 60% of all Mexicans in the US are aged between 20 and 49, while 40% have had less than 10 years of education. In other words, the majority are in working age and have low levels of schooling that makes it difficult for them to find employment in the formal sector of the economy.

At first, Trump claimed that he would deport all those who were undocumented. If this happens there would be strong pressure on the labour market. The six million undocumented Mexicans are the equivalent of a third of all jobs registered with the Mexican Social Security Institute or IMSS, totalling around 18.8 million and representing 11% of Mexico's economically active population. It is very difficult to see how these workers could be absorbed. If this deportation takes place, we will see a significant increase in unemployment in Mexico.

I am of the opinion that such a scenario is unlikely to occur. The reason for this is that the US economy would be greatly and adversely affected. Today America finds itself in a situation that can be described as full employment, as unemployment stands at 4.7%, a figure considered "neutral", in other words, lower rates would result in inflationary pressure. A scenario marked by mass deportations would lead to a shortage of workers, just at the time that the new US government plans to implement an ambitious infrastructure programme. In fact, President Trump has recently sought to moderate his position, saying that he would only deport undocumented migrants with a criminal record - no more than 200,000 people.

As I said before, there is a further threat from the Trump administration, namely a plan to interfere with the flow of remittances that Mexican workers send home. In Mexico these sums are important from a macroeconomic viewpoint. Last year, Mexico received \$26.9 billion in remittances, over 95% of which came from the US. This inflow is greater than the country receives from foreign direct investment, oil exports or tourism. Mexico is the fourth largest recipient of remittances, after India, China and the Philippines.

I feel that it would be very difficult for the US government to significantly reduce this flow. Firstly, remittances have proved to be very inflexible, meaning that they do not respond very much to changes in prices. If, as one Republican congressman suggested, a 2% tax was placed on remittances, they would fall slightly less than this amount. Furthermore, in order for such a tax measure to be effective, it would have to be imposed on remittances sent anywhere in the world. Otherwise, it would be easy for Mexicans to send their money to a third-party country and from there on to Mexico. Imposing a high tax rate on remittances sent anywhere in the world could well interfere with the free movement of capital, a principle that is fiercely defended by many Republican members of congress. Trump has also suggested that immigration documentation should have to be presented before a remittance can be sent home. In the short term, this would have a negative effect on remittances, although in the long term, people would find ways to send money through friends and relatives.

To summarise therefore, as in the case of trade, despite Trump's rhetoric it would seem that in reality there will not be any structural changes to immigration and remittance policy.

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