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FEATURED Q&A

Will Trump Crush Mexico's Foreign Direct Investment?



Mexican President Enrique Peña Nieto met with then-U.S. presidential candidate Donald Trump in August. Trump has threatened companies with border taxes if they move jobs to Mexico. // Photo: Notimex.

Q The chief financial officer of U.S. lender Citigroup on Dec. 7 said the bank may "re-pace" its planned \$1 billion investment in Mexico amid uncertainty over U.S. President-elect Donald Trump's policies toward the country. What is the future of foreign direct investment for Mexico during a Trump presidency? Should foreign companies hold off on investing in Mexico? What should the Mexican government do to mitigate the worst effects of a timid investment market as Trump's policies toward Mexico are revealed?

A José Carlos Rodríguez Pueblita, senior director at ManattJones Global Strategies, LLC: "Once Trump was elected, we expected foreign firms and funds would re-pace their investment plans in Mexico due to the uncertainty generated by his rhetoric. Recently, some hand-picked labor-intensive U.S. companies announced they are holding off their investment plans in Mexico, such as Carrier and most recently Ford, after pressure exerted by President-elect Trump. However, we ought to recognize that the main driver of these decisions was politics, not economics. Once Mr. Trump is in office, and especially after his first three months, foreign companies and funds with interests in Mexico will have more information about how his trade policy would affect their current business models and will react accordingly. We expect that they will restart their investment processes in Mexico for three main reasons: 1.) Veteran attorney Robert Lighthizer, the next U.S. trade representative, will transform Trump's rhetoric into concrete trade policy with economic motivation, where protectionism could not be generalized nor sustained, 2.) China will become the real focus of

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TODAY'S NEWS

POLITICAL

Taiwanese President Starts Central America Tour

Taiwanese President Tsai Ing-wen praised Honduras' government on the first stop of her four-nation tour of the region. She then flew to Nicaragua and is also scheduled to visit El Salvador and Guatemala this week.

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ECONOMIC

Mexico's Inflation Rises at Fastest Rate in Two Years

Consumer prices rose 3.36 percent in December as compared to the same month a year earlier.

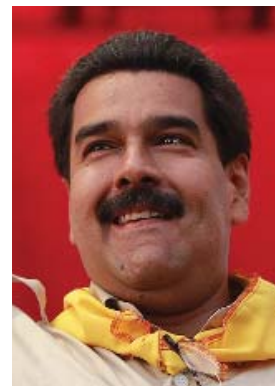
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POLITICAL

Clock Runs Out on Venezuelan Effort at New Election

Time ran out Monday for Venezuela's opposition to hold a new presidential election before the end of President Nicolás Maduro's term. Any successful recall vote against Maduro would now result in his vice president taking over.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Clock Runs Out on Venezuelan Effort at New Election

Time ran out Monday for the Venezuelan opposition's effort to hold a new presidential election before the expiration of President Nicolás Maduro's term. Maduro's opponents spent much of last year gathering signatures on petitions and pressing for a recall vote to oust the embattled president, but judges and election officials repeatedly blocked that effort. Maduro still could be removed in a recall vote,

“The truth is Maduro will continue as president.”

— Diosdado Cabello

but today begins the final two years of his term, and any vote held after this point would only result in his handpicked vice president assuming the presidency. In a symbolic vote Monday, the country's opposition-controlled National Assembly declared that Maduro had abandoned his post, the Associated Press reported. Maduro routinely appears on television and has taken measures to increase his authority, including through the passage of emergency decrees, but opposition legislators say he has failed to perform the basic duties of his office. Maduro's supporters shrugged off the resolution, saying it will make no difference. “The truth is Maduro will continue as president,” said former National Assembly President Diosdado Cabello, a member of Maduro's Socialist Party. The opposition had opened a symbolic political trial against Maduro, but suspended it when it engaged in Vatican-led talks with the government. The talks have since broken down after the opposition said Maduro's government was refusing to make concessions.

Taiwanese President Begins Four-Nation Central America Tour

Taiwanese President Tsai Ing-wen on Monday began her trip to four Central American countries with the goal of strengthening ties, after meeting with U.S. politicians in Texas in a visit that angered China, Reuters reported. During her first stop in the tour, Tsai praised Honduras for its loyalty and emphasized economic cooperation, adding that President Juan Orlando Hernández had been the first to congratulate her on her 2016 election victory. The visit has come under scrutiny in the wake of U.S. President-elect Donald Trump accepting a congratulatory telephone call from Tsai on his election victory, as well as his calling into question the United States' commitment to China's official stance that Taiwan is part of one China.

