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Ashton P. Kripalani

Bucknell University, apk009@bucknell.edu

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Ford's Venture in Mexico

Culminating Project

Ashton Kripalani

Professor Chen

Global Manager Abroad

Spring 2017

Section I: Project Idea and Motivation

The Global Management major at Bucknell University suits my interests very well – I have always been fascinated by businesses and the operations they decide to pursue outside of their home-base countries. What prompted the company to expand abroad? How did the organization select which locations to target its efforts? What are going to be the short-term/long-term and positive/negative consequences of this decision for both the company and the countries it is consulting? These are just a few of the numerous questions that come to mind upon discovering that a business has adopted the decision to engage in activity foreign to its country of origin. More specifically, the automotive industry is a market that almost always leverages the opportunity to expand internationally, with the goal of capitalizing on global trends, consumer behavior, and overall, maximizing profit. When presented with this culminating project, one organization immediately came to my mind: Ford Motor Company.

Ford Motor Company is an American multinational automaker headquartered in Dearborn, Michigan, a suburb just outside of Detroit. In 1903, Henry Ford, accompanied by some prospective stakeholders, signed the required paperwork that made Ford Motor Company an official new corporation.¹ During its early years, the company only produced just a few cars a day at its factory in Detroit. However, within a decade, Ford would grow to become a leader in the expansion and refinement of the assembly line concept, bringing production in-house with vertical integration.²

Ford began its international expansion beyond United States borders almost as soon as it started building cars. In March of 1904, Ford set up a sales agency in London's Long Acre

¹ "Ford Motor Company incorporated." *History.com*. A&E Television Networks, n.d. Web. 15 Feb. 2017.

² *Ibid.*

District. With persistence, the company was able to sell a dozen of its cars in one year.³ Individuals from other countries observed this occurrence and developed faith in the new car manufacturer. From then on, Ford's presence started to permeate societies all over the world. The company first started in Canada, but later, it made its way Asia, Europe, and eventually, it spread rapidly over essentially all oceans and continents, bringing a new era of the automobile everywhere.⁴ As the automaker expanded globally, it had to deal with the complexity of managing an international enterprise. Ford had to start taking into consideration cultural adaptation, such as customizing its products to accommodate local tastes. In addition, it had to determine the best ways to enter foreign markets, such as through partnerships with local manufacturers, sometimes in order to meet a government's protectionist policies.⁵ Although Ford occasionally would lose money in its overseas ventures, other times, it would generate enough profit to sustain the company's lifespan when U.S. operations were lacking. Today, operating in almost every continent around the globe, Ford is the second-largest United States-based automaker and the fifth largest in the world.

In early 2016, Ford released to the public that it was planning on investing \$1.6 billion in order to construct a new manufacturing plant in the north-central Mexican state of San Luis Potosi. The plant was to specialize in the production of compact cars. This investment would have created more than 2,800 jobs in Mexico by the year 2020, as the automaker expected to be producing cars by 2018.⁶ This situation is being conveyed in past tense because, nevertheless, in January 2017, Ford made an announcement stating that it has decided to withdraw from building

³ Treece, James B. "Ford's global expansion ensured a long life." *Automotive News*. N.p., 16 June 2003. Web. 15 Feb. 2017.

⁴ Ibid.

⁵ Ibid.

⁶ Woodall, Bernie, and David Shepardson. "Chided by Trump, Ford Scraps Mexico Factory, Adds Michigan Jobs." *Reuters*. Thomson Reuters, 03 Jan. 2017. Web. 22 Mar. 2017.

the new plant in San Luis Potosi. Instead, the company will move those operations to its current plant in Hermosillo, Mexico and plans on reinvesting \$700 million in its Flat Rock, Michigan factory in order to expand the plant and have it focus on making new electric, hybrid, and autonomous vehicles.⁷ By entertaining this strategy, Ford would be creating 700 additional American jobs versus the 2,800 jobs it would have created in Mexico.

