ALTERNATIVE Emerging Investor

THE TRUMP ERA: THREE SCENARIOS FOR MEXICO

A LOOK AT RENEWABLE ENERGY IN ARGENTINA AND INDIA

CUBA: A FRONTIER MARKET WITH UNIQUE ATTRACTIONS

A new year is upon us and I wish all of our readers, contributors, and partners the best in 2017. While January usually involves shaking off a bit of holiday overindulgence, and setting forth with hope and renewed goals, this year seems a bit different. Rather than feeling excited about the new possibilities and opportunities which may unfold in the coming year, I find myself bracing for the worst and constantly making arguments (mostly to myself) for a "glass half full" strategy.

One one side of the Atlantic we see the UK trying to cautiously navigate the risky waters of the Brexit, leaving much uncertainty for Europe, trade partners and Britain itself. As we all know, unfortunately, the English were not the only ones blindsided by a bout of rampant populism; the 45th President of the United States, has laid to waste the Trans-Pacific Partnership, begun efforts to segregate the US from their Mexican neighbors and re-initiated the Keystone Pipeline, delivering a decisively negative blow to international relations, trade and renewable energy.

To revert to an earlier strategy, let's look at the glass half full: As readers of this publication, we all have varying degrees of exposure to and enthusiasm for emerging markets. As I've noted in several previous letters, in many cases, these developing markets are better suited to deal with crisis, and operate without the intervention or assistance of global superpowers, making now an ideal time to be working and investing in them.

Let's raise a "glass half full" to Emerging Markets.

Cheers,

ALTERNATIVE
EmergingInvestor

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Issue 19 – January 2017

POLITICAL RISK

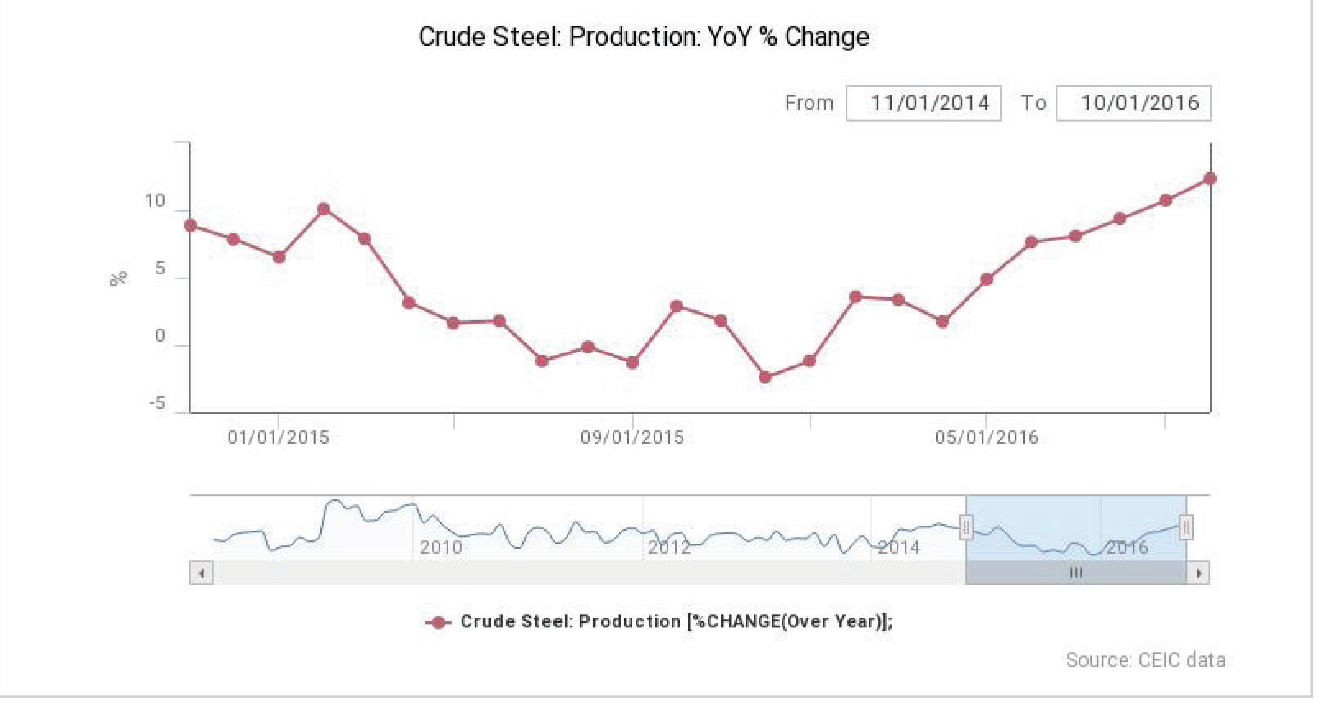
India

Steel Sector India Premium Database, World Trend Database & Global Database

The steel sector plays an important part in India's economic growth during the past decade. India is currently the world's third biggest steel producer (after China and Japan) and it is expected that by the end of 2017 India will overtake Japan as the second biggest steel producer. Since 2008 India's steel production has increased by roughly 63% and for the first ten months of 2016 the growth rate of India's steel output was the highest among the major steel producing nations in the world.

The government of India has undertaken a number of initiatives aimed at bolstering the Iron and Steel Industry such as imposing a tariff on imported steel products in 2015. As a result, India's steel sector trade balance has improved. In addition to this, India's Ministry of Steel has been investing in the modernisation and expansion of steel plants.

Some of the world's largest steel producing companies are based in India, such as Tata Steel (ranked 10th in 2015), SAIL (26th) and JSW (30th).




