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The Economic Costs of Closing the U.S.-Mexico Border

Supply chains and cross-border transactions could be damaged.

Once again, President Trump has threated to close the border with Mexico to stop illegal immigrants. However, closing the Southern border not only would not stop immigration but would cause significant damage to the U.S. economy and well-being, although Mexico would still be the most affected country.

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On the Economic Costs of Closing the U.S.-Mexico Border

» *Shutting down the border would cause significant disruption in supply chains and cross-border transactions.*
» *It will not stop illegal immigration, because illegal migrants do not use the official ports of entry.*
» *Shortages of products would have potential to generate inflation and negative effects on employment in the U.S.*
» *Given the size of both economies and markets, Mexico would suffer the greatest impact.*

THE ECONOMIC CONSEQUENCES

For a second time in the past five months, President Trump has threated to close the border with Mexico to stop illegal immigrants from crossing into U.S. territory. This action not only would not stop immigration but would cause significant damage to the U.S. economy and well-being. Mexico would still be the most affected party.

Once again, President Trump has threatened a closing of the southern border, or a large part of it, to force Mexico to stop the increasing groups of immigrants coming to the U.S. But such a closing seems mostly directed at shutting down ports of entry. Doing so would cause significant disruption in supply chains and cross-border transactions, but it will not stop illegal immigration, because illegal migrants do not use the official ports of entry.

One of the most immediate negative effects would be on U.S. consumers' pockets as well as their diets and health. Almost a fourth of U.S. agricultural imports come from Mexico. A border closure would impose a significant disruption in the supply of produce into the U.S. The worst would be suffered by consumers in terms of their diets of vegetables and fruits and the consequent price increases generated by the shortage. Two-thirds of U.S. imports of vegetables and fruits come from Mexico, and avocados in particular have the potential to become the new green gold in terms of prices.

The annual value of goods traded between the U.S. and Mexico through the main southern ports of entry is about $450 billion, representing 37% of Mexico's nominal GDP and a little more than 2% of U.S. nominal GDP. Though this indicates that Mexico will be the most affected country, the U.S. will not escape a significant disruption in the supply chain, with an important cost to the economy. The biggest damage would be done to businesses along the border that are highly dependent on cross-border transactions.

Also, shutting down the border will not stop immigration—since migrants will search for alternative ways to enter the U.S.—but it would certainly have economic consequences for both countries. Given the economic suffering by cross-border businesses during the partial closure last November, new voices are clamoring to stop the threat and avoid an even larger economic chaos and nightmare.

The first time that President Trump threatened and actually closed the U.S. border for a few hours was last November, in an attempt to stop Central American migrant caravans from entering the U.S. The measure did not stop Central American migrants to continue traveling north, but it produced an economic cost for the border region in both countries.

Mexico and the U.S. share a border of almost 2,000 miles, with a population of about 15 million along the border that is divided equally between north and south. The two countries had bilateral trade of around $1.5 billion per day in 2017 and $1.7 billion daily in 2018 despite U.S. restrictions on Mexican products. Industries along the border with strong bilateral trade are mainly electronics, automotive and parts, manufacturing, and retail commerce and tourism.

The shared border comprises four U.S. states (California, Arizona, New Mexico and Texas) and six Mexico states (Baja California, Sonora, Chihuahua, Coahuila, Nuevo León and Tamaulipas). Among these 10 states are 14 main ports of entry handling a flow of trade of around $450 billion between the U.S. and Mexico. Mexico is the number one market for all four U.S. border states in terms of their exports.

According to the Wilson Center, around 465,000 people enter the U.S. each day through ports of entry along the southern border. The economic impact would depend on the duration of the border closure but could very well amount to billions of dollars. According to news reports, the temporary closing of California's main port of entry, at Otay Mesa, on the last Sunday of November, 2018 caused long delays for people and trucks and paralyzed traffic on both sides of the border. Waiting time stretched to five hours from a normal crossing time of half an hour. After the 9/11 terrorist attacks, reinforced security measures along the border caused crossing delays of 12 to 18 hours.

The disruption in the supply chain coupled with shortages of products imported to the U.S. from Mexico (electronics, produce, auto parts, etc.) would also have potential to generate inflation pressures as well as some negative effects on employment. In the end, shutting down the border will not stop immigration, but it would certainly have economic consequences on both sides of the border.

ABOUT THE AUTHOR

Alfredo Coutiño is a Director with Moody's Analytics, responsible for analysis, modeling and forecasting for Latin America as well as real-time coverage of the macro economies. He is frequently quoted in media and industry publications and has been a speaker at United Nations conferences and at the American Economic Association. Alfredo has published papers on applied econometrics with Nobel laureate Lawrence Klein. Dr. Coutiño received his PhD in economics from the University of Madrid after completing doctoral studies at Temple University.

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