My initial interest to pursue a study of this specific venture stemmed from its very relevance to the current global political climate. Donald Trump had recently been elected president, and it has been very evident through his campaigning and marketing that he does not support creating jobs for non-Americans, or as he would put it, “taking away American jobs.” Trump lashed out at General Motors, one of Ford’s biggest rivals, for its activity in manufacturing cars in Mexico and sending some of them over the border to be sold throughout the U.S. He tweeted at the company, asserting that it should move its production back into the United States or it should pay a hefty border tax.⁸ Very soon after this confrontation, Ford informed the public that it would be dropping the idea of creating a new Mexico plant. Ford’s CEO and public relations team have tried their best to tame the company’s stakeholders and global network by remaining as appropriately vague as possible; however, there are many inferences that can be drawn as to the real reasons for why this drastic decision was suddenly put into effect.

Ford’s withdrawal from the project in Mexico not only influences America’s economy and way of life, but it also has an impact on the countries that would have been associated with the new plant. In addition to this venture being heavily influenced by political factors, it also has rich implications on society, culture, and economics in the United States and around the world. I

⁷ Woodall, Bernie, and David Shepardson. "Chided by Trump, Ford Scraps Mexico Factory, Adds Michigan Jobs." *Reuters*. Thomson Reuters, 03 Jan. 2017. Web. 22 Mar. 2017.

⁸ *Ibid.*

would like to explore this topic further in order to analyze and illuminate the true significance and outcomes of Ford's decision to back away from this undertaking.

Section II: Contextual Information and Venture Rationale

A very important question emerges before diving into the various implications that are associated with Ford's initial idea and later withdrawal from creating a new plant in Mexico: why did the company choose this country in the first place? The reasons are relatively basic, but do make a lot of sense. After a record year of car sales in the United States in 2015, the economy has been showing signs of a slowdown for this industry (see Figure 1 for 2015–2017 U.S. car sales).⁹ In particular, small cars have not been selling very well, and Ford has been looking for new places to manufacture its Ford Focus – a compact car. Furthermore, U.S. car workers make an average of around \$28 dollars per hour, whereas in Mexico, car workers are paid a much smaller wage of around \$5.50 per hour on average.¹⁰ Therefore, it made logical sense, both economically and financially, to move its Focus operations to Mexico.

Nevertheless, the current U.S. political climate ended up causing a major shift in Ford's plans. During his election campaigning, Donald Trump created the now (unfortunately) iconic motto "Make America Great Again." In essence, this phrase stood for the fact that, assuming America was once great at some point, when elected president, Trump would boost the U.S.'s economy, bring back many more jobs for Americans, and restore our country to its former glory. Well, according to this plan of his, it does not involve American-based corporations conducting operations outside of their home country – which is a major problem for global companies headquartered in the U.S. Since winning the election on November 8th, Trump has targeted a

⁹ *The Wall Street Journal*. Dow Jones & Company, n.d. Web. 24 Apr. 2017.

¹⁰ Ford CEO Mark Fields Said the Investment Is a "vote of Confidence" in the Pro-business Environment Being Created Donald Trump. However. "Ford Cancels Mexico Plant. Will Create 700 U.S. Jobs in 'vote of Confidence' in Trump." *CNNMoney*. Cable News Network, n.d. Web. 22 Mar. 2017.

wide range of U.S. companies, such as United Technologies Inc., Boeing Company, and Lockheed Martin Corporation.¹¹

When referring to the automotive industry, a majority of global automakers, including several headquartered in the United States, have plants located in Mexico, many for the reasons listed above as for why Ford falls into this category (see Figure 2 for the automotive footprint in Mexico).¹² While campaigning, Trump confronted Ford, asserting that if elected, he would forbid the company from opening a new plant in Mexico. In addition to that, he planned on implementing a 35% tariff on imported cars if automakers did not adhere to his decree.¹³ Trump also attacked American automaker GM for conducting operations in Mexico, so that sealed the deal for Ford. At that point, the company announced that it will be dropping the plans to invest \$1.6 billion in the new San Luis Potosi plant, and instead, it will move those operations to its current plant in Hermosillo, Mexico and invest \$700 million in its current Flat Rock, Michigan plant.¹⁴