ECONOMIC NEWS

Mexico's Inflation Rises at Fastest Rate in Two Years

Mexico's December annual inflation rose at its fastest rate in two years, national statistics agency INEGI said Monday, making it likely that the central bank will boost interest rates again, at a time when prices are also expected to increase due to a hike in the cost of gasoline, Reuters reported. Consumer prices increased by 3.36 percent from December 2015, INEGI said, which was the highest rate since December 2014 and above the central bank's 3 percent target. Some analysts believe consumer prices will rise even further due to the increase in the cost of fuel in Mexico following the government's decision to deregulate the commodity beginning Jan. 1. “We expect a much more accentuated rise in January,” CitiBanamex said in a note, citing energy costs and a weak peso. The bank added that inflation could increase by more than 4.6 percent on an annual basis.

NEWS BRIEFS

At Least 11 Killed in Collapse of Rope Bridge in Colombia

At least 11 people were killed Monday when a rope bridge near the city of Villavicencio, southeast of Bogotá, collapsed, El Tiempo reported. Three children were among the dead, and 14 were injured when the simple suspension bridge turned upside down, dumping pedestrians more than 200 feet into a ravine. The bridge was used by local residents and tourists visiting the Buena Vista nature reserve.

Human Rights Court Orders Brazil to Pay Enslaved Farm Workers

The Inter-American Court of Human Rights has ordered Brazil's government to pay a total of \$5 million to 128 former farm workers who were enslaved on a Brazilian farm from 1988 to 2000, The Guardian reported Monday. Brazil is the first country to be fined by the court for failing to prevent slavery within its borders. The court is the legal arm of the Organization of American States. The court in December had ruled that Brazil did not have in place adequate measures and policies to prevent modern slavery.

Toyota Planning \$10 Bn in U.S. Investment: Executive

Toyota's CEO for North America, Jim Lentz, said Monday that the automaker plans to invest \$10 billion in the United States over the next five years, deflecting U.S. President-elect Donald Trump's criticism last week of the company's plans to build a factory in Mexico, the Dallas Business Journal reported. Toyota plans to assemble Corolla compact cars at a Mexico factory beginning in 2019, and last week Trump threatened in a tweet to impose a “big border tax” if the company did not decide to reverse course and build the plant in the United States instead.

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Trump's attention in terms of trade policy; and 3.) foreign direct investment from U.S. companies could be replaced from other regions such as Asia and Europe, which have shown their interest in Mexico because of its existing productive capacity and geographic location. The Mexican government should not overreact; it must give Mr. Trump time to set his priorities clearly once in office and be prepared for rough rewriting attempts of NAFTA in key topics such as currency manipulation and rules of origin, with a focus on auto parts."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México:** "Investment in Mexico under Donald Trump is bound to be diminished. First, Mr. Trump has made no secret about his unhappiness of U.S. companies investing in Mexico. On Jan. 3, he tweeted 'General Motors is sending Mexican made model of Chevy Cruze to U.S. car dealers-tax free

“ Investment in Mexico under Donald Trump is bound to be diminished.”

– Tapen Sinha

across border. Make in U.S.A. or pay big border tax!' This is a clear signal. While GM did not react favorably to that tweet, Ford Motor Company reacted. Ford announced that it was going to scrap its plans for setting up a new \$1.6 billion plant in Mexico. Instead, it will expand capacity in Michigan. On that news, Ford's stock price went up 3.2 percent. This was not the first shot by Mr. Trump

against U.S. companies for expanding in Mexico, nor will it be the last. The anticipated impacts are already showing up in the long-term bonds of the Mexican government. Ten- and 20-year bonds (M Bonos) are down by 15 to 20 percent. Unless Mr. Trump makes a U-turn on his foreign policy stance (and there is absolutely no sign that he will), foreign investment from the United States in Mexico will take a large hit."

A **Richard Sinkin, partner at the InterAmerican Group:** "President-elect Trump has used his bully pulpit (with the emphasis on 'bully') to try to change the arc of U.S. foreign investment and offshore manufacturing. The fact is that he will find a few high-profile successes like Ford's recent announcement to abandon its \$1.6 billion San Luis Potosí factory, but the long-term trends suggest that this company-by-company approach to foreign investment and offshore production will not succeed even in the short term. U.S. manufacturing jobs have steadily declined since 1979, and no amount of presidential hectoring will reduce the need to shorten global supply chains. And America's best-paying manufacturing jobs are in export-oriented companies. There are just too many major American companies with operations in Mexico for these investment and manufacturing trends to change or for punishing tariffs (which are probably illegal anyway) to have much political support. In response, Mexico should not just count on these trends but should develop a laser-like focus on turning out highly educated skilled labor, modernizing its infrastructure, and diversifying its trading relationships, especially with China, Southeast Asia and Europe."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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