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Impact of Trump and Brexit on International trade and investment trends

IEDC Webinar

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New World Disorder

- US withdrawal from TPP and T-TIP trade negotiations
- UK Brexit vote belies deep unease (across EU) with the forces of globalization, and French and German elections looming
- US immigration controls and continued threat of IS globally
- Restrictions on free movement of people across Europe will inhibit the competitive advantage that migrant labor has brought
- Seismic shifts in the economic world order, especially in capital and financial markets with corrections in the form and flow of FDI
- Changing societal and political attitudes to corporate tax avoidance and mitigation and scapegoating of MNCs



- The role of cities and regions and strategic sites in the increasingly diversified and specialist FDI landscape
- Attitudes of the 'Millennial' generation towards how and where they want to work, and how such talent can be harnessed to attract FDI
- Global corporations and (FDI) brands are increasingly being rejected by millennial consumers in favour of local, authentic and craft businesses
- Digital technology is transforming how healthcare, banking, education and retail services are accessed. Location is less of an issue
- Emerging new hybrid 'sectors' and industries such as fintech, connected health and functional food



US FDI Trends Pre and Post Donald Trump's Election

Trump's election on FDI: positive on Inward / negative on Outward



Inward FDI

	Pre-Trump*	Post-Trump*	Δ
<u>Projects</u>	545	645	+18%
<u>Capex</u>	14,682	20,957	+43%
<u>Jobs</u>	42,683	54,871	+29%
<u>Companies</u>	486	570	+17%

Outward FDI

	Pre-Trump*	Post-Trump*	Δ
<u>Projects</u>	1,218	883	-28%
<u>Capex</u>	49,056	38,038	-22%
<u>Jobs</u>	162,313	107,482	-34%
<u>Companies</u>	854	602	-30%

Share**		Pre-Trump*	Post-Trump*	
	New	75%	69%	
	Expansion	23%	29%	
	Colocation	2%	2%	

Share**		Pre-Trump*	Post-Trump*	
	New	76%	72%	
	Expansion	21%	26%	
	Colocation	2%	2%	

* Pre-Trump election: Nov 2015 – March 2016 / Post-Trump election: Nov 2016 – March 2017 ** based on number of projects

Source: fDi Markets (Financial Times), May 2017

Key sectors continue to attract FDI, however internationalization of most key US sectors on halt