After informing the public of this hasty decision, Ford's CEO, Mark Fields, received a lot of backlash. In various interviews, Fields did his best to claim that the reasons for why they pulled out of the San Luis Potosi investment did not have much to do with President Trump and his policies. In an interview with CNBC, Fields talked about how he and his team felt as though there has been a decline in demand for small cars. He states, "The bottom line is we're not seeing the volume and the demand that we expected for that plant. And, therefore, we're looking at our capacity and saying, 'You know what, we can build that in an existing facility and use capacity

¹¹ Woodall, Bernie, and David Shepardson. "Chided by Trump, Ford Scraps Mexico Factory, Adds Michigan Jobs." *Reuters*. Thomson Reuters, 03 Jan. 2017. Web. 22 Mar. 2017.

¹² "Automotive Industry in Mexico." *Automotive-Start up Hassle-free Manufacturing Operations in Mexico in Less than 9 Weeks*. N.p., n.d. Web. 25 Apr. 2017.

¹³ *Ibid.*

¹⁴ *Ibid.*

that we already have.”¹⁵ He also talked about how the U.S. auto market has been maturing, so it is in its equilibrium point and is in a good place to continue manufacturing there.

However, from an outsider’s perspective, it is fairly obvious as to why Ford really decided to all of a sudden drop this huge project it had been eyeing for a while – and Fields knew that he could not just completely brush over this factor when speaking to the public. He claimed that in addition to the reasons mentioned above, President Trump’s views and policies were “also considered” when making the decision. Fields says, “Our view is that we see a more positive U.S. manufacturing business environment under President-elect Trump and the pro-growth policies and proposals that he's talking about, so this is a vote of confidence for President-elect Trump and some of the policies that they may be pursuing.”¹⁶

As he probably knows, he is not really fooling anyone – but we understand why he made his decision. President Trump—as all presidents do—is going to have a lot of influence over the U.S. automotive industry, and so Ford simply wants to be on the good side of the new commander-in-chief. Don’t get me wrong; this is a rational political move. However, I thought I would take matters into my own hands and try to find out for myself some more inside information about Ford’s decision to withdraw from the Mexico investment. After reaching out to William Mattiace, an individual in Media Communications at Ford, I was eventually put in contact with Ms. Kelli Felker, who is the Manufacturing and Labor Communications Director, but more importantly, also the spokesperson for Ford. I politely inquired over email about whether she could possibly provide me any further information about Ford’s decision, in which she nicely replied saying, “Thanks so much for your interest in Ford! Unfortunately, we will not

¹⁵ Jr., Berkeley Lovelace. "Ford CEO: Main Reason for Canceling Mexico Plant Was Market Demand, Not Trump." *CNBC*. CNBC, 03 Jan. 2017. Web. 22 Mar. 2017.

¹⁶ Woodall, Bernie, and David Shepardson. "Chided by Trump, Ford Scraps Mexico Factory, Adds Michigan Jobs." *Reuters*. Thomson Reuters, 03 Jan. 2017. Web. 22 Mar. 2017.

be able to help you out with this topic. As I'm sure you know, this is a very sensitive issue." To say the least, I was not at all surprised by this response, but I thought it was worth the try to reach out, anyway. I kindly responded back thanking her for letting me know (it was much nicer than simply ignoring me). This short exchange further solidified how intense this current situation is with Ford, adding to my excitement of conducting this study.

