

# Navigator

Now, next and how for business

Mexico



Together we thrive

# Overview

## A country in the midst of change

With the first left-wing president in its modern democracy, a changing domestic economic policy and a shifting trade environment, Mexico is a country navigating change. While there have been recent cuts to public spending and the cancellation of major infrastructure projects, the higher minimum wage and lowering inflation are bolstering consumer confidence and keeping businesses optimistic about their future<sup>1</sup>.

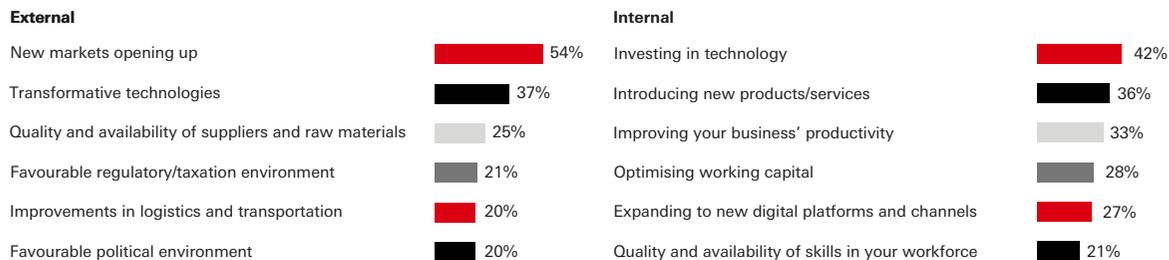
# State of play

## Opportunity from uncertainty

Mexican companies are more positive about their future than the global average, with close to nine in 10 expecting to grow in the next 12 months and nearly a third anticipating very high growth. Globally, 22% of firms are classed as high-growth companies – these are businesses that expect growth of 15% or more in the next year. The number of high-growth companies jumps to 32% in Mexico.

Businesses don't just expect to grow in the next year – they're also foreseeing a lot of change. In Mexico, 66% of companies say their business will change totally or substantially in the next five years, compared to half globally. They're also increasingly aware of their responsibilities to grow sustainably.

### Key contributors to expectations of sales growth over the next year



## What you need to know

- 1 90% of Mexican firms project high levels of growth in the next five years.
- 2 The main drivers of growth are new markets opening up (54%) and investment in technology (42%).
- 3 Businesses are more positive about the outlook for international trade over the next one to two years, compared to the previous two years (93% versus 83%).

## What your business can do



Expand into new markets, which is the top strategy for firms who expect to overcome potential threats.



Look at how your business can increase its use of technology to keep up with the competition. This is a priority for 42% of firms.



Assess your processes for ways to improve quality of products and services and innovation, both strategies that are more important for Mexican firms than globally.

<sup>1</sup> <https://www2.deloitte.com/us/en/insights/economy/americas/mexico-economic-outlook.html>

# Trade outlook

## Mexico values international trade

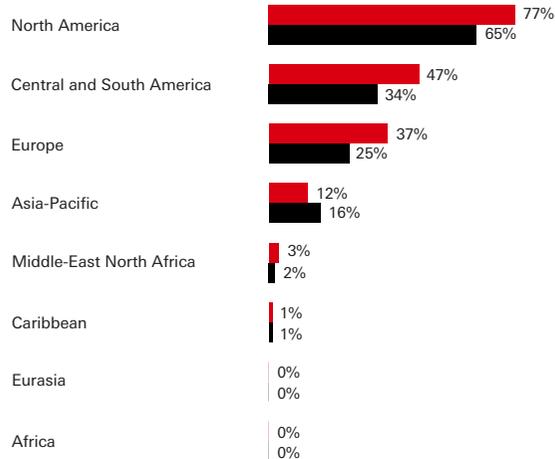
Companies in Mexico strongly believe in the idea of trade as a force for good. To a greater extent than firms across the globe, they feel that doing business worldwide provides new opportunities (Mexico: 90% versus global: 79%), drives innovation (Mexico: 88% versus global: 80%) and supports employment (Mexico: 83% versus global: 73%). The Americas are still a focus for international trade but their importance, along with Europe, is declining.