Crude Steel: Production
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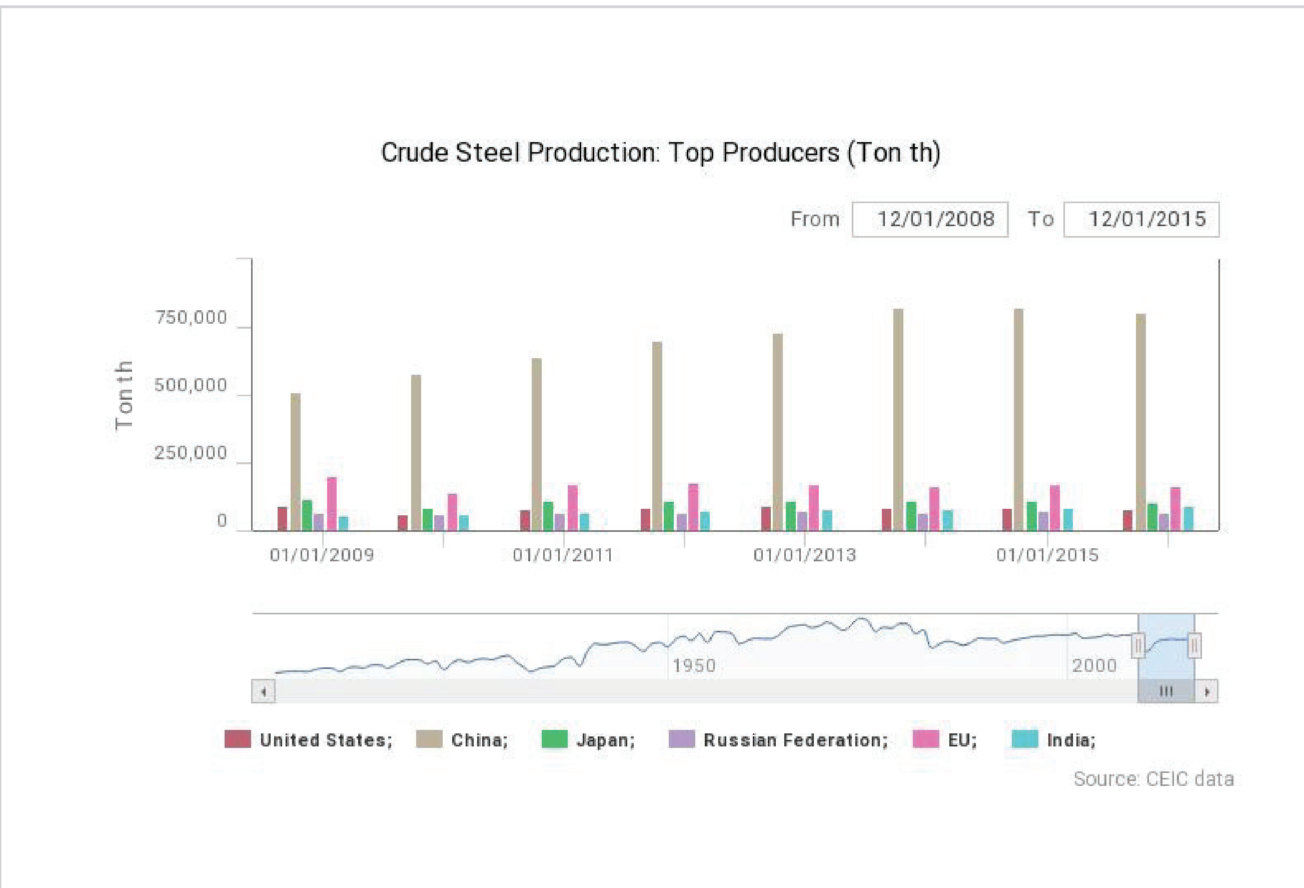
Source: CEIC data


Crude Steel Production: Top Producers (Ton th)
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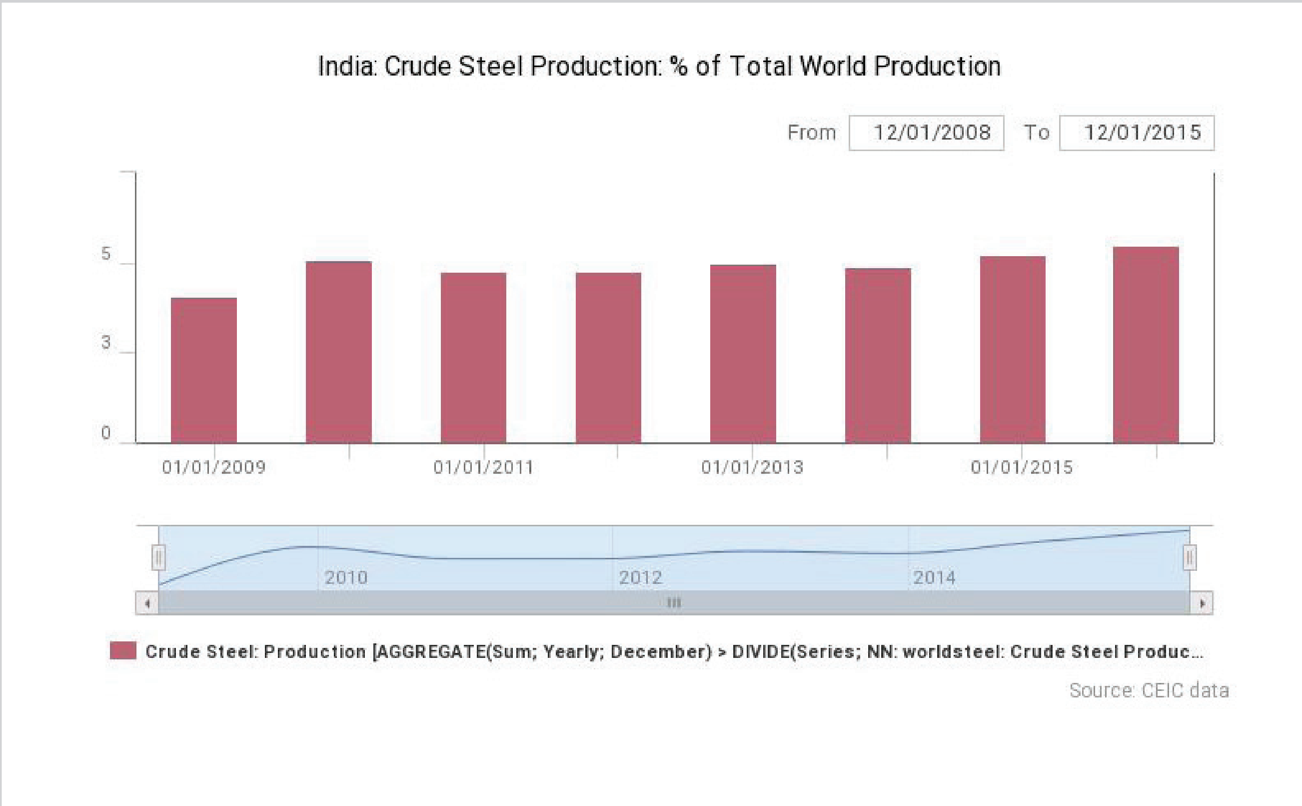
Source: CEIC data


