Navigator

Now, next and how for business

Mexico

HSBC

Mexico

A new NAFTA deal has been reached

Mexican trade flows have grown strongly so far in 2018 and near-term trade prospects appear buoyant for nine out of ten Mexican firms, according to the latest HSBC Navigator survey. Confidence should be further bolstered by the recent successful conclusion of talks on a new trade deal - the rebranded United States-Mexico-Canada Agreement (USMCA) – which adds a greater degree of certainty over the future direction of trade policy.

What is happening now

USMCA provides clarity to trade relationships in North America

Uncertainty over NAFTA renegotiations, as well as elections in July, weighed on the Mexican economy during the first half of the year. GDP slowed to 1.9% in H1 2018 from 2.3% in 2017. But NAFTA renegotiations finally yielded a refurbished agreement at the end of September – the USMCA. Although the deal is still to be ratified by the US Congress, the incoming Mexican President has signalled his support for the deal. As such we are confident that 2019 should be underpinned by a greater degree of certainty over US-Mexican trade relations.

The United States economy, which remains Mexico's most important export market, grew by 4.2% in Q2 2018, the strongest performance in four years. Our survey (completed after the conclusion of the US-Mexico talks but before confirmation US-Canada had reached an agreement) suggests almost nine in ten Mexican businesses are upbeat about trade in the near-term, as they expect a booming US economy to increase the demand for Mexican products. Moreover, the USMCA will reinforce confidence in cross-border supply chains. Going forward, half of businesses plan to expand their operations in the US (Fig. 1), which has critically depended on the outcome of these trilateral negotiations. Importantly, the vast majority of respondents (90%) are confident about their company's future in the international trading environment.

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)

Source: TNS Kantar

How your business can respond

- Identify how directly and indirectly exposed your supply chains are to proposed changes in the USMCA
- How would the stricter provisions for the automotive and textile sectors impact your company?

Policy Developments

The USMCA and the incoming government bring a new trade landscape

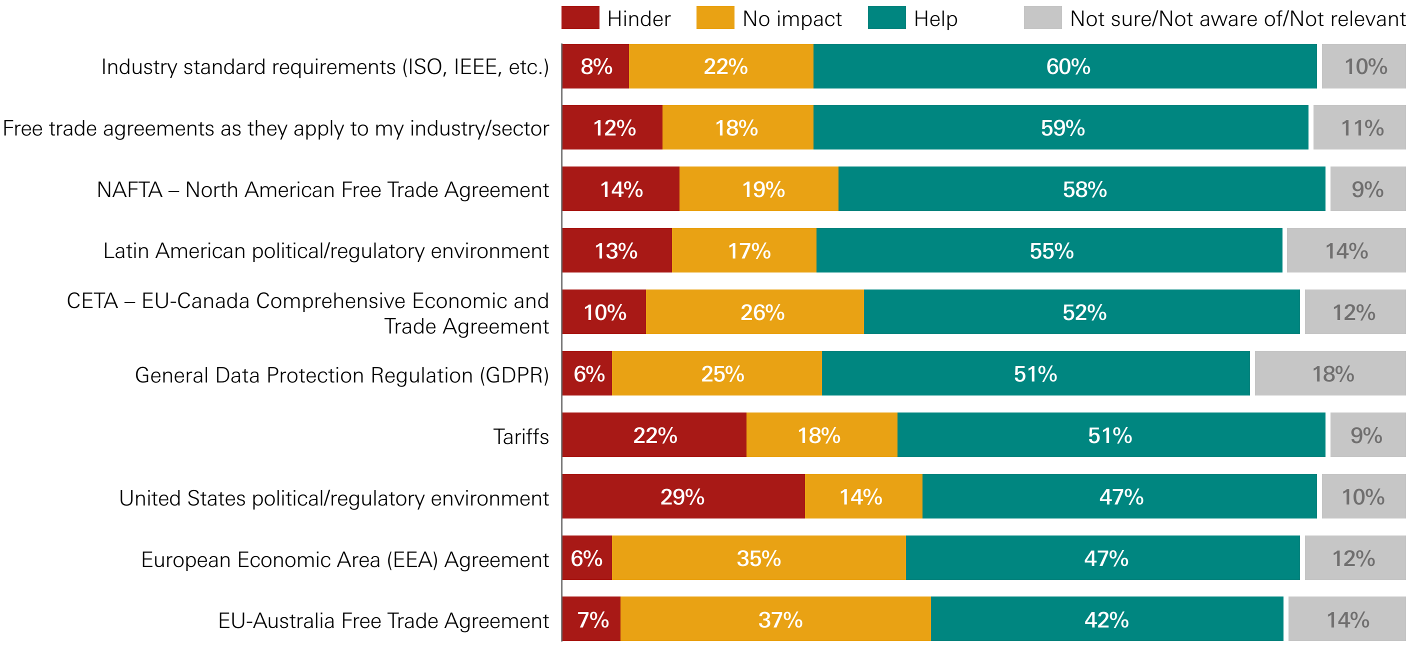
Mexico's exports will continue to have good access to the United States manufacturing goods markets under the USMCA. However, stricter provisions for the automotive and textile sectors are directed to incentivize production in the United States. Reflecting these developments, two in three Mexican businesses are concerned that governments are becoming more protective of their domestic markets. But businesses acknowledge new regulations could either impact positively, by increasing their competitiveness, or negatively, by increasing the cost of doing business.