Inward FDI



1 - Software & IT Services



+19%

2 - Business Services



+28%

3 - Industrial Machinery 4 - Automotive Components



+44%



+23%

5 - Food, Drink & Tobacco



+100%

6 - Communications



-7%

7 - Financial Services



-43%

8 - Plastics



+4%

1 - Software & IT Services



-35%

2 - Business Services



-33%

3 - Communications



-41%

4 - Food, Drink & Tobacco



+18%

5 - Consumer Products



+39%

6 - Industrial Machinery



-42%

7 - Financial Services



-7%

8 - Transportation



-25%

Outward FDI



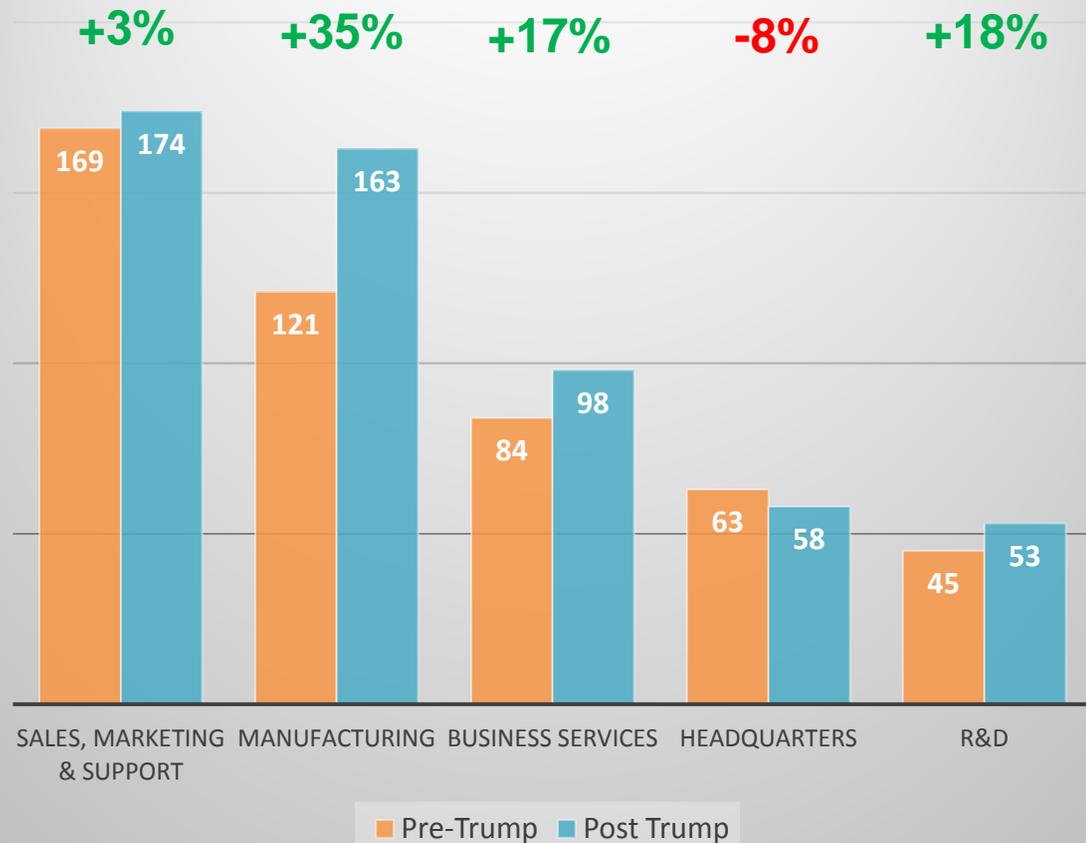
Based on number of projects

Source: fDi Markets (Financial Times), May 2017

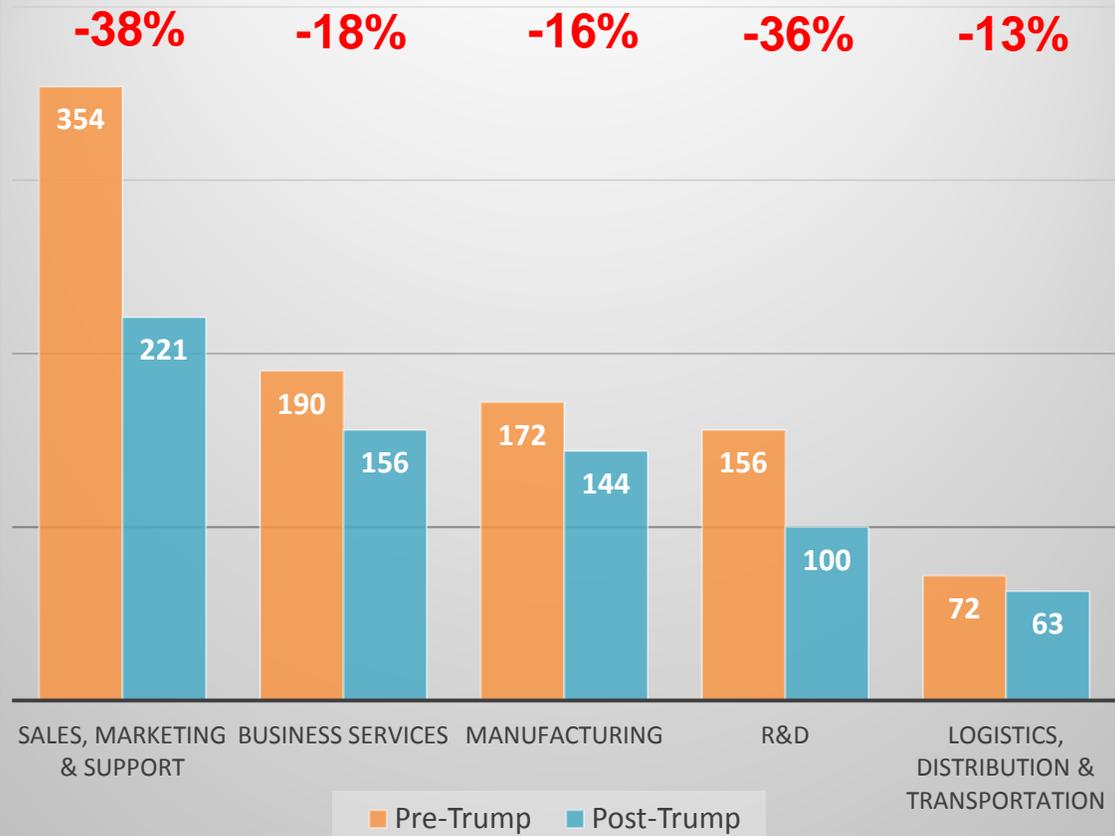
Manufacturing activities thriving in the US / Outward FDI declining across all major activities