Section III: Data Collection and Analysis Results

Regardless of whether Trump truly backs what he is advertising about reducing international trade, these declarations and sanctions on U.S. automakers has added to, or simply strengthened, the zeal of his list of blind supporters. The United Automobile Workers (UAW) is an American labor union that represents workers in the United States and Canada, with their primary focus on gaining high wages and pensions and keeping jobs domestic. Needless to say, Trump has garnered a lot of support from the UAW with regard to his goals of stopping jobs from going abroad and renegotiating the North American Free Trade Agreement (NAFTA).¹⁷ Ford workers part of the UAW, along with other employees, gathered at the Flat Rock factory and cheered as Fields made the announcement of the withdrawal. Thrilled, Flat Rock factory worker Chris Romano told CNN, "It's great news. Great for our future here, especially the new hires."¹⁸ Ford will benefit from the UAW's support of this decision—not to mention the benefits of gaining support from our new president—because this will create for less backlash coming from the union, which can be detrimental in many ways when in effect. The hiring of the 700

¹⁷ Ford CEO Mark Fields Said the Investment Is a "vote of Confidence" in the Pro-business Environment Being Created Donald Trump. However. "Ford Cancels Mexico Plant. Will Create 700 U.S. Jobs in 'vote of Confidence' in Trump." *CNNMoney*. Cable News Network, n.d. Web. 22 Mar. 2017.

¹⁸ *Ibid.*

new workers at the Flat Rock plant will most likely begin in 2018, with a majority of it taking place in 2020, according to Fields.¹⁹

Nevertheless, Ford's retraction from this project has had a dramatic, negative impact on the region of the venture, adding to a rough start to 2017 for Mexico. On January 1st (just a couple days before Ford's announcement), gas prices shot up by as much as 20% in some parts of the country, resulting from the government's lifting of long-imposed subsidies.²⁰ In addition, the peso slumped nearly a full percent, and there have been fears that inflation will rise by almost 4% at some point this year.²¹ For the region of San Luis Potosi, the industry is nearly 70% dependent on the auto sector, so it took a major hit when Fields decided to cancel the construction of the new manufacturing plant (see Figure 3 for 2009–2015 exports of vehicles in Mexico).²² According to Julian Eaves, the managing director of a U.S.-owned maker of rubber compounds in the area, the loss to the local economy over the next five years could run into the hundreds of millions of dollars, and maybe even into the billions, as manufacturing, contracting, and indirect jobs all fall short of plans.²³ In just a matter of days, Ford's retreat from the project turned the factory site into a barren plain bereft of its economic promise. "It now looks like a cemetery," said Fernando Rosales, a hydraulic hoses contractor. "(There is) only death here, we are all leaving."²⁴

Local businesses in the region are also suffering from the decision. Shares in Kansas City Southern, one of the main railroad operators in Mexico, have fallen by almost 4% since Ford's

¹⁹ Woodall, Bernie, and David Shepardson. "Chided by Trump, Ford Scraps Mexico Factory, Adds Michigan Jobs." *Reuters*. Thomson Reuters, 03 Jan. 2017. Web. 22 Mar. 2017.

²⁰ Kahn, Carrie. "Canceled Ford Plant Adds To Mexico's Economic Frustrations." *NPR*. NPR, 05 Jan. 2017. Web. 12 Apr. 2017.

²¹ *Ibid*.

²² "ProMéxico: Mapa De Inversión En México - Industry Profile." *MIM*. N.p., n.d. Web. 25 Apr. 2017.

²³ Murray, Christine. "Ford Plant Turns 'cemetery' as Trump Wrenches Mexican Autos." *Reuters*. Thomson Reuters, 06 Jan. 2017. Web. 12 Apr. 2017.

²⁴ *Ibid*.

cancellation. Furthermore, between 40 and 50, mostly foreign-owned, suppliers were ready to come and supply the San Luis Potosi plant. Around 12 to 14 of them have lost a lot of money, as they had already invested in money-buying land and signed contracts with developers in the area.²⁵ The auto sector has been at the heart of the Mexican industrial boom since NAFTA was signed in 1994, which Trump has been threatening to renegotiate in favor of the United States or scrap entirely. "This was going to catapult us," lamented Gustavo Puente, the state economy minister of San Luis Potosi. "It hurts because we're partners in trade, culture, sports, we're partners in everything. It hurts because they—he—is pushing a policy that wants to break those ties."²⁶ What is even more frustrating is that Trump does not realize that tampering with NAFTA can actually harm American automakers more than help them, which would be the opposite of his intentions. According to studies conducted by the Center for Automotive Research, "The withdrawal from NAFTA or the implementation of punitive tariffs could add \$2,000 to \$2,600 to the cost of shipping vehicles into the U.S. and result in the loss of 31,000 U.S. jobs."²⁷

