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Edward A. Snyder, Dean, Yale School of Management
Jeffrey A. Sonnenfeld, Senior Associate Dean, Yale School of Management

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Ambassador Roberta S. Jacobson, US Ambassador to Mexico

RESPONDENTS
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Arne Sorenson, President & CEO, Marriott International
Daniel Servitje Montull, Chairman & CEO, Grupo Bimbo
Juan Domingo Beckman, Chief Executive Officer, Becle (Jose Cuervo)
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Juan Guichard Michel, CEO, INVEX
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Joaquin Ávila, Managing Director, EMX Capital
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Pedro Padierna, President & CEO, Mexico, PepsiCo
Jose A. Acosta, President, UPS Public Affairs, Americas Region
Rogelio Velasco, Chief Executive Officer, Cisco Systems Mexico
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Legend in Leadership Award Presentation: Daniel Servitje Montull, Chairman & CEO, Grupo Bimbo

PRESENTATION
Arne Sorenson, President & CEO, Marriott International
Juan Domingo Beckman, Chief Executive Officer, Bele (Jose Cuervo)
Jaime Chico Pardo, Chairman & CEO, Enesa
Overview

Over the past few decades Mexico has made tremendous economic progress and is now far better positioned. Most Mexican business leaders view NAFTA as a success—for Mexico and the United States—while acknowledging the need to modernize it. Leaders see great value in viewing North America as a region and viewing the US and Mexico as “production partners.”

Yet President Trump’s rhetoric on trade and immigration has shaken the Mexico-US relationship. While the majority of Forum participants don’t expect a trade war, it can’t be ruled out, nor can a border tax, which could have a devastating short-term impact. This rhetoric has eroded trust and created uncertainty, with ripples affecting short-term investment and business decisions. Several strategies were shared for reaching out to President Trump and those around him to build relationships, provide facts, and educate about the importance and benefits of the US-Mexico relationship. Business leaders can minimize criticism from Trump by giving him success stories that help him achieve his goals.

Despite near-term concerns, business leaders are optimistic about Mexico’s longer-term prospects. There are significant opportunities in Mexico, which are attracting global businesses and investors.

Context

On February 21, 2017 in Mexico City, the Yale School of Management’s Chief Executive Leadership Institute held the Yale US-Mexico Leadership Forum: Examining New US-Mexico Trade Ripples. This Forum brought together business leaders from Mexico and the United States, current and former government officials, and several members of Yale’s faculty.

Yale SOM Senior Associate Dean Jeffrey Sonnenfeld moderated the session. He set the context for the discussion by noting that the focus of the distinguished participants was not to rerun the election, litigate the past, or redraft trade agreements. The goal was to understand practical realities and offer ideas for managing businesses most effectively in this environment.

Participants reflected on the context and climate for US-Mexico trade relations, offered observations on the current trade rhetoric, and focused on what worries Mexican business most about the public discourse. US business leaders shared thoughts on navigating around global trade uncertainties. Grupo Bimbo Chairman and CEO Daniel Servitje Montull was presented the Legend in Leadership Award. Some of the key themes from this Forum are summarized below.

Key Themes

Economically Mexico is in a much better place today than in previous decades.

The economic path in Mexico has been bumpy, but over the past three decades business leaders see tremendous progress in Mexico’s economy, providing positive momentum and a solid foundation for the future. Even though problems and challenges remain—such as the economy in the south of Mexico—overall, economic progress has improved the well-being of the most of the country.

“Mexico is in a much better position today than 30 years ago.”

Among the specific progress cited were:

- Increased productivity
- A well-educated workforce, with Mexico producing more engineers than many European countries
- Reforms in sectors including energy and telecom, as well as fiscal and labor reforms
- Formation of multiple international trade deals
- Creation of several leading global companies, like icons Grupo Bimbo and BeCle (Jose Cuervo)
- Attraction of significant levels of foreign investment, which is continuing

Most believe NAFTA has been successful.

