



- Portfolio companies committed to earthquake relief
- Reasonable expectations on outcomes of NAFTA renegotiation

## LIMITED EARTHQUAKE IMPACT

During the past month Mexico was subject to two earthquakes with five affected states (Mexico City, Puebla, Morelos, Oaxaca and Chiapas). Like most natural disasters, these earthquakes came with lethal consequences. Unfortunately, more than three hundred lives were tragically lost. Not only do these natural disasters bring human losses, but also economic ones. According to the latest BBVA Research report, property losses account for approximately \$2.5 billion dollars, 0.3% of GDP.

Given the fact that these events are very recent, right now we can see the most palpable effects in the destruction of infrastructure and a negative impact on economic activity in the affected areas. Despite these, the fact is that after every natural disaster there is subsequent reinvestment. In this case, the economy is likely to rebound early next year with an expected boost to construction activity. In Mexico, the construction sector represents 7% of GDP. Reconstruction, higher public and private spending due to donations, claim of insured losses, and use of the government emergency fund for natural disasters (FONDEN) will help accomplish the recovery. It is also important to mention the solidarity that has been lived in the country during these disasters; civil society and the government have supported the reconstruction of the country through different means.

## PORTFOLIO COMPANIES RESPONSE

Given these unfortunate events, our portfolio companies have undertaken relief efforts that are beneficial not only to employees, but also to victims at large. Thankfully, there were no personal losses to any employee of the portfolio companies.

As to material losses, **Hoteles City Express** had minimal damages in four hotels in different cities, which were immediately repaired. City Express is still conducting a census to verify the damages to employees' assets. Since the last earthquake, City Express has helped victims and rescuers with supplies and free accommodation and decided to extend help especially to Jojutla, a town in Puebla, where a site to develop a rural school is being analyzed.

**Medix** also had minimal damages. In terms of employees, the company has put into action its Disaster Contingency

Fund to help ten cases that have so far been submitted. Medix is also making an internal campaign to invite all employees to donate to the cause: for each peso donated, Medix will contribute the same amount. A special committee will distribute the money raised.

**KUA Mex Foods** had some cases of damaged assets of employees, from which less than fifteen are severe. KUA is offering economic support through coupons for buying necessary tools and materials to repair damages. These coupons are valid in a specific store, which opened its doors for free just after the earthquake of September 19<sup>th</sup>. Regarding the more severe cases, these will receive not only coupons but also some cash.

**Bodesa** does not have presence in any of the affected states. Nevertheless, the company is helping with supplies and merchandise donations.

## NAFTA RENEGOTIATION

Since 1992 NAFTA has positively impacted the economies of the three countries in the agreement; therefore the economic rationality is that it must be renegotiated keeping trade dynamics at the same pace of the last 25 years. Information after the end of the third and fourth rounds indicates that negotiations are progressing and a few agreements have been reached, but there still are serious controversial issues to be resolved.

Most analysts deem as unreasonable the United States' claim that the new NAFTA must eliminate its trade deficit with Mexico, but a cancellation scenario is not out of the question. However, WTO rules would kick in, so that the negative impact would mostly hit the auto industry and the agro sectors both in Mexico and the US. Talks are now in recess as trade groups mobilize for more influence; negotiations will run into 2018.

It is in the self-interest of the three countries to renegotiate, allowing NAFTA to adjust and strengthen the largest trading block in the world; however, although a cancellation would hurt Mexico the most, it would not lose all trade gains.

Most trade groups in the US and also many state legislators are pushing the Trump government to maintain a reasonable stance. In sum, the hope is that NAFTA is renegotiated, but the Mexican economy can certainly navigate without it.