Inward number of projects Pre and Post Trump, by activities



Outward number of projects Pre and Post Trump, by activities



Source: fDi Markets (Financial Times), May 2017

Automotive – Toyota, BMW, Fiat Chrysler, Ford



- In January 2017, **Toyota** announced that it will invest US \$10 billion in the US over the next five years.
- The investment includes a new headquarters in Texas and upgrades to existing US car plants.
- The firm's North America chief executive, Jim Lentz, announced the decision at the Detroit motor show.
- He said it had nothing to do with President-elect Donald Trump's hostility to imported cars, but was part of its existing strategy.



Donald J. Trump
@realDonaldTrump



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Toyota Motor said will build a new plant in Baja, Mexico, to build Corolla cars for U.S. NO WAY! Build plant in U.S. or pay big border tax.



- In January 2017, **Fiat Chrysler** Automobiles announced a \$1bn plan to produce three Jeep models in the US.
- FCA will also move the production of a Ram pickup truck from Mexico to the US.



- **BMW** told BBC its “absolute” commitment to spend \$1bn on a plant in Mexico to sale across North America.
- In addition, the company was investing \$1bn in its plant in South Carolina.

“Yes we are building a plant in Mexico. Yes we built a plant in Brazil last year. Yes we are building plants in other parts of the world as our capacity increases. But that's part of a normal strategic manufacturing direction”

Ian Robertson - BMW sales and marketing director



- **Ford** cancelled a \$1.6bn plan to build a plant in Mexico and instead decided to expand operations in Michigan



Manufacturing – Carrier’s case



- The deal brokered by President Donald Trump to stem job losses at a Carrier Corp. factory in Indianapolis is unusual for the state of Indiana as it offers \$7 million of incentives to a company still planning to cut about a third of its some 1,600 jobs.

“Donald Trump picks up the phone on Nov. 15 and makes a phone call and reminds the CEO of United Technologies that 10% of their revenues come from the federal government, which could all change on Jan. 21”

Jim Schellinger - Indiana Secretary of Commerce



- Carrier, in a Nov. 30 statement, attributed its decision to the Trump administration's "commitment to support the business community and create an improved, more competitive U.S. business climate." The company said this past week that the state incentives were an important consideration, but didn't respond to questions about the possible loss of federal contracts



UK FDI Trends Pre and Post Brexit Referendum

Brexit's impact on FDI: negative on Inward and Outward



Inward FDI

	Pre-Brexit	Post-Brexit	Δ
<u>Projects</u>	892	717	-20%
<u>Capex</u>	49,126	26,665	-46%
<u>Jobs</u>	58,505	51,140	-13%
<u>Companies</u>	779	618	-21%

Outward FDI

	Pre-Brexit	Post-Brexit	Δ
<u>Projects</u>	955	840	-12%
<u>Capex</u>	28,813	27,835	-3%
<u>Jobs</u>	84,703	72,144	-15%
<u>Companies</u>	694	618	-11%

Share**	Pre-Brexit	Post-Brexit	Δ
New	68%	64%	
Expansion	29%	33%	
Colocation	3%	3%	

Share**	Pre-Brexit	Post-Brexit	Δ
New	84%	78%	
Expansion	15%	21%	
Colocation	2%	2%	

* Pre-Brexit referendum: June 2015 – March 2016 / Post-Brexit referendum: June 2016 – March 2017 ** based on number of projects