Moreover, it is also necessary to address and analyze the effects of Ford's withdrawal on the organization itself. Shortly after Ford made the announcement, its stock price did not hesitate to react: it jumped over 3%.²⁸ In addition, Ford spokeswoman Jennifer Flake informed that the automaker will be saving approximately \$500 million in the near-term by not opening the new plant in Mexico.²⁹ However, although Ford did experience some positive outcomes of switching

²⁵ Murray, Christine. "Ford Plant Turns 'cemetery' as Trump Wrenches Mexican Autos." *Reuters*. Thomson Reuters, 06 Jan. 2017. Web. 12 Apr. 2017.

²⁶ *Ibid.*

²⁷ Walker, Kristen. "Trump to Sign Executive Order to Renegotiate NAFTA and Intent to Leave TPP." *CNBC*. CNBC, 23 Jan. 2017. Web. 24 Apr. 2017.

²⁸ Ford CEO Mark Fields Said the Investment Is a "vote of Confidence" in the Pro-business Environment Being Created Donald Trump. However. "Ford Cancels Mexico Plant. Will Create 700 U.S. Jobs in 'vote of Confidence' in Trump." *CNNMoney*. Cable News Network, n.d. Web. 22 Mar. 2017.

²⁹ Woodall, Bernie, and David Shepardson. "Chided by Trump, Ford Scraps Mexico Factory, Adds Michigan Jobs." *Reuters*. Thomson Reuters, 03 Jan. 2017. Web. 22 Mar. 2017.

project ideas, negative consequences have also followed. Prior to finding out that Ford will be withdrawing from the project, the San Luis Potosi state government paid an undisclosed portion of the \$47 million that it owed under contract to support the new plant – and Ford is now expected to pay back this sum, in addition to any other costs incurred by the state government associated with the investment.³⁰ Furthermore, the company also has to deal with a bundle of other costs related to retooling the current Hermosillo plant, which will be the new location for building the Focus compact cars, instead. Adding on to skepticism from the media and consumers, since Field's controversial decision, Ford's reputation with Mexico has been tarnished in a certain way, and it is unclear whether these relations will be able to be fixed in the near future. But, paying back the abandoned region its rightful money is a first step at addressing this issue.

In order to better understand the circumstances in which Ford has found itself, it is useful to analyze a parallel situation that another company is shockingly (or maybe not so shockingly) also experiencing in the same part of the world. In 2015, Toyota announced that it is planning on opening a factory in Guanajuato, Mexico, to manufacture—you guessed it—compact cars. More specifically, the Japan-based company wants to pursue production of the Corolla, the world's current best-selling car, in this region. Of course, Trump responded back in outrage, tweeting, "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."³¹ What also does not really come to shock is that Trump got the location wrong – the plans are for the Bajio region, not Baja, and Toyota has already broken ground there for the new factory. The company stressed that the new Mexico

³⁰ Murray, Christine. "Ford Plant Turns 'cemetery' as Trump Wrenches Mexican Autos." *Reuters*. Thomson Reuters, 06 Jan. 2017. Web. 12 Apr. 2017.

³¹ The Automaker Announced Its Plan to Open a Factory in Guanajuato. "Toyota to Trump: Mexico Plant Won't Cause US Job Losses." *CNNMoney*. Cable News Network, 5 Jan. 2017. Web. 12 Apr. 2017.

plant, which will employ 2,000 people, will not cause any job losses for Americans. In a statement, Toyota pointed out that it already has \$22 billion invested in the U.S., which includes 10 manufacturing plants and 1,500 dealerships that employ a total of 136,000 workers.³² All of the Corollas that are currently sold in America are made at plants in Ontario, Canada, or Mississippi.³³ Once Corolla production begins in Mexico, Toyota plans to have its Ontario plant shift to producing more expensive, mid-sized cars. Furthermore, the automaker has asserted that the cars built in Mexico are primarily intended for other markets, although some may be sold in the U.S. Overall, Toyota stood its ground against Trump's attacks; the Guanajuato factory will start production in 2019, making completely redesigned Corollas that will be very different from the ones on sale now.³⁴