India: Crude Steel Production: % of Total World Production
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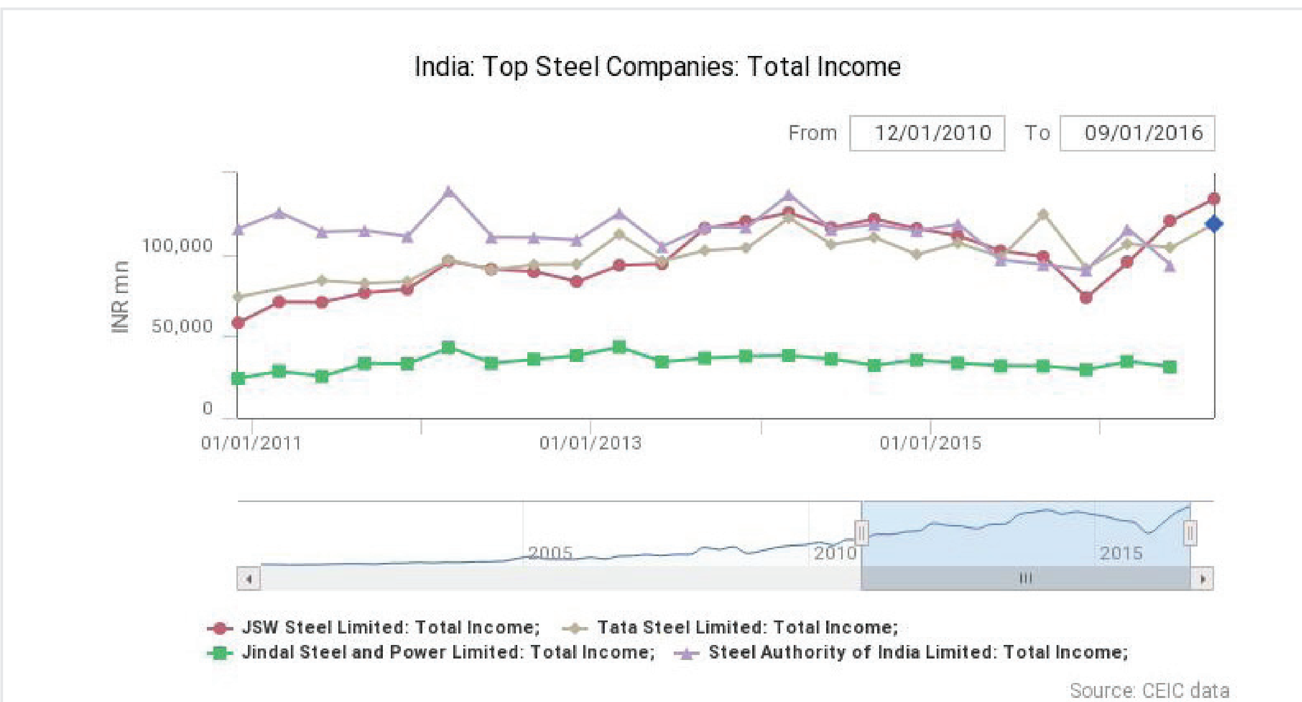
India: Top Steel Companies: Total Income
From 12/01/2010 To 09/01/2016
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01/01/2015
2005
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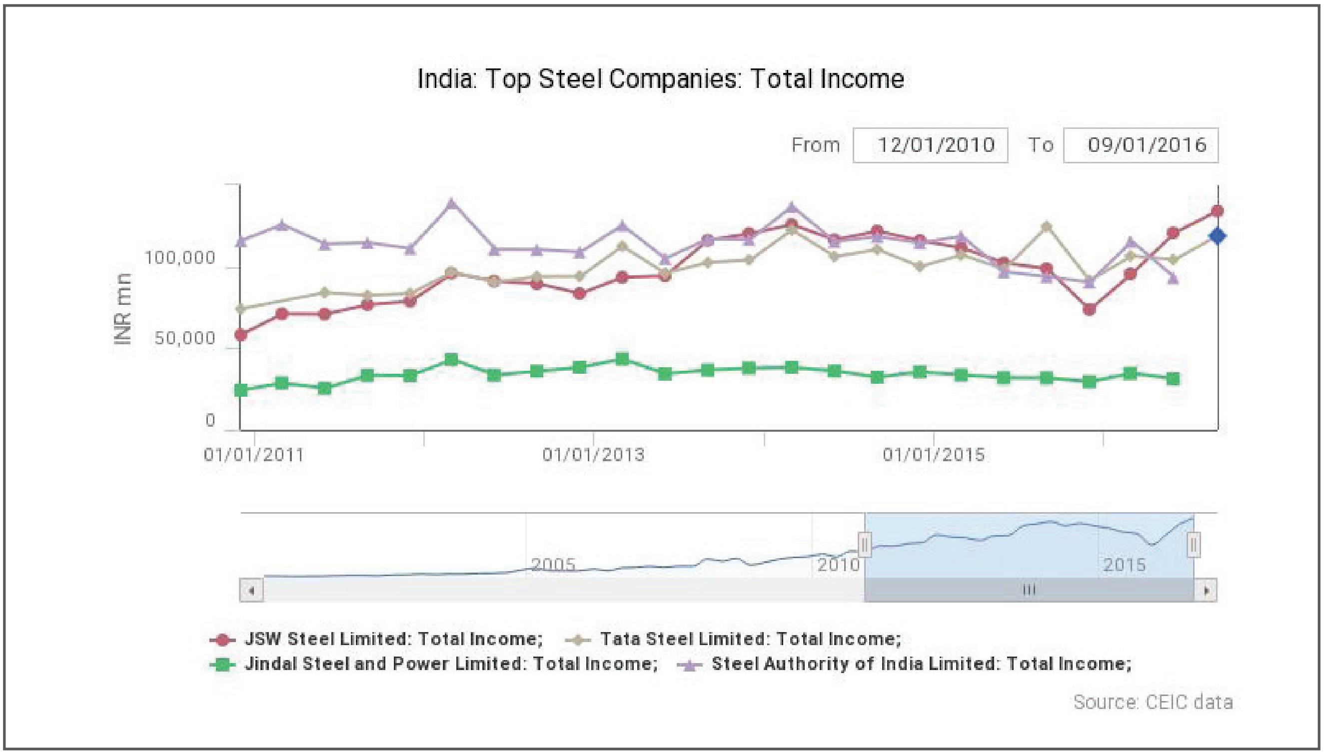
JSW Steel Limited: Total Income;
Tata Steel Limited: Total Income;
Jindal Steel and Power Limited: Total Income;
Steel Authority of India Limited: Total Income;
Source: CEIC data



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The Next Frontiers: Argentina and India are getting serious about renewable energy investment

✍ **Patrick Eble (Real Assets Adviser)**

While China has been grabbing the attention of the Asia Pacific market, and Mexico and Peru have been making headlines in Latin America with record low auction prices, developers looking to further expand in those markets should look to two countries: India and Argentina.