The general consensus among Forum participants is that NAFTA has been a success. In a poll of participants, 40% believe NAFTA has been “very successful” for Mexico and 49% say it has been “successful.” No one sees NAFTA as unsuccessful for Mexico. For the United States, 20% see NAFTA as “very successful” and 69% view NAFTA as “successful.” Overwhelmingly, the view is that Mexico should stay in NAFTA.
However, leaders acknowledge issues with NAFTA and the need to modernize it.

Even the staunchest supporters of NAFTA view it as a 23-year-old agreement—one of the world’s first free trade agreements—that needs to be modernized. Since NAFTA was ratified, the world has changed dramatically. Entirely new industries, sectors, and technologies have developed which couldn’t have been anticipated by the original agreement, like the Internet, ecommerce, telecom advances, and new energy developments. NAFTA needs to be revised to account for these changes.

“NAFTA needs to be modernized and changed . . . there is lots to draw from to improve on.”

While some voices are calling for NAFTA to be scrapped (a leading former Mexican politician has argued that it is a waste of time to play a NAFTA tweaking game), the majority of Forum participants favor revising NAFTA. Most believe that the US and Mexico can work together to jointly satisfy their respective trade goals.

Support for amending NAFTA doesn’t diminish challenges surrounding NAFTA.

- A leading diplomat stated that the benefits of NAFTA were over-promised.
- In addition, China’s joining the WTO in the early 2000s took some wind out of NAFTA’s sails.
- Over the past decade, NAFTA has rarely been discussed, and the benefits haven’t been communicated or sold. As one participant with deep involvement in NAFTA said, “Instead of explaining how things were progressing, we stopped talking about it.”
- When NAFTA is discussed, proponents present an unemotional set of facts and statistics.
- In contrast, skeptics and opponents present a compelling, emotional narrative with a human face that shows lost jobs. Supporters need to do a better job of finding and telling stories that convey, at an emotional level, how NAFTA has benefitted people and communities.

“Any effort to eliminate NAFTA as a regional agreement goes against the trend [of trade in regions].”

Because of the benefits of NAFTA, the majority of participants want NAFTA to be sustained. Only 4% of Forum participants believe Mexico should walk away from NAFTA, with 67% wanting Mexico to stay in NAFTA; 29% were unsure.

“How successful has NAFTA been for Mexico?”

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<th>A. Unsuccessful</th>
<th>B. Limited success</th>
<th>C. Average</th>
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Supporters of NAFTA cited a wealth of positive data that rarely grabs headlines. Positive results include growth in jobs and trade, expedited border crossing, improved collaborative processes for checking cargo and reviewing shipments, and security benefits which come from closer trading relationships.

The success of NAFTA is consistent with the overall global trend of trading within regions. A trade expert said more than 50% of global trade takes place within individual regions. Business leaders described viewing Mexico and the United States as parts of the same supply chain and as “production partners.” A Mexican baked good producer sources grain in the US and then ships it across the globe for local production. A Mexican spirits company produces beverages in Mexico and ships them to the US for packaging and bottling, using American bottles, cardboard containers, and packaging capabilities. Today, among goods shipped from Mexico to the US, 40% of the content of these goods come from the United States. Companies have truly regional supply networks—made possible by NAFTA—which benefit employees, consumers, and companies.

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Should Mexico walk away from NAFTA?

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“We have to do better at finding people or communities that have been revitalized by trade that have retained or increased jobs.”
However, experienced US political veterans say it is important to recognize that Trump’s election did not occur in a vacuum; there were underlying factors that made his election possible which must be understood. Among them are:

- **Many in the US feel economically left behind.** The global financial crisis was an enormously impactful event. In the US, 12 million people lost their jobs, 13 million families lost their homes—and the financial industry received a $1 trillion bailout. This fed the notion that there are two sets of rules and that the system is rigged.

- **Many in the US are fed up with immigration policies.** A majority of Americans believe the borders are out of control, are opposed to sanctuary cities, and support immigration reform. The population also supports changes to NAFTA.

As a reality TV star with good intuition about appealing to the public, Trump has created a narrative that taps into the concerns of many. Further, in an era where media outlets increasingly have a distinct point of view, Trump’s attacks on media are getting traction.