Section IV: Recommendations and Conclusions

It is safe to say that Ford's decision to withdraw from its San Luis Potosi venture certainly did not go unnoticed amongst the media, the company's stakeholders, and international workers and consumers, in general. Nevertheless, despite Trump and all of his pro-American policies that global automakers have been grappling with since his rise to power, Ford is *still* moving forward with certain operations in Mexico. As previously discussed, after the company decided to scrap the \$1.6 billion investment, it announced that it will be moving the Focus operations to its Hermosillo plant. Trump is okay with this because even though the cars will still be manufactured in Mexico, it still was a big "win" for him when Ford agreed to abandon the San Luis Potosi project. However, in February 2017, Ford made the official announcement that in addition to Hermosillo, the company will be moving forward with its plans to expand two

³² The Automaker Announced Its Plan to Open a Factory in Guanajuato. "Toyota to Trump: Mexico Plant Won't Cause US Job Losses." *CNNMoney*. Cable News Network, 5 Jan. 2017. Web. 12 Apr. 2017.

³³ *Ibid.*

³⁴ *Ibid.*

more of its Mexican plants: an engine plant in Chihuahua and a transmission plant in Irapuato.³⁵

These ideas are not new – the plans were actually first announced in 2015. But, it seems a little at odds that Ford is deciding to pursue these investments just shortly after the massive publicity commotion that was the San Luis Potosi plant. The automaker will be spending approximately \$2.5 billion on construction costs, and once the plants are fully up and running, Ford will be creating jobs for around 3,800 workers.³⁶ According to Ford spokesperson Kelli Felker, the two plants are expected to open later this year.

So where does Ford go from here? Is it possible that with these three plants, the company can maybe rehabilitate its image within Mexico? Ford will be creating a significant number of jobs with the Chihuahua and Irapuato investments, and it will also be giving back to the Mexican economy with the extensive construction costs, so that is a start right there. But – what about Trump?

Regardless of personal opinion, Donald Trump is our current president of the United States, and Ford will be operating in Mexico; the automaker needs to work with the commander-in-chief if it hopes to continue being successful. Mark Fields, alongside many other CEOs of major automakers, has met with President Trump to discuss the future plans of U.S. auto production. Considering that Trump is trying to change NAFTA, it would be a good idea for Fields (or any appropriate executive from the company) to schedule more meetings with the president, with the goal of influencing his decision to renegotiate the deal to not completely harm Mexican trade with the U.S. By doing this, Ford will be working in accordance with Trump, while at the same time, benefitting the operations that it has in Mexico.

³⁵ Ford Mexico CEO Gabriel Lopez Said at a Company Event in Mexico City Thursday That It's Going Ahead with Plans to Expand Two of Its Plants -- an Engine Plant in Chihuahua, and A. Transmission Plant in Irapuato. "Despite Trump, Ford Moves Ahead with Plans for Mexico Plants." *CNNMoney*. Cable News Network, n.d. Web. 24 Apr. 2017.

³⁶ *Ibid.*

However, if Trump is not willing to head in that kind of direction and ends up modifying NAFTA to hurt Mexico, then it could be a good idea for Ford to start thinking about expanding its production to other locations. For instance, China could be a worthwhile region for Ford to look into. Trump has already had the U.S. back out of the Trans-Pacific Partnership (TPP) earlier this year, but China was never a part of that deal in the first place. Although the country is significantly farther away from the U.S. than Mexico, China is the world's leading manufacturer of cars, and labor would be certainly be cheap there. Finally, if Trump decides to just discard of NAFTA completely, then it would probably be best for Ford to move toward primarily manufacturing and exporting its cars from within U.S. borders. This could wind up being a pricier option, especially when referring to labor costs, but it would also please our current president and a wide variety of American workers.

