

Interview with the Japan Association of Latin America and the Caribbean December 2020

Question 1

What is happening with Covid-19 in Mexico and Latin America?

Unfortunately, the population of Latin America has been affected substantially more by COVID than in other regions. There is a variety of reasons for these unfortunate results: weak health systems and the lack of education about the use of masks to protect the “others”, have played and are still playing a substantial negative role. However, the basic explanation for the disastrous impact of COVID in Latin America is that its governments have not been able or willing to learn from the most successful experiences in the world, especially in Asia.

On the economic front, the fiscal responses have varied across Latin America; some governments have been capable and willing to use resources to help decrease the impact on workers of the lock downs that have been imposed in different degrees throughout the region, while others, such as Mexico, have explicitly oppose to use their fiscal resources for that objective.

Question 2

What will be foreseen after Covid-19 in Mexico and Latin America, and how rapid would be the recovery of economy in Mexico compared to the other Latin America countries?

The economic recovery of Latin America will be strongly correlated to that of their main export's destinations; massive vaccination will help countries which are highly dependent on tourism, such as the Caribbean countries and Mexico. In general, the fast recovery of China should be beneficial to several countries of Latin America, which are strong exporters of minerals, such as iron ore and cooper.

Mexico's recovery has been and will be strongly related to demand growth in the US. In the first months of the pandemia, the lack of coordination between the regulations and definitions of the sectors excepted from the lockdowns, damaged some of the main Mexican exports, such as automobiles and auto parts.

Although tourists have started to come back to Mexico, the complete recovery of the sector will only come with massive vaccination in the US and Europe, the main costumers of the Mexican tourism sector.

Question 3

Has Covid-19 had any implication to (1) USMCA framework, and (2) Mexico-Japan EPA, especially in terms of the automobile industry?

Initially during the pandemic, the lockdown in Mexico did hurt the automotive supply chain. Today most of the states which concentrate investments by and suppliers of Toyota, Nissan, Honda and Mazda have adopted COVID prevention programs that have allowed for at least the partial operation of these plants.

The main implication of COVID for the USMCA is to speed up the harmonization of norms and standards across North America and to establish emergencies protocols that would allow the continuous operation of the main supply chains in North America, during health or other type of disruptive events.

On the positive side, the emergency caused by COVID has further strengthened the decision of corporations to shorten their supply chains, favoring countries in close vicinity to the main markets, such as Mexico.

On the negative side, COVID could be used as an effective excuse to enact policies to bring back to the United States the production of medical equipment and their components; Mexico would be strongly impacted if such policies are enacted, since this year we will export more than 20,000 million dollars.

Question4 - What business chances are expected in Mexico and Latin America amid and after Covid-19 and what activities shall be taken?

In the case of Mexico, the sector that is bound to be the most successful coming out of the COVID pandemic is manufacturing. The entry into force of the USMCA, although it does represent important challenges, brings certainty of access to the US and Canada. As I mentioned before, the potential of future emergencies such as COVID is a strong incentive to shorten supply chains, partly relocating plants in Mexico to decrease the risk of dealing with an emergency with plants in distant Asia.

However, the implementation of the USMCA does present some challenges, especially its Rapid Response Labor Mechanism (RRM). This mechanism allows the US and Canada to initiate a dispute settlement procedure that could lead to the imposition of tariffs and in some rare cases to embargos. This uncommonly speedy dispute settlement procedure could last only six months, in industrial plants in which there is credible evidence of violations of union rights with respect to free and secret vote to elect leaders and to approve labor contracts. The main challenge for Mexico is that US and Canadian unions may use the RRM to try to decrease Mexican competitiveness by disrupting automotive supply chains.

Our company, IQOM, has the responsibility of representing and promoting the interests of the Mexican private sector in Washington; as such, we are helping

corporations located in Mexico to be prepared to successfully respond to potential aggressive actions by such unions.

Question 5

What is the impact to Mexico arising from the serious conflict between USA/China?

Mexico is one of the main beneficiaries of the two events that are forcing corporations to adopt what is sometimes called the “China plus one” risk avoiding strategy: COVID 19 and the conflict between US and China.

Additionally, since the Mexican federal administration does not represent significant political risks to the manufacturing sector, investment in this sector will continue to be one of the brightest spots in the Mexican economy.

Question 6

What changes do you expect in respect to the relations between Mexico and USA under the new US administration?

We expect the Biden administrations to be much more law abiding and professional than the outgoing administration. During the first five months since the USMCA entered into force, both the Trump and the Lopez Obrador administrations have taken several actions that constitute clear violations of the USMCA. My expectation is that the Biden administration would make the compliance of the USMCA a priority, not only with respect the labor chapter but with respect to the whole agreement.

The uncertainty of the application or the threat of application of tariffs by the Trump administration either because of migration or drug trafficking has been notoriously problematic. I would expect the Biden administration use more institutional and cooperative approach to these challenges.

Concluding Comments

Although the Lopez Obrador administration has enacted policies that have generated substantial uncertainty for investing in Mexico, the future of our manufacturing sector is bright. This assertion is based on the proximity of Mexico to the US, on Mexico’s proven capacity to manufacture highly competitive products, on the enactment of the USMCA with strong votes of both Democrats and Republicans and, very importantly, on the disruption to supply chains brought about by the conflict between the US and China and by COVID 19.

The Japanese presence in the Mexican manufacturing sector has grown to unbelievable levels; however, I believe that Mexico represents great opportunities to

hundreds of middle size Japanese corporations, to increase their competitiveness by locating in Mexico. We would be happy to support their migration to Mexico.