A savvy political expert believes the US at the moment is almost like a three-party system. There are the Democrats, which are the weakest they have been in decades; the Republicans, which are extremely conservative; and those enamored with Trump, who is extremely nationalistic. Passing legislation will require coalitions among these groups.

Trump’s rhetoric has created significant concern and near-term economic uncertainty.

President Trump is highly emotional and seemingly irrational (although some think he is smart like a fox), and makes off-the-cuff comments and tweets that produce massive ripples. He has shown a lack of respect for Mexicans, has offended Mexicans, and has damaged trusted relationships built over decades. Political analysts from the United States view Trump as uncoachable, not well read or well traveled, and not knowledgeable about how government works. He is challenging traditional US allies, institutions, and the established world order.

Trump’s rhetoric about trade, Mexico, and immigration has created tremendous uncertainty in Mexico (and in the US). It is not possible to predict what he will say or do, how he will govern, or how his words will be translated into policy.
There is also tremendous uncertainty about the US imposing a border adjustment tax or a value added tax (VAT). One CEO argued that a border adjustment tax is complex and discriminatory; a VAT is non-discriminatory, is simpler, and doesn’t tax exports, but has always been opposed by Republicans. Multiple CEOs see a border adjustment tax as extremely damaging to their business, and termed it as more dangerous than ending NAFTA.

“The border adjustment tax is more frightening than the trade rhetoric.”

Overall, the emotional language, threats of ending NAFTA, and talk of a border adjustment tax are creating tremendous uncertainty in the business community. While some CEOs said their businesses aren’t being impacted, others see the uncertainty as having a major ripple effect over the next few months and are concerned about the long-term ripple effect in two years when Trump’s promises fall short.

“Issues of the past three months are of great concern for all Mexican business people . . . the uncertainty is affecting investment decisions. In the next few months there will be no new projects.”

This begs the question, “What can business leaders do?” Among the responses shared were:

• Don’t take on Trump. He is easily provoked, emotional, defensive, and combative. Publicly taking him on could mean becoming part of the script in his reality show, which is often not desired.

• Take the high road. The idea is to find common ground and elevate the conversation. This is a rational approach for normal times. But these are not normal times, Trump is not a typical leader, and it is not clear that a rational, reasonable approach is most effective. Trump plays parties off one another to fuel confrontation. Intellectually, a reasoned approach makes sense. Practically, the effectiveness of such an approach is unclear.

BOARD MEMBERS AND EXECUTIVES FROM MAJOR AMERICAN AND MULTINATIONAL COMPANIES—INCLUDING IBM, ATT, Honeywell, and others—expressed optimism about Mexico and are continuing to invest. Investment is also coming from Chinese firms and from private equity. The strong dollar makes investments in Mexico even more attractive.

“Real exchange rate depreciation creates big investment opportunities in Mexico.”
Legend in Leadership Award

Daniel Servitje Montull, Chairman & CEO, Grupo Bimbo

Grupo Bimbo, under current CEO Daniel Servitje Montull and his legendary father Lorenzo Montull—who recently passed away at age 98—was described as, “What Mexican companies aspire to be.” Founded with 4 products, 38 people, and 10 vehicles, Grupo Bimbo is now the world’s largest bakery, with 130,000 people and 171 plants in 22 countries on 3 continents.

Grupo Bimbo’s success is attributed to the values, beliefs, and culture instilled by Lorenzo and sustained by Daniel. The Montulls have created a company that cares for and values its employees. Daniel is responsible for globalizing Grupo Bimbo, while retaining the culture and values. About 70% of the company’s revenue now comes from outside of Mexico. Daniel leads with a mission and passion, is always focused on the future, and has built a company that is both highly efficient and profoundly human.

In addition, Daniel and his father have been passionate advocates for Mexico.

In receiving this award, Daniel recognized the tremendous example set by his father, stressed the importance of the company’s people-focused culture, and stated that while business leaders do nothing themselves, everything is a result of the collective work of a company’s people.