The Indian government released big news for renewable energy developers in July as the Ministry of New and Renewable Energy (MNRE) announced its plan to double the large-scale solar target from 20 gigawatts to 40 gigawatts by 2020. Argentina is also prepared for increased growth in renewable energy capacity as the country plans its first renewable energy auction program. Savvy project developers and investors who can navigate the political landscape of these countries will find new and unprecedented opportunities for growth and return on investment.

India: With a population of more than 1.2 billion and several of the most polluted cities in the world, India stands to be the focal point for reducing global carbon emissions and meeting the targets established in the Paris Agreement. In terms of air pollution, India has two of the top five and four of the top 10 most polluted cities in the world for particle pollution. These statistics come from a country that produces nearly 70 percent of its electricity from coal, oil and natural gas, and which is expected to substantially increase its energy demand over the next 25 years, accounting for a quarter of global energy demand by 2040. To meet the growing demand, Prime

Minister Narendra Modi has called for a massive boost in renewable energy capacity to 40 percent of the country's energy mix by 2030. To achieve this goal, India will add 175 gigawatts of renewable energy capacity by 2022, including 100 gigawatts of solar and 60 gigawatts of wind. The country will also require an astounding $1 trillion of new investment.

Prime Minister Modi's ambitious renewable energy goals, the increasing power demand, and the growing opportunities for off-grid and micro-grid solutions in rural areas mean that investors should be bullish about the Indian renewables market. There is still uncertainty about the national grid and Indian distribution companies' ability to safely and effectively distribute clean energy to a country that has largely received free electricity for years. But the current government's commitment to transmission lines, rural electrification and other energy infrastructure improvements presents a tremendous upside for investment.

Argentina: With its windswept Patagonian highlands to the south and unrelenting horizontal irradiation to the sunny northwest, Argentina likely has the greatest renewable energy potential in the world. Yet Argentina has been unable to meet peak energy demand, resulting in blackouts across the nation. In a country historically reliant on natural gas for the bulk of its electricity generation, solar only accounts for 0.1 percent of generation. However, these figures are about to change as renewables are set to take center stage under Argentina's new leadership. President Mauricio Macri is preparing to capitalize on his country's vast wind and solar resources through his RenovAR program, aimed at increasing renewable energy deployment to 20 percent by 2025. For developers looking to enter the Latin American renewables market, Argentina

provides unmatched opportunities and the political backing of a leader determined to bolster the country's efforts in the fight against climate change.

To establish the Argentine renewable energy market and encourage investors and project developers seeking to enter the market, the RenovAR program created a "trust fund for renewable energy," or FODER. This fund will provide $850 million in financial guarantees for renewable energy projects. Through the RenovAR program, President Macri promises to usher in a new age where blackouts no longer occur and solar accounts for a larger share of the nation's energy mix.

With some of the best renewable resources in the world, Argentina could provide an unparalleled opportunity for smart developers.

REALASSETS ADVISER

About the Author

Patrick Eble is a former intern at the American Council on Renewable Energy.

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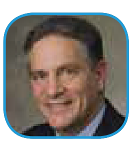

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Algodon Group's Listing And Argentina In The Spotlight

Frontier market observers have long envisaged that Argentina is a market with significant potential for foreign investors. Argentina's recent economic and political achievements portray its underlying capacity to appeal to more foreign investors in the long run. However, the performance of individual firms can be the ultimate and most vivid representation of the argentine growth narrative.

One of Argentina's emerging names in hospitality and luxury real estate - the Algodon Wines and Luxury Development Group - recently went public in the United States (OTCQB: VINO).According to MZ Group which provides public communications services to Algodon Group during the public offering campaign, "The listing really validates the story because they have to meet the metrics from a financial and operational perspective; it gives credibility to the company and I think it's going to be well received from investors, knowing that they are hitting these milestones financially and they are also meeting the qualifications for a formal primary stock exchange listing."Algodon has a reputable brand in the Argentine winery market, as well as, luxury real state (where Sotheby's International Realty is their premier brokerage firm). Additionally, both portfolios are performing well and

could now provide a channel for US investors to further explore the Argentine emerging winery and luxury real estate market. MZ Group says, "We believe Algodon represents a unique opportunity given there are not many publicly traded companies in the US that investors could get their arm around to play in Argentina."Assets both within Buenos Aires and in the San Rafael, Mendoza, located in the northern wine region of Argentina, are well valued , in addition to the brand, reputation and now with this public offering, they are getting noticed, "We've put Algodon in front of a couple of large billion dollar funds in New York, and they're watching them, they're not ready to invest yet as it's a little too early stage for them, but when our clients get mature and their financials start clicking , these funds can pull the trigger very quickly. You have to plant the seeds early so when the company executes the respective funds are ready and have conducted their due diligence. The seeds planted in 2016 will start to grow in the new year as Algodon demonstrates improved financial performance in 2017 and we expect the shares to reflect that positive momentum," says Chris Tyson of the MZ Group.

Along with luxury and hospitality Algodon's wines have started to also gain attention: According to a recent report (October 2016) by Market Wired that chronicled Algodon's transactions relating to its Argentine assets 'featured wines coming to the United States include Algodon's classic range of single varietal wines such as Malbec, Bonarda and Chardonnay, as well as Algodon's mid-range wines Malbec-Bonarda and Malbec Reserve' all of which will be distributed within the US by Seaview Imports - the New York-based firm that will play the role of sole agent and importer for Algodon's wines.

The public listing will undoubtedly position Algodon Group for more growth within Argentina, where the current president Mauricio Macri is implementing a number of pro-business reforms that could further whet the appetite of investors for Argentine opportunities. MZ explains that the current standing of Algodon Group is capable of inspiring much investor confidence. They say "So they own a substantial amount of property, they have their own revamp in the winery, we're going to talk about that by the end of the year and that property as a whole, the golf course, the tennis, just so many things as a whole and then you've got a company and the management team that's been in Argentina for over ten years and have the ability to execute on other acquisition of hard assets down there too, during what we think is going to be a 5 year period of substantial growth within the country."

The public listing is a huge step forward, however Algodon's management will be charged with the onerous responsibility of executing solid and sustainable growth. That kind of growth that will further secure the trust and confidence of investors and validate the global perception of Argentina as a profitable and stable investment destination in South America.