After the threat of tariffs from across the border, it's no surprise that both Canada and the US have dropped in importance, from 36% and 74% respectively last year to 22% and 64% this year. Within the rest of the Americas, Brazil, Argentina and Colombia have also declined, while Guatemala has more than doubled its share. In Europe, trade with Italy has all but disappeared, (0.4% from 7%), while trade with Russia has begun (0% to 3%).

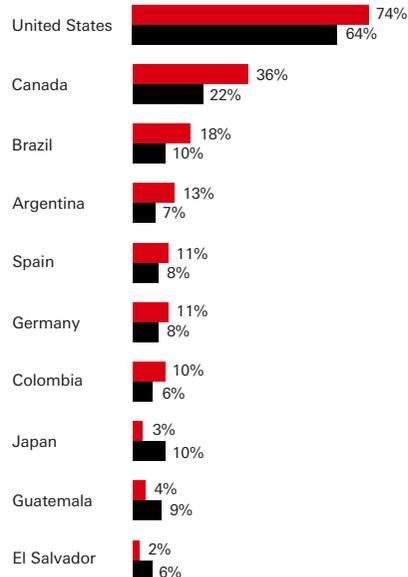
### Current top trading partners

■ Mexico (2018) ■ Mexico (2019)

#### By region



#### Rank by Market (top 10 in 2019)



## What you need to know



Asia-Pacific has increased in importance for Mexican businesses (16% versus 12%).



The proportion of Mexican firms stopping or reducing international trade is lower than globally (48% versus 55%).



Access to suppliers and partners are top reasons to trade in both the Americas and Europe.

## What your business can do



Invest in cybersecurity. Businesses considering withdrawing from Mexico cite cybersecurity risks as their top concern.



Assess previously untapped markets. While Mexico's main trading partners are declining in importance, companies are going to new regions such as Guatemala and Russia.



Search for the right partners to facilitate global trade.

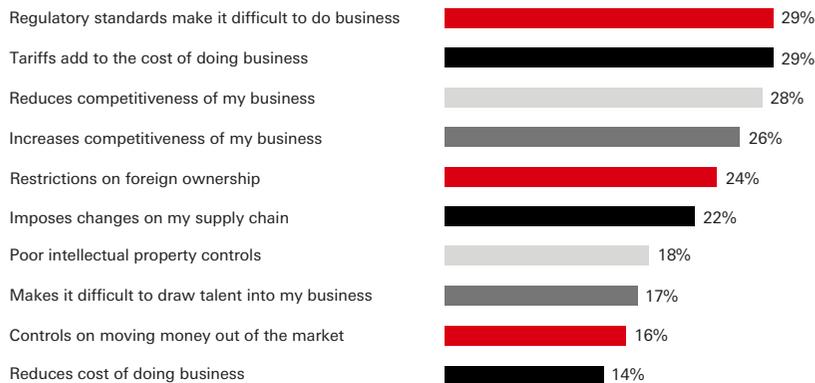
# Protectionism and geopolitics

## Protectionism is a balanced trend

Protectionism is affecting companies across the globe and Mexico is no exception, but the majority of firms believe that they're either gaining more than they lose or breaking even. Just 43% of Mexican companies say they're gaining more than they lose from protectionist policies, which is much lower than the global average of 57%, but most of the rest believe that pros and cons are balanced (37%) rather than losses being larger (14%).

Mexican firms are, however, feeling the adverse effects of geopolitical risk quite strongly. Nearly three-quarters of companies report an impact, compared to 64% globally. Both corporates and the goods sector feel the intensity more severely, with 32% of the former reporting a strong impact and 27% of the latter compared to 17% in the services sector.