Source: fDi Markets (Financial Times), May 2017

Few UK key sectors resilient to the Brexit referendum



Inward FDI



1 – Software & IT Services



-25%

2 – Business Services



-7%

3 – Financial Services



-24%

4 – Transportation



+45%

5 – Communications



-17%

6 – Real Estate



-8%

7 – Food, Drink & Tobacco



+17%

8 – Consumer Products



-14%



Outward FDI

1 - Business Services



-10%

2 - Software & IT Services



-3%

3 - Financial Services



-35%

4 - Communications



+9%

5 – Real Estate



+32%

6 - Industrial Machinery



-18%

7 – Transportation



-39%

8 - Food, Drink & Tobacco



+19%

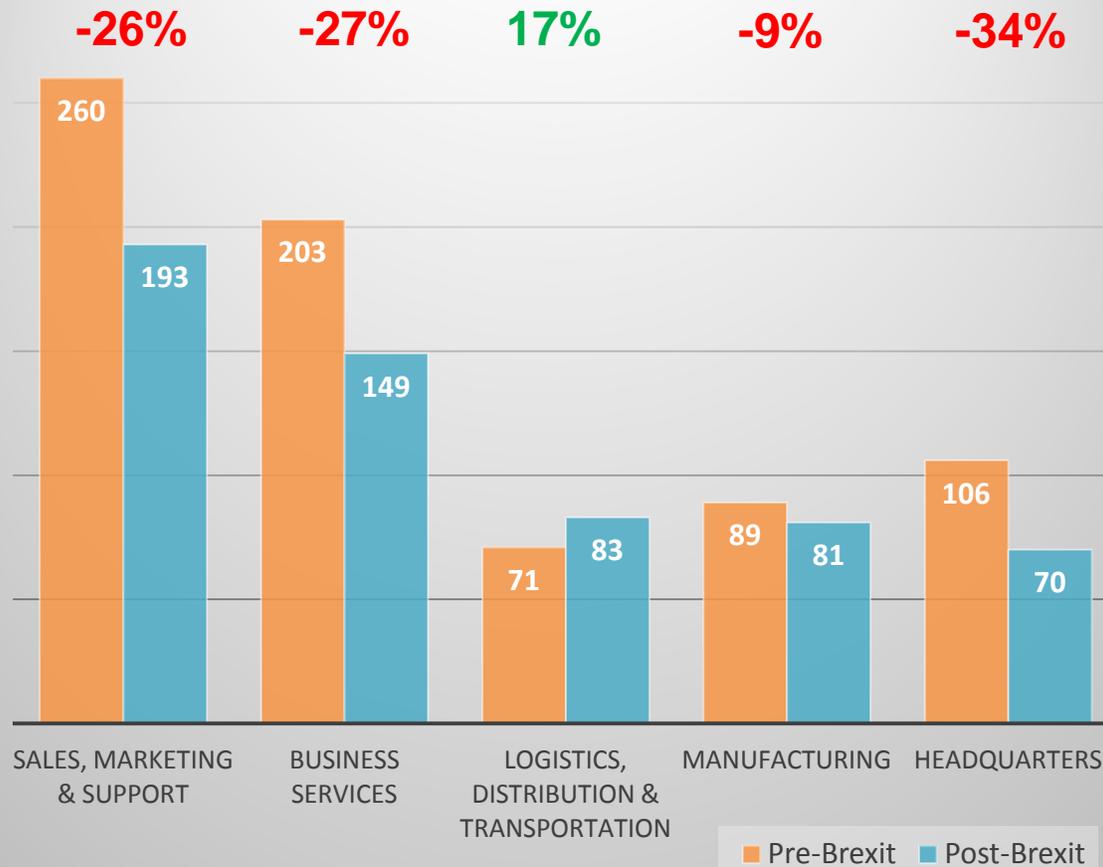
Based on number of projects

Source: fDi Markets (Financial Times), May 2017

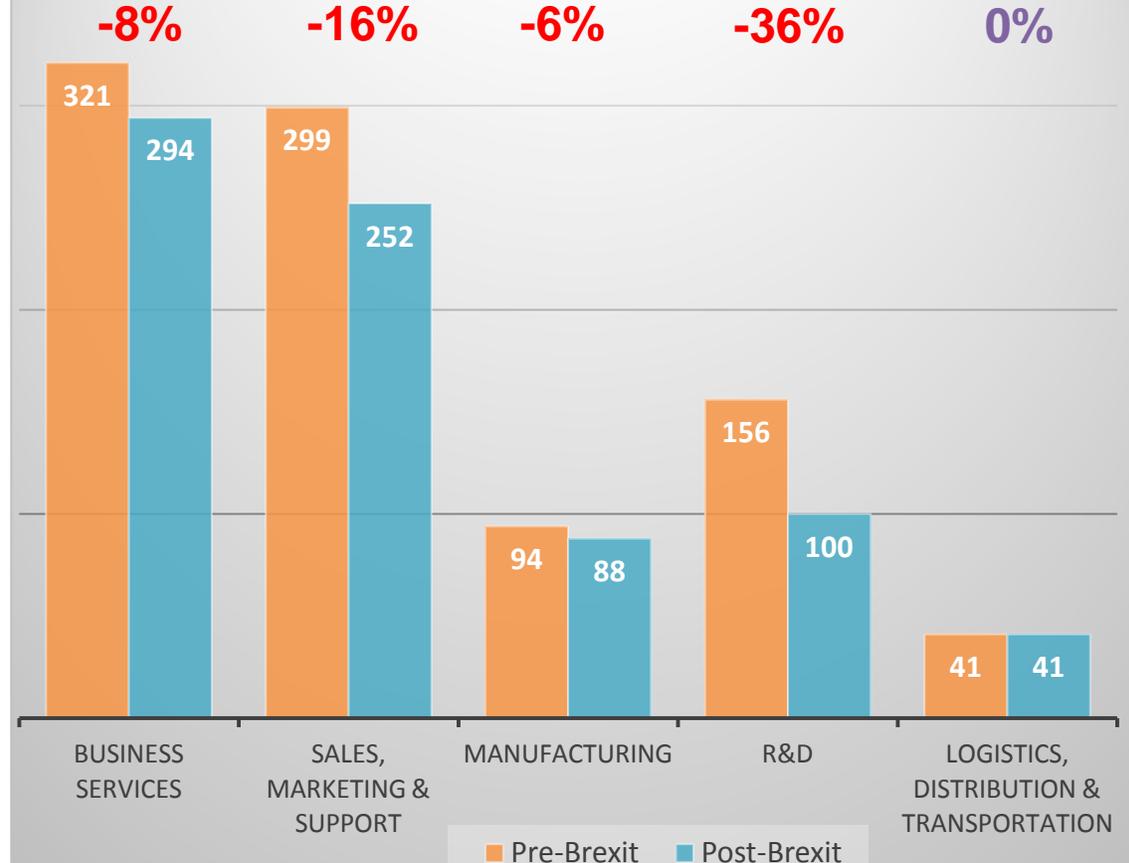
Sharp decline of HQ projects into the UK / No major outward flows (yet?) across major activities



Inward number of projects Pre and Post Brexit, by activities



Outward number of projects Pre and Post Brexit, by activities



Source: fDi Markets (Financial Times), May 2017

- Goldman Sachs, which employs 6,500 people in the UK, announced that it has "contingency plans" to move people depending on the outcome of the negotiations.

"what we are really looking for at this moment, the finest point we can make, is a long enough implementation period so we can begin the process of adjustment after we know what we are adjusting to."

Chairman & CEO of Goldman Sachs



Goldman Sachs