About the Author

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Cuba: a Frontier Market With Unique Attractions

✍ **(EMIA – The Emerging Market Investor's Association)**

President Obama's initiative for the normalization of United States' (US) relations with Cuba, has brought the country to the forefront of many investment conversations as it is uniquely attractive to US investors. One of the most prominent is its geographical proximity to the US and natural resource endowments. Investors now bet that the 50-year frozen relationship between Cuba and America will unveil other attractive features of the Cuban market, especially its untapped investment potential.

With massive investment opportunities in sectors such as agribusiness, energy, transportation, and mining among others, Cuba can efficiently leverage its high literacy rate (98%); which is atypical of many frontier markets to engineer strong economic growth in the short term. Available data suggest that Cuba is poised to become a top investment destination within the Latin American region and savvy investors and private equity firms are already jostling for proper positioning in Cuba; with many hoping to leverage the first-mover advantage.

Cuban Avanza Partners (Cuba Avanza) is a New York-based private equity firm focused on funding small and medium-sized enterprises in Cuba, specifically those that show good growth potential, as well as, an evidence of global scalability within their business model. Cuba Avanza has recently launched its Cuba Opportunities Fund, L.P., which is targeted at $200m. Victor Hugo Rodriguez, a partner at Cuba Avanza says, "some of the most important, interesting entrepreneurial people from Latin America are Cubans, and Cuba has one of the most strategically located geographic economies; being so close to the US". With a population of about 11 million people, an excellent healthcare system and life expectancy of about 79 years, Mr. Rodriguez' assertions are hard to disprove. Invariably entrepreneurial skill should not come up short in Cuba.

Does Cuba present a ready market for US investors that is devoid of pitfalls? There are three US laws and regulations related to investing in Cuba, which - expectedly - investors are required to understand and comply with; a) The Office of Foreign Asset Control (OFAC) b) The Trading with the Enemy Act (TWEA), which as of 2016 has Cuba as the only country restricted under the Act and c) The International Economic Emergency Power Act (IEEPA). To highlight the potential regulatory risks, rigors and pitfalls, Cuba Avanza's Partner Michael Andrews says "Our advisory board has extensive experience in US regulatory issues, especially those that pertain to Cuba, and can help us navigate the appropriate regulations to ensure we are proceeding properly, in compliance and ahead of the changes that are occurring in the market"

This validates the notion that further normalization of US - Cuba relations could present some new challenges to investors. However, navigating whatever challenges the market presents is made easier by the local expertise and insights that organizations like Cuba Avanza have developed. According to Mr. Andrews, "the quality of the work force, the education level of the work force and then seeing that growth in the middle income and developing middle class in Cuba; you can combine that with the expertise and experience of the team that we have around us, which includes direct dual-citizen Cubans that have been operating in Cuba for many years" This capacity is essential given the traditional flux and risks that may be associated with a market that has just been stripped of a number of trade restrictions by a dominant economy such as the US. But those looking to expand in Cuba can rely on the pioneering financial channels and instruments now being offered by firms such as Cuba Avanza; whose focus is private equity investments in entities domiciled in Cuba or doing primary business in Cuba (but which) exhibit superior growth potential.

Frontier markets are tricky, but the unique attributes of Cuba could make it worth the risk; "the political situation that you are seeing in Cuba is what also makes this an attractive opportunity, of course you also have to deal with the government and face a lot of potential arbitration", noted Ted Kanarek, partner at Cuba Avanza. The entry of Cuba Avanza is a show of confidence in the future of Cuba, but Cuba will be required to prove to investors in the coming years (through tangible returns, economic and political stability) that its risk is worth the reward, the key trial by fire in all developing market investments. Setting Cuba apart from many frontier markets is Cubans themselves, "It is amazing what Cubans have done with such limited resources; university robotics programs for example have made incredible advances with extremely limited access to resources and the Internet." commented Mr. Rodriguez. This drive and entrepreneurial spirit will go far in counterbalancing the systemic risk for Cuban allocation.

About the Author

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Puerto Rico oversight board in sway of US Treasury bodes poorly for creditors

✍ **Xavira Neggers Crescioni and Maryellen Tighe (Debtwire)**

Puerto Rico creditors worry the island's fiscal oversight board may be unduly swayed by US Treasury, which may open the door to a premature cram down of unwarranted haircuts under Title III, said three sources close.

The three sources—a restructuring advisor, creditor and another person close to the matter—said Treasury is definitely in the driver's seat when it comes to the board's operations. To date, all of the Financial Oversight and Management Board for Puerto Rico's technical personnel are US Treasury employees, said the restructuring advisor and the other person close.

"This includes Adam Chepenik who has gone to work for the board full-time," the restructuring advisor said

At Treasury, Chepenik held the post of deputy director of the agency's office of state and local finance. At this post, he advised Secretary Jacob Lew on "the development of public policy pertaining to state and local municipalities, the municipal bond market, public pensions, and infrastructure finance," as reported. Also actively advising the board is Kent Hiteshew, director of the Treasury's Office of State and Local Finance, the restructuring advisor said.

"The problem with Treasury being in the driver's seat is the agency's advocacy of Title III," said the restructuring advisor.

Title III under the Puerto Rico Oversight and Management, and Economic Stability Act (PROMESA) allows a court to force holdout creditors to accede to the terms of a deal agreed to by a majority of creditors. It also allows the oversight board to call for the court to cram down set terms for a deal in the event the board cannot reach an accord with creditors.

Treasury's advocacy for what creditors could view as a premature use of Title III is patent in a letter Lew sent the board the 16 November, which states:

"While PROMESA's automatic stay provides breathing room for the Board's deliberation of numerous outstanding issues, its 15 February 2017 expiration is quickly approaching. The board should make maximum use of the powers given to it by Congress to pursue consensual negotiations and, if unsuccessful, Title III filings before the stay's expiration."

Moves to negotiate a restructuring deal with island creditors fell apart under Governor Alejandro Garcia Padilla's administration because of commonwealth and US Treasury's intransigent attempts to force broad haircuts onto creditors without trustworthy financial data to back these debt discounts, the three sources said.

Creditors fear US Treasury's advocacy of Title III could lead to a similar stand-off scenario, said the restructuring advisor and person close.

"If creditors feel they are being forced into deep haircuts without any data to back this up, they will balk and close off Puerto Rico's market access for many years. Without the threat of a forced cram down under Title III, consensual negotiations can continue well past the stay on litigation expires," said the person close. "It's not that Title III is bad; it's just premature."

Prior to entering Title III, the board should enact financial stability efforts under Title II of the law and establish a baseline for the commonwealth's income and expenses, the person said.