The HSBC Navigator survey, conducted in August, indicates Mexican businesses expect a positive impact stemming from new industry requirements under free trade agreements and other regulations in their sector (Fig. 2). This could reflect Mexican firms sensing that their existing close relationships with US customers and suppliers gives them a head start in dealing with new regulations versus new competitors. On the other hand, they are more cautious regarding the changing US political environment and still-undecided regulatory measures. Unsurprisingly, tariffs stand out as a reason for worry. The US' imposition of steel tariffs (including on imports from Mexico) in May led to retaliatory tariffs on selected US products, and despite progress in renewing NAFTA, these tariffs have not yet been lifted.

How your business can respond

- Evaluate potential costs for complying with requirements under the USMCA and compare to operations elsewhere (or in Mexico, but without invoking USMCA preferences).
- Examine business opportunities stemming from the new chapters on intellectual property, digital trade and financial services.

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar *May not total 100% due to rounding

What is happening next for business strategy

Internationalization and flexibility to navigate the complex environment

Mexican firms are taking action to navigate the uncertain environment. More than a third (37%) of companies are prioritizing growing their market share in the next two years (Fig. 3). Moreover, they are undertaking efforts to become more entrepreneurial and agile, probably to be more flexible against the still-evolving trade policy landscape. Interestingly, plans for internationalization remain a key focus for company direction, particularly for those with less than 50% of their business abroad.

Our HSBC Navigator survey (Fig. 4) revealed more than four in five Mexican businesses utilize data to optimize their performance – above the global average (75%). They find the most value in sales data, followed closely by operational data and market data. Businesses are also aware of the opportunities and challenges arising from 'digitalization' when thinking forward to the next three years. Global trends including the 'Internet of Things', wearables and customers demand for information transparency were viewed as the top three opportunities brought by digitalization. But other incoming trends are regarded as threats, particularly increased regulation on data compliance, artificial intelligence and blockchain.