- The major concern for banks operating in the UK is loss of their banking passport. If no longer available to British-based firms, then some operations would clearly have to shift to a location inside the EEA.
- Favoured locations are Paris, Frankfurt, Brussels
- All major banks in the UK have announced the possibility of move part of their staff in the EU, including:
- HSBC's chief executive, Stuart Gulliver, told Bloomberg he was preparing to move 1,000 staff from London to Paris.
- Axel Weber, boss of Swiss bank UBS, told the BBC "about 1,000" of its 5,000 London jobs could be hit by Brexit.

HSBC

UBS

J.P.Morgan

Morgan Stanley



LLOYDS BANK

Automotive - the Nissan case



- Car manufacturing in the north-east and in other parts of the UK has been highly successful over the past decade due to heavy investment by a series of mainly foreign companies including Japan's Toyota, India's Tata (Jaguar Land Rover) and Germany's BMW (Mini). But there are fears that many of these firms, such as Nissan, could retreat if access to the EU is in any way restricted.
- Nissan employs 6,700 car workers at its plant in Sunderland.
- New car sales figures showed previous strong growth had come to an abrupt halt in July amid uncertainty after the EU referendum.

“If I need to make an investment in the next few months and I can't wait until the end of Brexit, then I have to make a deal with the UK government. If there are tax barriers being established on cars, you have to have a commitment for carmakers who export to Europe that there is some kind of compensation.”