Problems with Proskauer

The board's recent contracting of Proskauer Rose LLP as its lead outside counsel sends the wrong message to creditors because this is the same firm that drafted the island's Debt Enforcement and Recovery Act, the three sources said.

The law firm also represented the Government Development Bank for Puerto Rico (GDB) in Recovery Act litigation in 2015. This summer, the US Supreme Court struck down the island law, finding that federal Chapter 9 law trumped the local debt adjustment regime.

"It's not good that the oversight board is continuing to look at advisors who have worked unsuccessfully with the Garcia Padilla administration," said the creditor. "It seems to us even having in the mix some of the advisors that are even associated with the former administration is a real terrible move."

"It's disappointing when you have that kind of failed result carry over into an oversight board that you would like to see more independent minded," the creditor said.

An attorney at Proskauer Rose declined comment, while the oversight board and US Treasury did not return calls to comment.

DEBTWIRE

About the Author

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Three scenarios for Mexico after the Trump administration takes power

✍ **Ricardo Aceves, Senior Economist (FocusEconomics)**

The 31 August meeting between Mexican President Enrique Peña Nieto and Republican nominee Donald Trump marked the beginning of what many analysts consider to be a difficult bilateral relationship.

Although neither put all his cards on the table in their first meeting, it was clear that the two most unpopular men in Mexico started off on the wrong foot and that their relationship as leaders will develop under the conditions imposed by the Republican magnate. The meeting in late August is more relevant than ever now that Trump is set to take office in January, a reality that has ignited fears across Mexico where citizens closely monitored the U.S. electoral process.

No country in the world is as uneasy as Mexico about its future following Trump's victory. His anti-Latino and anti-free-trade rhetoric have been directed toward the two most important issues in the U.S.-Mexico relationship: immigration and the North American Free Trade Agreement (NAFTA). Should Trump's most radical proposals related to immigration and trade be implemented—Republican control of both Houses of Congress will provide him with scope for action—the prospects for Mexico's economy will be grim.

The Mexican peso—the market's favored proxy for U.S. election risk—weakened sharply after Trump's victory was announced, trading at a rate weaker than 20.0 MXN per USD for the first time in history. The plunge largely followed investor sentiment related to the "Trump shock" as well as domestic sentiment driven by sluggish economic growth, a deteriorating outlook and the Mexican government's weak approval rating by both consumers and businesses. Although, the Central Bank responded with an interest rate hike to stem the fall of the peso in the aftermath of the election, the Finance Ministry stated that no immediate fiscal measures will be taken, though it did vow to make necessary adjustments in order to prevent serious financial turmoil.

As the dust is settling following the election, the Mexican currency has been trading at around 20.5 MXN per USD. Some appreciation is still likely due to higher domestic interest rates, a recovery in oil prices and a narrower current account deficit, but prolonged U.S. policy uncertainty and prospects of an interest rate increase by the Fed in December could keep the peso from strengthening. Analysts project that the peso will continue to face some volatility in the weeks ahead of the upcoming Fed meeting in December. They expect the peso to end the year at 20.85 MXN per USD and see uncertainty weighing on next year's outlook. The Consensus view among forecasters is that the peso will weaken further and end the year at 21.11 MXN per USD.

The Mexican government has recognized that it does not have a contingency plan for a Trump victory. This has resulted in considerable uncertainty regarding the future of policy between the two countries. Therefore, there are three scenarios to consider for the coming years and beyond, along with the outcome of each.

1. Benign scenario: Trump takes a pragmatic approach, growth remains steady but weak

Under the most benign scenario for Mexico, Trump would take a broadly pro-business and pragmatic approach. While not making too much effort to strengthen the existing economic ties between the two countries, he would also not sabotage them. Such an outcome would likely stem from the realization that U.S. businesses would also stand to lose significantly from a trade war with Mexico and that the consequences of protectionism come at a political cost. Under this scenario Mexico would not fare much differently than within the majority of our analysts' baseline scenario: weak but steady growth in 2017 and 2018.

2. Medium-risk scenario: Trump pursues radical agenda, substantial impact to economy

A scenario with a substantial impact and a significant risk to the outlook is one in which Trump pursues his most radical agenda towards Mexico, leveraging Republican control of both Houses of Congress.

Although there are institutional checks and balances in place that would regulate Trump's ability to fully implement his agenda, the robust executive powers of the presidency, coupled with control of Congress, suggest that Trump would enjoy few constraints, at least in the first two years of his term. Under this scenario, the worst impact on Mexico would be due to the renegotiation of NAFTA or the implementation of U.S. protectionist trade measures.

NAFTA has effective dispute-resolution mechanisms and allows for retaliatory actions. However, a resulting trade war would damage both economies, though Mexico would be hit harder, given its greater dependence on the U.S., which buys 80% of its exports. Other damaging measures could be the implementation of capital controls on remittances as well as mass deportations of illegal Mexican immigrants that could put the Mexican labor market under pressure. Some of our analysts consider this scenario to be the likely, and if it comes to fruition, Mexico will see its economic outlook deteriorating drastically with economic growth in the medium term falling below 2.0%. Moreover, there is a significant risk that the economy could enter into a mild recession and that the peso could weaken further, should protectionism be fervent.

"Bottom Line: Mexico's Economic and Political Fate Hang in the Balance"

3. Worst-case scenario: Trump acts on radical campaign promises, economic and political threat

The worst-case scenario is if Trump were to proceed with a severe protectionist agenda, which in turn would have a strong impact on Mexico's economic growth, including a recession at some point in the coming two years, and would be complemented with a coercive attitude toward the Mexican government in order to boost President Trump's popularity at home. Against this backdrop, Mexico would have few tools to counter this, given the huge power gap between the two countries along with Mexico's hefty dependence on the U.S. in terms of defense and military intelligence aid in the war against drug cartels. In this scenario, should the U.S. demand that Mexico pay for the border wall, it is highly possible that Mexico would do so. The U.S. could also use other means to exert coercive influence upon Mexico aside from a threat of military action—which, although unlikely, was hinted at during Trump's campaign. Such actions could include leveraging the vast amount of intelligence that is in the hands of U.S. intelligence services on Mexico's drugs cartels and on other criminal activities such as money laundering and corruption, which could put the current Mexican government in a compromising position. The administration could either then concede to Trump's demands or risk more scandals being revealed at a time when Mexicans rank corruption, along with insecurity, at the top of their list of concerns. Consequently, this scenario carries with it the significant risk of prompting political instability in Mexico, especially in light of the government's poor accountability and feeble handling of previous political crises, and would come at a time of important political changes in Latin America.