### Ways in which businesses feel the impact of protectionism



## What you need to know



The top three negative impacts of protectionism are regulatory standards making it difficult to do business (29%), tariffs adding to the cost of doing business (29%) and reduced competitiveness (28%).



The top positive impact is increased competitiveness, reported by 26% of Mexican firms.



73% of Mexican businesses say they are feeling the impact of geopolitical risks.

## What your business can do



Take more business online as a hedge against geopolitical risk and, similarly, focus on selling through digital channels to counter protectionism.



Cut costs, which is the top strategy in Mexico and many other countries worldwide to reduce the impact of protectionist policies.



Investigate the potential for local partners in global markets.

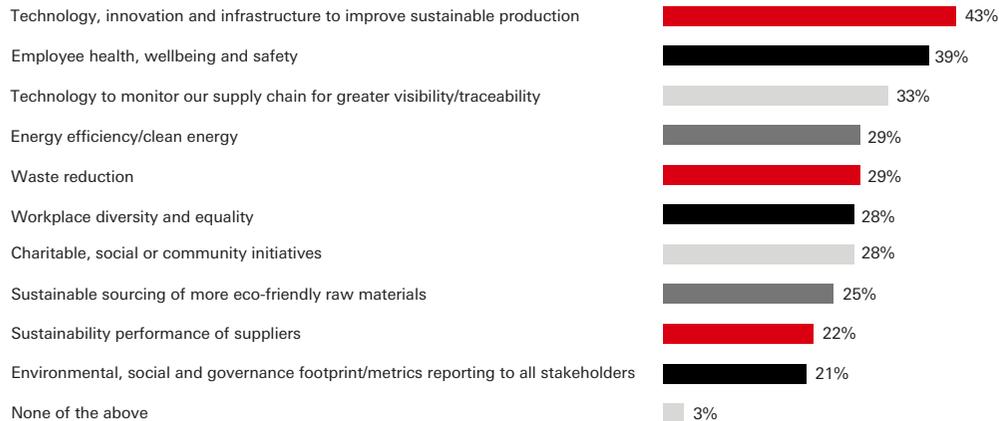
# The sustainable future

## Mexican firms focus on the human side of business

The strong push for a sustainable future in Mexico comes from regulatory standards, which applies for 35% of firms here compared to 24% of global companies. However, improving operational efficiencies and gaining a competitive advantage are also strong motivations, illustrating that Mexican firms are well aware of the benefits of sustainability.

Similar to businesses around the world, getting funding for sustainability is a big challenge for Mexican firms in the next five years (41%). But local companies are also worried about being unable to adopt new technologies (30%) and employee resistance to improvements (29%). Despite these challenges, more companies think they have a role to play in the UN's Sustainable Development Goals (SDGs) than the global average (71% versus 63%) and 22% believe they can have a significant impact.

### Sustainable investment priorities over the next five years



### What you need to know



Gender equality, responsible production and consumption, and decent work and economic growth are the most relevant UN SDGs for Mexican businesses.



ESG attributes are highly relevant for, and being extensively measured by, companies.



Mexican firms expect to invest more in technology, innovation and infrastructure in the next five years to improve sustainable production.

### What your business can do



Take the time to engage your workforce. Getting buy-in on sustainability before you launch initiatives will help combat employee resistance.



Focus on the human side of business. Anti-bribery and corruption and fair treatment of employees are top most relevant and measured ESG metrics, while 39% of firms plan to invest in promoting employee health, wellbeing and safety.



Invest in technology to monitor your supply chain for greater traceability.