“I don't think today you can talk about any impact before we see what is the new status of the UK.

Sunderland is a plant which is a European plant based in the UK, (...) most of the production out of Sunderland is exported to Europe (80%). So obviously for us the relationship which is going to prevail between the UK and Europe is very important ...

So you're going to see a period where most companies are going to be waiting to see what's going to be the new status.”

Carlos Ghosn - Chairman and CEO of Renault and the Renault-Nissan Alliance



Automotive - the Toyota case

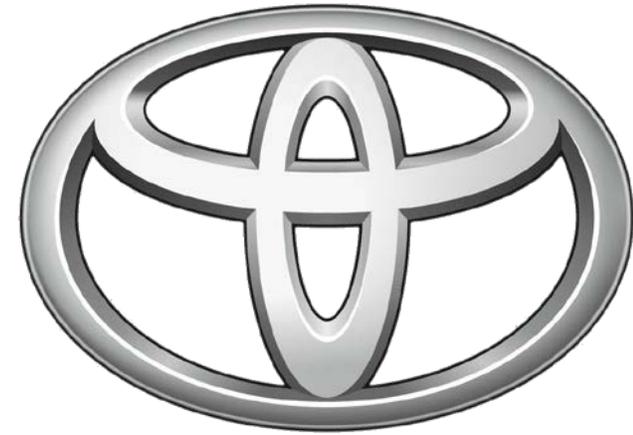
- Toyota announced in March 2017 that it will invest £240m in its UK plant at Burnaston (expansion).
- The factory employs about 2,500 people and produces around 180,000 a year (2016 figure).
- However, in the current uncertain context, the chief executive of Toyota Motor Europe warned:

"Continued tariff-and-barrier free market access between the UK and Europe that is predictable and uncomplicated will be vital for future success."

Johan van Zyl - Chief executive of Toyota Motor Europe



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TOYOTA

What are the opportunities

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- There will be post austerity government led construction stimulus in US and UK
- Many international firms are mobilising on US localisation strategies to mitigate 'Buy American' and visa restrictions
- There is uncertainty about Trump policy pledges future trade agreements- clients need to factor in these risks
- US investors are also cautious on major offshore investment decisions and intra US investment is rising
- OCO are supporting numerous trade and investment initiatives into US for UK companies and many of these will be attractive to IEDC communities and need help.
- OCO are expanding in Lat Am and the Gulf in response to demand from our clients





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How should we all respond?

How should EDOs respond?

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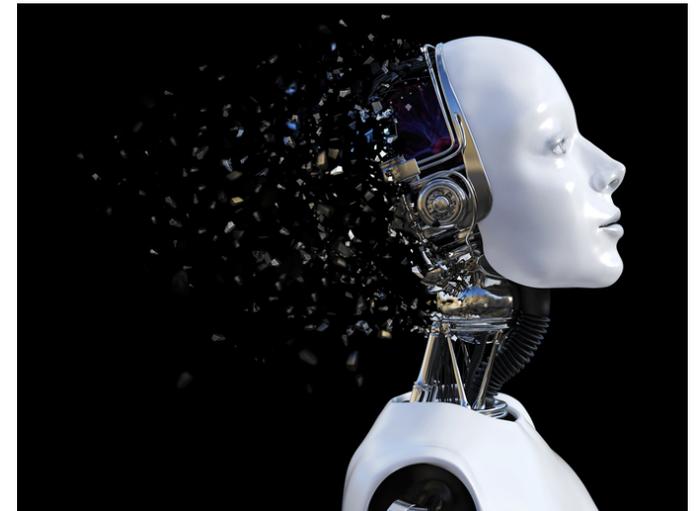
- Economic development will migrate to digital platforms where investors and exporters can transact
- EDOs must differentiate their services and innovate in order to stay relevant and amplify their reach and impact through partnerships