Bottom line: Mexico's economic and political fate hang in the balance

Donald Trump being elected as the next president of the United States has been frustrating enough for Mexico, yet the most frustrating aspect is that the U.S. neighbor to the south has minimal leverage to mitigate the impact of Trump's policies. Mexico's economic (and perhaps political) fate for the next four years rests entirely upon Trump's willingness to move forward with the full agenda that he promised during his campaign, particularly in the next two years when both Houses of Congress will be under Republican control. Although the economic impacts will be felt first, a political fallout in Mexico caused by Trump's presidency should not be underestimated, and this could have more damaging and long-lasting consequences for the country's outlook.

About the Author

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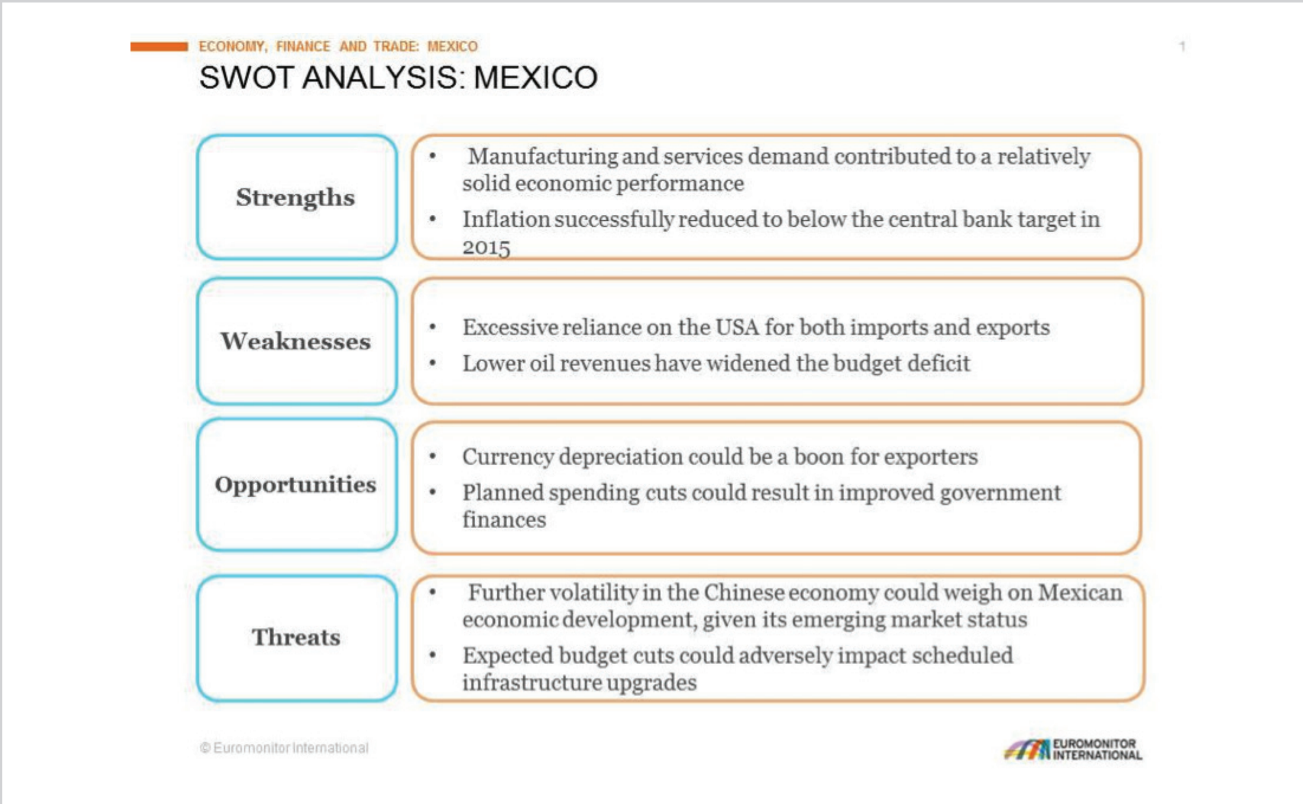
Economy, Finance and Trade Mexico:

Trump's Protectionist Administration Will Hurt Mexico

✍ **Roshni Wani Thapa (Economies and Consumers Analyst - Euromonitor)**

Euromonitor International's Mexico Economy, Finance and Trade Country Briefing, focuses on one of Latin America's economies which is heavily reliant on the success of the US economy to drive exports progression and remittance inflows.

Donald Trump's surprising victory in the US elections pushed the Mexican peso to historic lows, summoning dangers instore for Mexico, given the newly elected President's proposed protectionist measures. During the Presidential campaign, Trump promised to renegotiate or end the North American Free Trade Agreement (NAFTA), stop the Trans-Pacific Partnership trade deal, curb the influx of migrants, block the outflow of remittances and build a wall along the US-Mexico border to cut off trade and immigration between the two nations. Although, the viability of implementing such plans seems uncertain, the start of Trump's administration haunts Mexico given the nation's strong link to the US economy. Trump's victory is expected to deteriorate



Mexico's business as well as consumer sentiments, external balances and trade ties with the USA. This is further expected to reduce Mexico's real GDP growth forecast from 2.7% (according to the Pre-Trump Scenario in Euromonitor's Macro Model) to 1.6% in 2017.

Given Mexico's close economic ties with the USA, Mexico will be the most impacted country from a Trump administration:

- Mexican total goods imports increased substantially in the 2010-2015 period, growing by 31.1% in US$ terms, owing to relatively strong consumption and the need for inputs into the manufacturing sector. However, its large reliance on US imports poses a risk to the supply of goods, particularly in the event of Mexican currency weakness;
- With 35.2% of total goods exports, 'Machinery and Electrical' was Mexico's largest exports category in 2015, illustrating that the country has a substantial manufacturing base that makes it vulnerable to global trade flows. Furthermore, its excessive reliance on the USA for a sizeable portion of its exports means that Mexico is highly vulnerable to any weakness in the US economy;
- Mexico's current account deficit increased to 2.8% of GDP in 2015, owing to lower oil revenues resulting from a weak global oil price. Remittance inflows are a notable contributor to Mexico's overall economic health, particularly given that inflows from the USA (home to a large proportion of Mexican migrants) help to fuel consumer expenditure;
- Given that Mexico is well integrated within the world economy, the global economic slowdown is a major risk to the country's future output development, as is further weakness in global oil prices, given that Mexico is a notable oil producer. Its considerable reliance on the US economy is another substantial risk.