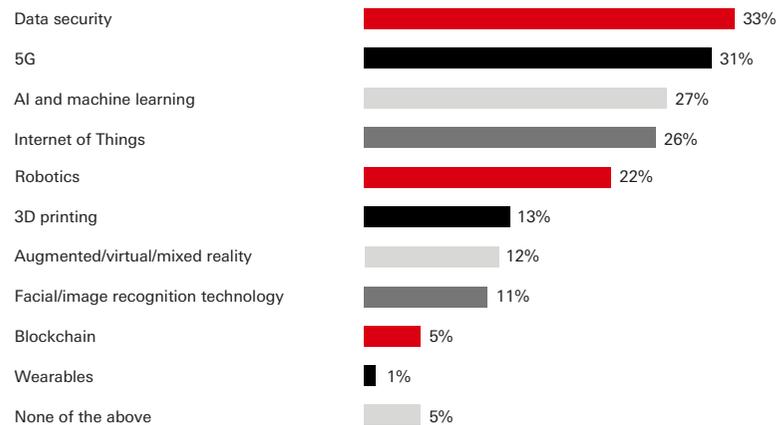
# Breakthrough tech

## Security tops the agenda

For companies outside of Mexico, cybersecurity risks are the top reason to stop trading or consider stopping trade with local businesses. It's interesting then that data security technology is identified by nearly a third of Mexican firms as the most important technology for the next five years, high above the global average of 26%. Companies feel that better security will improve customer experience (45%), business transparency and compliance (44%) and productivity (40%).

The other top technologies, mentioned by over a quarter of Mexican businesses, are 5G, artificial intelligence (AI) and the Internet of Things (IoT). For all three of these technologies, Mexican companies foresee various degrees of reduced costs, improved productivity and better customer experience.

### Technologies businesses think will be important over the next five years



## What you need to know



33% of Mexican firms see data security technology as the most important technology in the next five years.



5G, AI and IoT are other key technologies for over a quarter of companies.



The US, China, Japan and Germany are seen as advanced technology hubs.

## What your business can do



Look at how you can harness IoT and 5G, both seen as technologies that are somewhat more developed in Mexico.



Consider the benefits of all technologies, not just the top four. Blockchain, for example, is not considered a top technology by Mexican firms, but its benefits can include improving business transparency and supply chain management.



Analyse potential uses for AI and machine learning. This is one of the top technologies in Mexico and globally.

## About HSBC Navigator Mexico

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellness. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 201 businesses surveyed in Mexico. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade).

The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

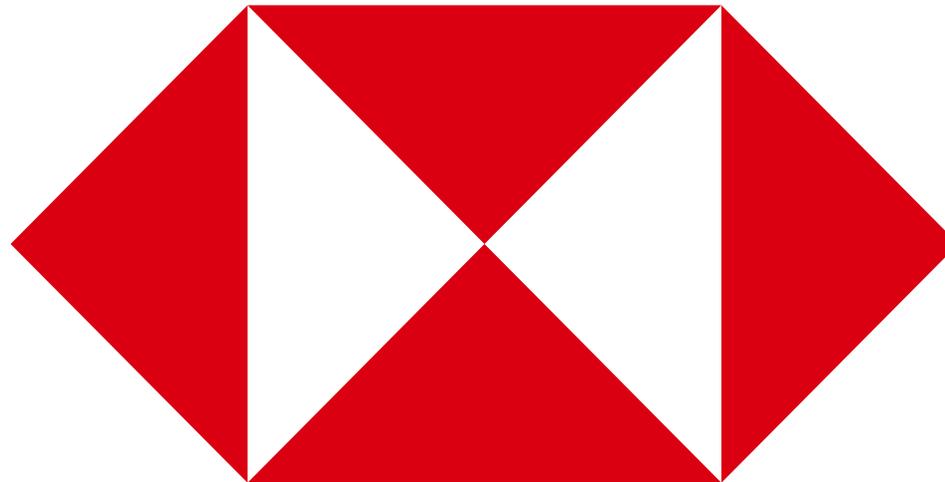
Data visualisations based on the following:

Page 2: companies who expect their sales to grow in the next year. n=175

Page 3: international operators (trend). n=117/132

Page 4: companies who think governments are becoming more protective. n=137

Page 5 & 6: all companies. n=201



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