Fig. 3: Top 3 actions for future company direction

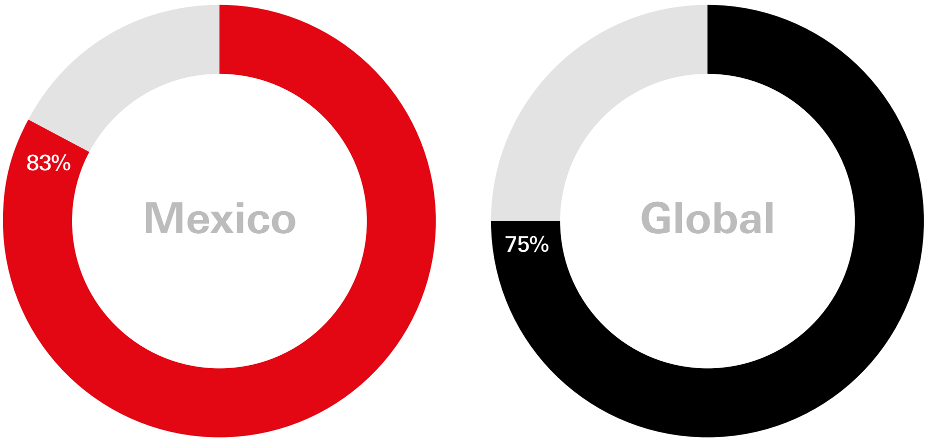
1 Growing market share

2 Becoming more entrepreneurial and agile

3 Investing in up-skilling workforce

Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

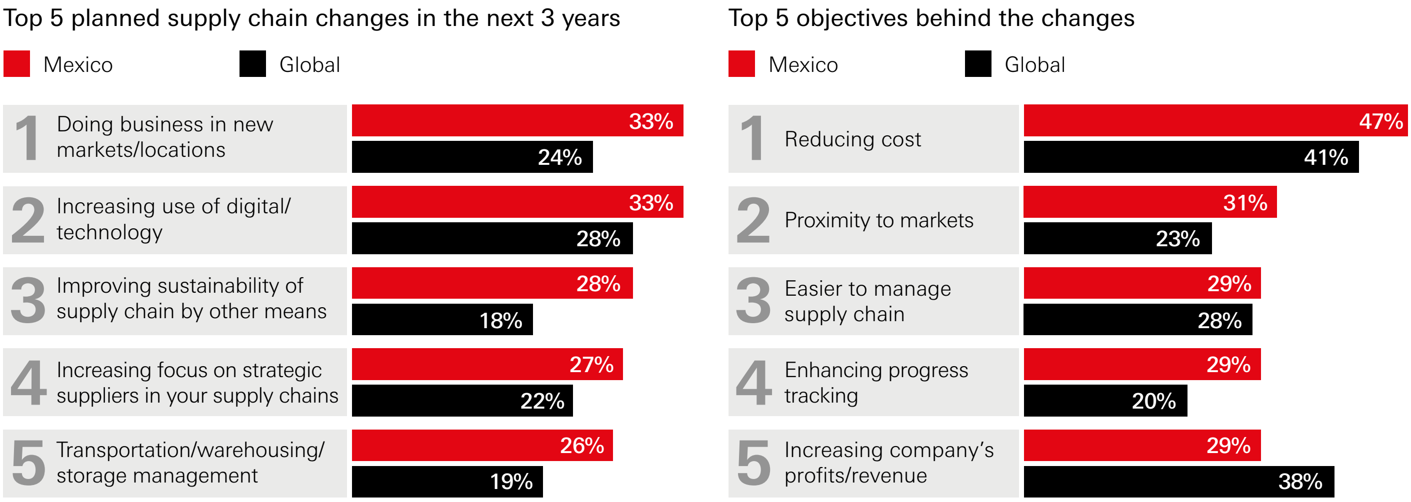
Data sets currently being used

Source: TNS Kantar

Diversifying markets, upgrading supply capabilities

Looking ahead, a third of Mexican goods exporters are planning to diversify their markets – almost 10 percentage points more than the global average (Fig. 5). This could signal their desire to reduce reliance on the US market in case of future trade conflict. Companies are also planning to increase their use of technology, mainly aimed at reducing costs (almost half of firms cited this as a motivation, compared to two in five globally) and to have an easier-to-manage supply chain. Interestingly, most companies are focused on achieving high ethical and environmental sustainability standards, which is encouraging.

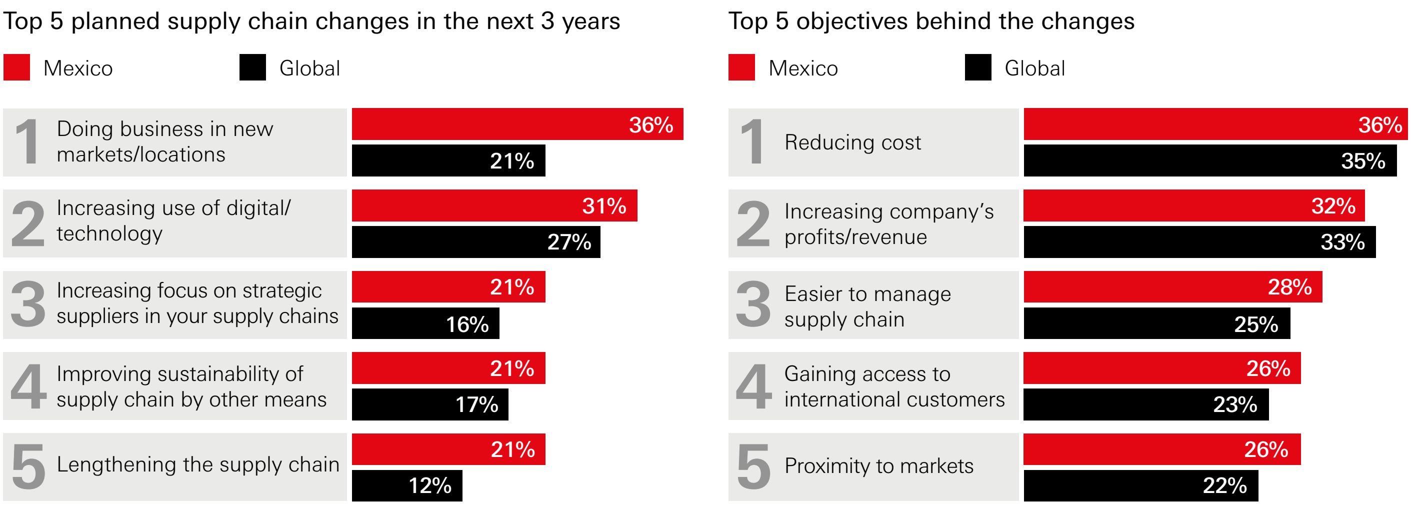
Fig. 5: Supply chain changes for goods



Source: TNS Kantar

Cross-border services between the United States and Mexico are critical to the smooth functioning of the merchandise supply chain – in particular, transport and distribution, insurance, and financial services. Mexican service exporters (Fig. 6) are far more ambitious than the global average in seeking to reach new markets (over a third, compared to 21% at the global level), and are also much more willing than the global average to lengthen the supply chain (perhaps to outsource lower-cost activities and remain competitive).

Fig. 6: Supply chain changes for services



Source: TNS Kantar

About HSBC Navigator Mexico

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 200 businesses were surveyed in Mexico. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

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.

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