Trump's administration could cause large decline in Mexico's remittance inflows and exports
Mexico's economic ties with the USA have amplified considerably since NAFTA took effect in 1994,

eradicating most tariffs on goods traded between the USA, Canada and Mexico. Hence, the USA became the Latin American country's largest trade as well as investment partner. By 2015, 81.0% of Mexican goods were exported to the USA. Elimination of NAFTA will have far reaching consequences for the Mexican economy, via high export costs, reduction of US investments and potential capital flight induced by uncertainty.

Furthermore, in 2015, Mexico was the fourth largest recipient of remittance inflows in the world, accounting for 2.2% of its GDP. These inflows are predominantly from the USA and play a major role in increasing household consumption and reducing poverty. Trump's anti-immigration policies and his plans of restricting migrant's remittances will certainly affect Mexican household income and expenditure and decrease Mexican firms profit levels. The sharp fall in remittance inflows will also weigh on poverty reduction via reduced income levels.

An additional major impact would also be felt by Mexico's external balances as a decline in exports and remittances inflows will widen Mexico's modest current account deficit, which stood at 2.9% of GDP in 2015. All of this will eventually slow down the country's economic growth.

EUROMONITOR INTERNATIONAL

About the Author

Euromonitor International is the world's leading provider for global business intelligence and strategic market analysis. We have more than 40 years of experience publishing international market reports, business reference books and online databases on consumer markets.

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Donald Trump in the White House: Implications for the Future of the TPP and Free Trade in ASEAN

✍ Dezan Shira & Associates

US president-elect Donald Trump's opposition to the Trans-Pacific Partnership (TPP) is well-known and the future of the trade deal is now on tenterhooks.

For the supporters of the TPP, Trump's victory has meant that their worst fears are now going to unfold. Opponents of the trade deal are rejoicing at their expectation that Trump will now move quickly to fulfill one of his most controversial campaign promises – to abandon the TPP. Any prospects of the US renegotiating the TPP are not only bleak but also impractical – the trade deal was seven years in the making, meticulously negotiated and involved compromises from several countries on both sides of the Pacific.

Implications for ASEAN

So now if the US does ultimately withdraw from the TPP, what implications will this have for free trade in the ASEAN region? Before analyzing this, it should be kept in mind that TPP's potential failure is unlikely to have any significant immediate economic impact on the region. It was not a trade deal in force, but only offered prospects of newer free trade rules coming into effect in the near future. Instead of being a step backwards, it is more a lack of further progress as far as development of free trade in the region is concerned.

Brunei, Malaysia, Singapore and Vietnam are the four ASEAN member states who are parties to the TPP, and of them, only Singapore has a separate FTA with the US. While some of them – especially Singapore and Vietnam- acknowledge that the TPP is now in jeopardy, they have made it clear that they

will move forward in negotiating their own FTAs with other countries in the Asia-Pacific region.

Among the ASEAN members, Vietnam was widely considered as the country most likely to get an immediate economic boost from the TPP. According to Vietnam's Minister of Trade and Industry Tran Tuan Anh, the country will continue reforms to improve its business and investment environment and negotiate other agreements whether US president-elect Donald Trump thwarts the TPP or not. Deputy Prime Minister and Foreign Minister Phạm Binh Minh stated that if the TPP is not ratified, it will be considered a setback, as countries spent much time and effort on the negotiation process. However, he noted that besides the TPP, Vietnam has concluded FTAs with many other partners, including the European Union (EU). Deputy Minister of Industry and Trade Do Thang Hai said that with or without the TPP, Vietnam's policy towards international economic integration will remain unchanged.

An ardent supporter of the TPP, Singaporean Prime Minister Lee Hsien Loong has stated that he feels "disappointed that the TPP looks very unlikely, or will not be passed, or ratified now" as reported by *The Straits Times*. The newspaper quoted him referring to Trump: "He had no sympathy for the TPP at all and I think that's a disappointment to all of us who worked so hard to negotiate the TPP". In reply to queries if the TPP could be salvaged if its terms are renegotiated or possibly changed to include countries like China, Lee said, "It's not so easy to say we change the terms, what are you going to change?… And if you bring in a new country, it would be a completely new deal altogether because a new country, particularly if it's a big one, is not going to sign on to everything which has already been agreed before they were participants".

The Road Ahead

China is likely to gain from potential US abdication of the TPP. China is the key driver behind the Regional Comprehensive Economic Partnership (RCEP), a trade agreement between the 10 members of ASEAN, as well as Australia, China, India, Japan, New Zealand and South Korea. In the event that the TPP fails, the momentum towards the RCEP is likely to gain strength as China is likely to push for a successful conclusion.

Japan, a key US ally who viewed the TPP as an effective mechanism to contain China's growing economic clout in the region, has indicated willingness to turn towards the RCEP. Japanese Prime Minister

Shinzo Abe has recently stated that there is now "no doubt there would be a pivot to the RCEP if the TPP doesn't go forward". He added that Japan "will shift focus to RCEP should the TPP not go ahead". Leaders of Asia-Pacific countries, including the US, Japan, Australia and China, are scheduled to meet during the upcoming Asia-Pacific Economic Cooperation (APEC) annual summit in Lima, Peru on November 19-20. China's President Xi Jinping is expected to garner support for the RCEP from Asia-Pacific countries during the summit.

Unlike most other free trade agreements, the TPP included some special provisions on areas such as labor standards, governance and transparency standards, and environmental and intellectual property protection. RCEP, on the other hand, does not include provisions that emphasize protection of intellectual property, free flow of information or the leveling the field between private businesses and state-owned enterprises.

With the dimmed prospects of the TPP, it is now possible that countries, such as Vietnam and Malaysia, which had made substantial compromises on issues such as labor rights, will now have to move on to other deals. The RCEP, for instance, could be a viable alternative for Vietnam in the event that the TPP fails to go ahead. Vietnam stands to gain from increased sourcing of production from such RCEP member countries as Japan, South Korea and China.

While the RCEP will remain an alternative, a more likely outcome is that the TPP's place may well be taken by the Free Trade Area of the Asia-Pacific (FTAAP), a proposed larger trade-pact for the Asia-Pacific region, also promoted by Beijing. In the final analysis, like Vietnam, countries involved in the TPP will have Plan B's. However, as New Zealand's ambassador to the US remarked recently, "The tragedy would be that the Plan B's we have would not include the United States".

For a detailed analysis of how the FTAAP may well replace the TPP, please see the **Op-Ed Commentary** *by Chris Devonshire-Ellis, Founder and Chairman of Dezan Shira & Associates.*

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About the Author

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