The economic, cultural, social, and political climate of the world is constantly changing, and these factors have a dramatic impact on all global economies and the businesses within them. As one of the world's leading automakers, Ford will always need to adapt in order to not only survive, but also thrive. Only the future can tell what will come next.

Section V: Appendix

Figure 1: U.S. Car Sales, 2015–2017

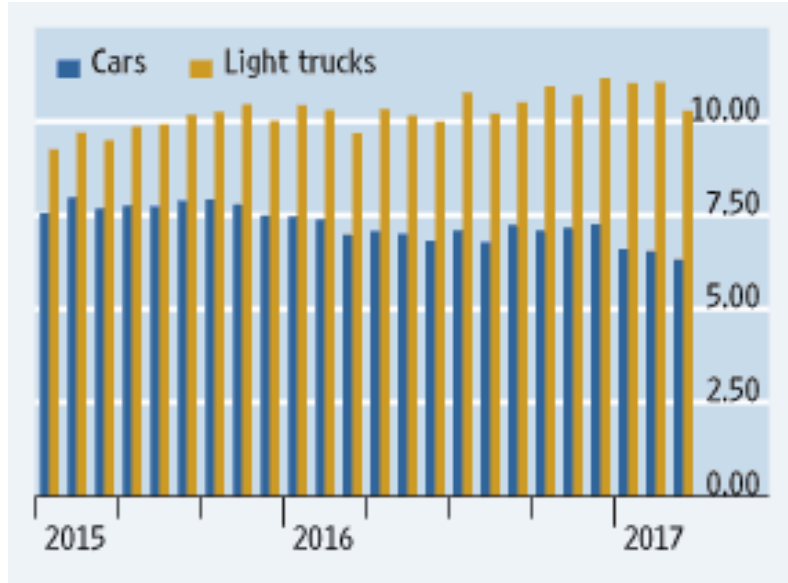
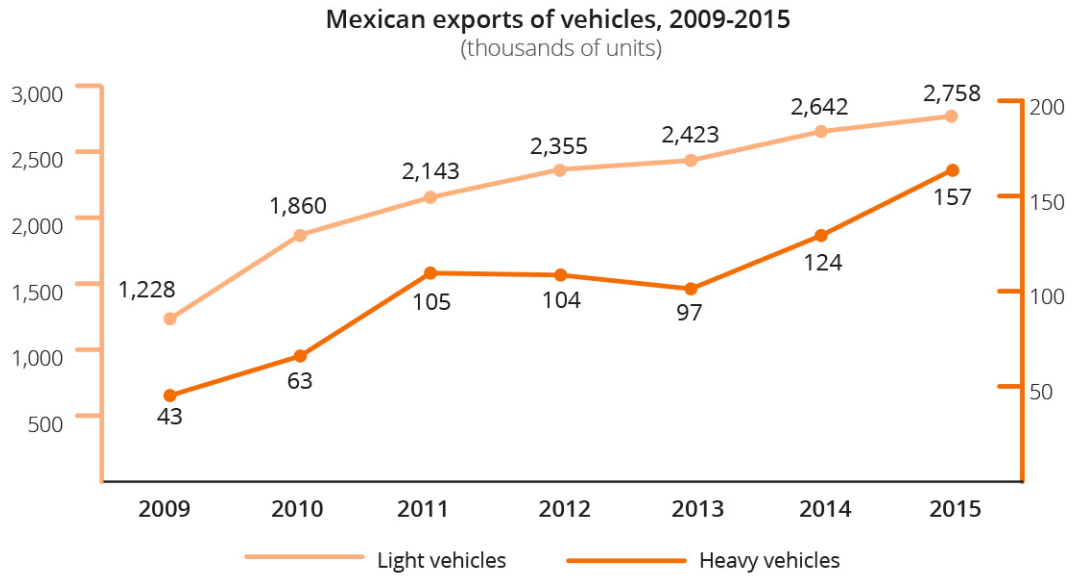


Figure 2: Automotive Footprint in Mexico



Figure 3: Mexican Exports of Vehicles, 2009–2015



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