



Economics Group

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Fallout from a Potential Border Closure

A closure of the U.S.-Mexico border could have a crippling effect on the American auto industry. Although recession probably would not ensue, the costs could add up if the border remained closed for an extended time.

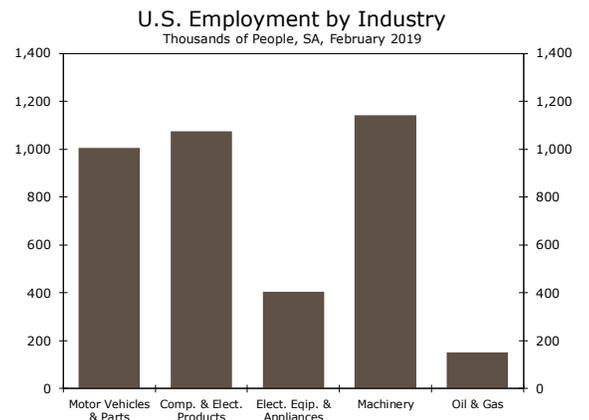
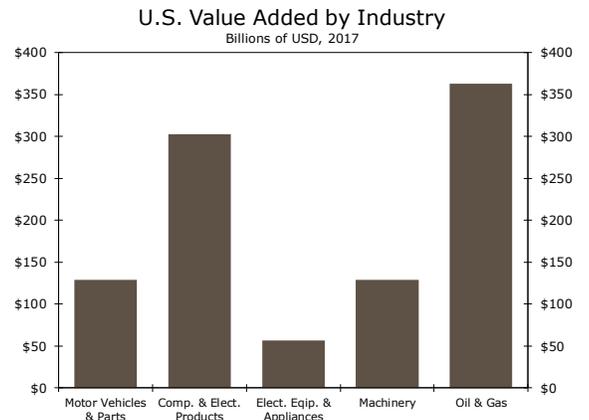
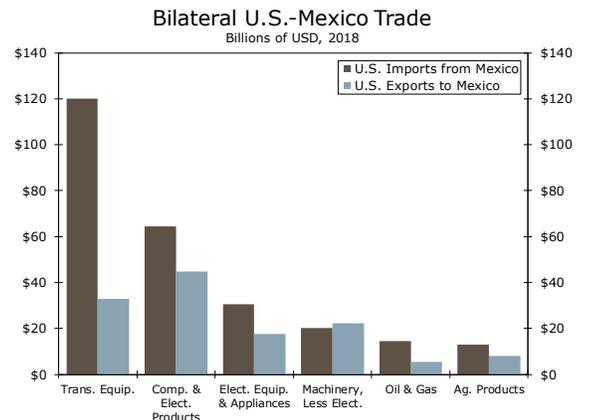
Would a Border Closure Bring the U.S. Economy to Its Knees?

President Trump has threatened to close the U.S.-Mexico border, or at least parts of it, due to the surge of Central American migrants that have streamed into the country. While recent comments suggest the threat of a border closure have lessened, the possibility remains. Not only would a border closure stop many migrants from entering the country, but it also could have disruptive effects on trade flows. What would be some of the economic implications if the president were to carry through with this threat?

Last year, American exports of goods to Mexico totaled \$265 billion while imports of goods exceeded \$346 billion. Intra-industry trade in transportation equipment was especially intensive. As shown in the top chart, the United States sent \$33 billion worth of transportation goods south of the border last year while it received \$120 billion from Mexico, the vast majority of which were auto imports. About \$64 billion of these auto imports were finished vehicles, but roughly \$50 billion were auto parts. Consequently, a closure of the border could have a crippling effect on the U.S. auto industry. Many car manufacturers keep lean inventories of parts. If they can't receive these parts, production of vehicles in American factories could come screeching to a halt quickly. In addition, American imports of computer and electronic products from Mexico totaled about \$65 billion in 2018.

How big of an impact could this have on the U.S. economy? As shown in the middle chart, real value added in the motor vehicle industry totaled almost \$130 billion in 2017 (latest available data), which represented 0.7% of all the real value added that was created in the U.S. economy in that year. Under the extreme assumption that a closure of the border would cause all motor vehicle production in the U.S. to come to a complete halt, then the direct hit to the U.S. economy would be about \$2.5 billion per week. As noted above, this amount represent less than 1% of the value added that is created in the U.S. economy. But there would be multiplier effects if idle auto workers pared back their purchases of goods and services. Furthermore, if curtailment of imports of computer products from Mexico caused American production of computers to completely shut down—an extreme assumption most likely—another \$300 billion of real value added (about \$6 billion per week) could be threatened.

In terms of employment, the American auto industry employs roughly 1 million people, which represents 0.7% of total payrolls, and the computer industry employs a comparable amount (bottom chart). These workers could be idled under the extreme assumption that production in these industries completely shuts down. Realistically, however, a closure of the southern border likely would not be disruptive enough to cause a recession in the U.S. But the costs to growth could start to add up if the border were to remain closed for an extended period of time.



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