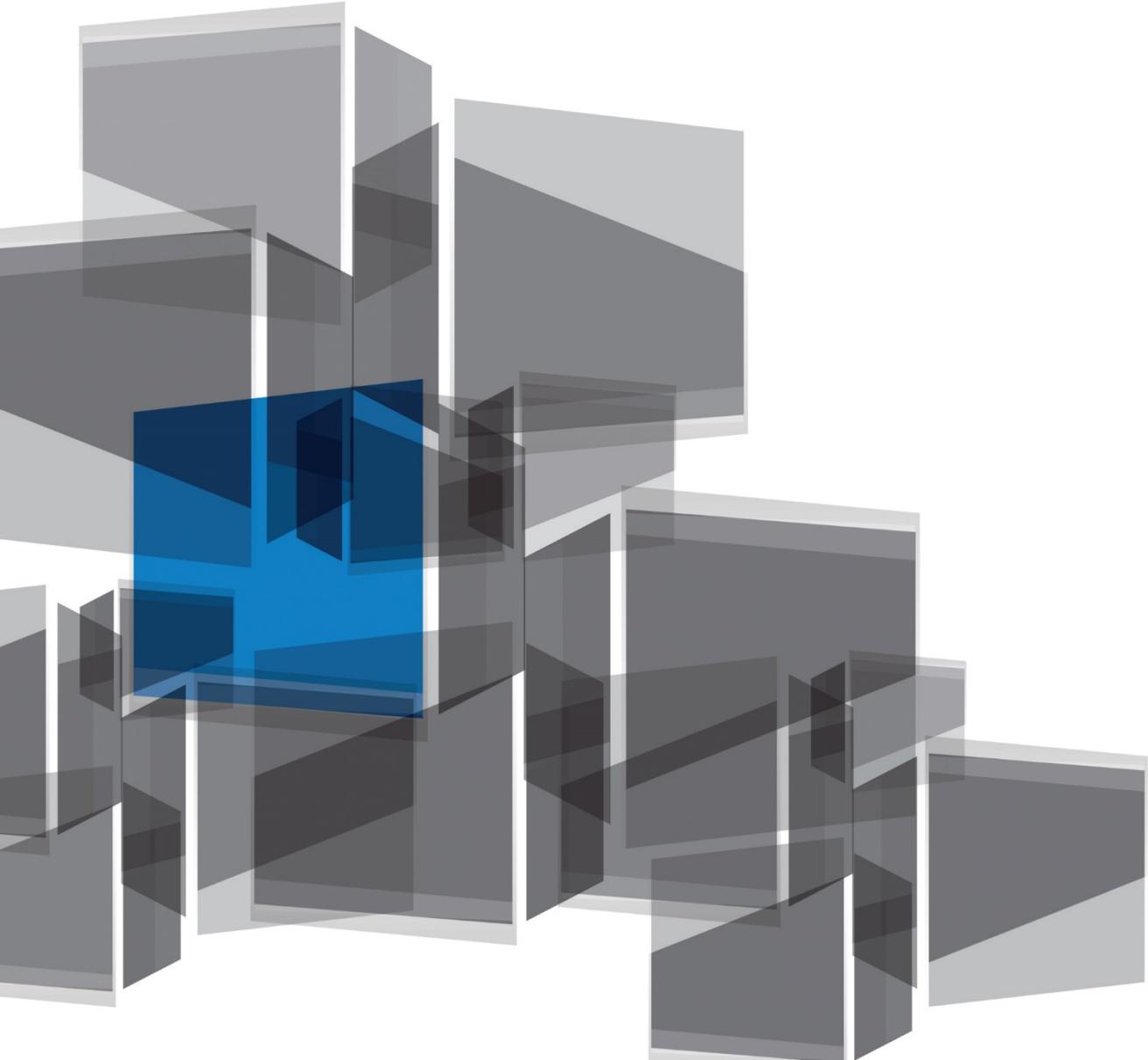
How is OCO responding?

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- Building our own Bot: we will continue to invest in AI and machine learning through our Velociti platform to find patterns and opportunities for trade and investment
- We have just acquired a business in Dubai to extend our reach and capability in this region which is firmly established as a East West gateway and offers rich seams of untapped trade and investment opportunities
- We see a gap in the space where government support stops and the private sector engages in supporting fledging exporters which we aim to fill with enhanced trade services
- We are working with corporate finance, legal and tax partner firms to fill gaps in market entry support and develop a one stop shop for new SME investors
- With a number of our most progressive clients like JobsOhio and the Department for International Trade we are further refining the public-private partnership model to deliver greater economic impacts
- We are building internal capability and have extended our offer to include marketing services particularly in digital which is a targeted and highly cost effective way to engage with decision makers on trade and investment



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