



Sweden
Sverige



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN MEXICO 2022

A REPORT FROM TEAM SWEDEN IN MEXICO

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KEY CONTRIBUTORS TO THIS REPORT

Business Sweden Mexico

Embassy of Sweden in Mexico

INTRODUCTION

Mexico is the second largest market in Latin America, with almost 130 million inhabitants, and the 15th largest economy in the world. While classified as an emerging or developing economy by the IMF, it is a member of the OECD, demonstrating the country's potential for stable future growth.

The bilateral relationship between Sweden and Mexico dates back almost two centuries, with commercial links first forged over a 100 years ago. Swedish companies have maintained their presence in the country, and today count to about 160 in total.

In recent time, Mexico has entered the spotlight as a prime location for companies seeking to nearshore their production, i.e., moving part of their production closer to their customers. Thanks to its geographical proximity and strong trade relations with the United States, bolstered by the USMCA¹, Mexico poses an interesting opportunity for manufacturing companies with sales in North America. The country further offers competitive costs and a highly qualified workforce, motivating a growing number of Swedish companies to make new investments in Mexico.

Promoting economic ties between countries has many positive effects. It is our hope that this report will provide a fresh perspective and serve to create many new business opportunities between Mexican and Swedish companies.

Last but not least, we would like to thank all companies that took the time to participate in the survey on which this report is based. Without their help it would not have been possible to publish this report. We hope that the insights contained within it will be of genuine interest to the readers.



Gunnar Aldén
Ambassador of Sweden
to Mexico



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Country Manager &
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Business Sweden
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¹ United States-Mexico-Canada Agreement

HIGHLIGHTS FROM THE REPORT

COVERAGE

73%

is the participation rate of Swedish companies in the survey, out of 60 companies invited



52% of the participants are classified as large corporations, with more than 1,000 employees globally

ECONOMIC OUTLOOK

53%

of the Swedish companies in Mexico reported profits in 2021



80% of the respondents expect the turnover of their respective industries to increase in 2022

MARKET INSIGHTS

30%

of the companies consider the current business climate in Mexico to be good/very good



Swedish firms think that the main advantages of the Mexican market are access to service providers, suppliers, specialists and key personnel

SUCCESS FACTORS

70%

of the respondents deem the “Swedish brand” to be contribute to their business success in Mexico



Cost efficiency, sales expertise and cooperation with/receiving feedback from customers are viewed as key factors to maintain competitiveness

SUSTAINABILITY

30%

of the companies estimate that environmental aspects of a product/service have a big or very big influence on customers’ purchasing decisions



24% of respondents believe that their company has been exposed to public body corruption

ABOUT THE SURVEY

Business Climate Survey Mexico 2022

Team Sweden Mexico, including the Embassy of Sweden in Mexico and Business Sweden Mexico, carried out the 11th edition of the Business Climate Survey with Swedish companies in Mexico in April 2022.

The Business Climate Survey is a tool developed to map the opportunities and challenges that Swedish companies face when doing business in Mexico. This report presents the conclusions drawn from the survey and an analysis based on the current business situation, economic outlook, as well as other market aspects believed to be relevant for companies operating or planning to establish themselves in Mexico.

In addition to increasing the understanding of Swedish companies' operations and perception of the business climate in Mexico, the survey serves as a point of reference for bilateral trade dialogues between Mexico and Sweden.

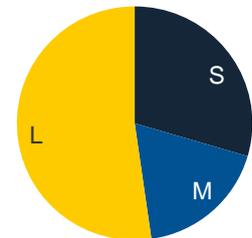
This year's survey was sent to 60 Swedish companies established in Mexico, of which 44 responded, representing a participation rate of 73 per cent. Respondents of the survey include country and regional managers of Swedish companies in Mexico, as well as executives thought to have relevant perspectives.

Large companies account for 52 per cent of respondents, while small- and medium-sized enterprises account for 30 and 18 per cent respectively. Most companies taking part in the survey are either found within the industrial (about half) or professional services (about one third) sector.

Of the companies surveyed, 36 per cent are labelled mature, defined as those established in Mexico before the year 2000, 42 per cent are labelled experienced, defined as established between 2001 and 2015, and 16 per cent are labelled newcomers, defined as those established after 2016.

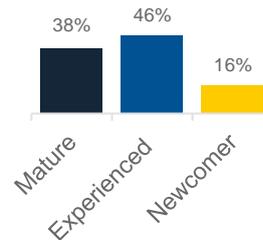
This report is divided into four sections. First, *economic outlook*, based on an assessment of the annual performance of Swedish companies and their expectations of the coming year. Second, *Swedish companies' perception of the business climate and the Mexican market*, including conditions that positively or negatively affect business performance. Third, *key success factors for Swedish companies in Mexico* and, fourth, *sustainability aspects of doing business in Mexico*.

SIZE OF COMPANIES



NOTE:
Global employees.
Large >1000
Medium 250-1000
Small 0-249

AGE OF COMPANIES



NOTE:
Mature (<2000)
Experienced (2001-2015)
Newcomer (2016-)

ECONOMIC OUTLOOK

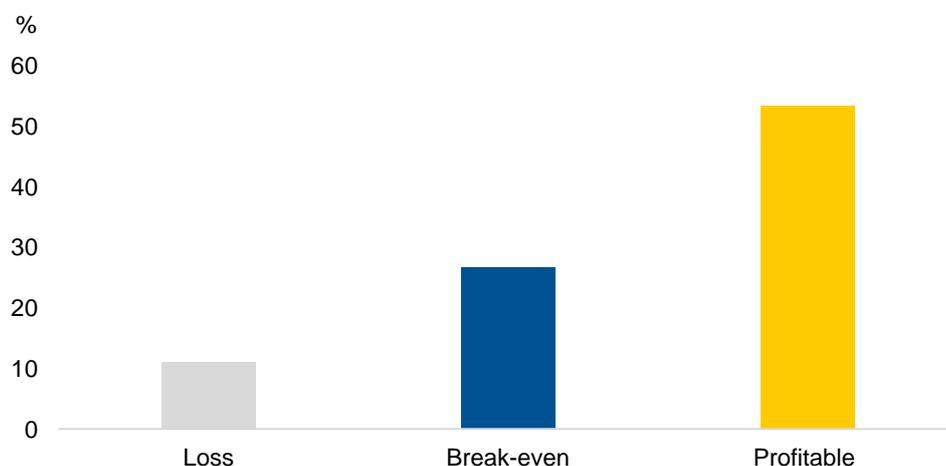
More than half of Swedish companies in Mexico reported profitability in 2021

Although the Mexican economy has yet to return to its pre-pandemic level, a five per cent annual growth rate was recorded in 2021. Fifty-three per cent of Swedish companies reported profits in Mexico over the year, 27 per cent went break-even, and 11 per cent reported losses.

Mexico closed 2021 with an annual inflation rate of 7.36 per cent, mainly due to sustained increases in food and fuel prices; deriving its largest impact from rising oil prices, as the price of Mexican crude oil blend rose from an average of USD 56.49 per barrel in the first quarter of 2021 to USD 88.91 in the first quarter of 2022.

Although the Bank of Mexico (Banxico) expects headline inflation to decline in 2022, the possibility of a rise due to the pandemic-induced inflationary environment cannot be ruled out. In March this year, Banxico's governing board acknowledged that the Mexican inflation target of 3 (+/-1) per cent would take longer to reach due, in addition to the outbreak of the Omicron variant earlier this year, to the increase in world prices following Russia's invasion of Ukraine.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN MEXICO IN 2021?



NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

Mexico is recovering from the pandemic and has a positive economic outlook

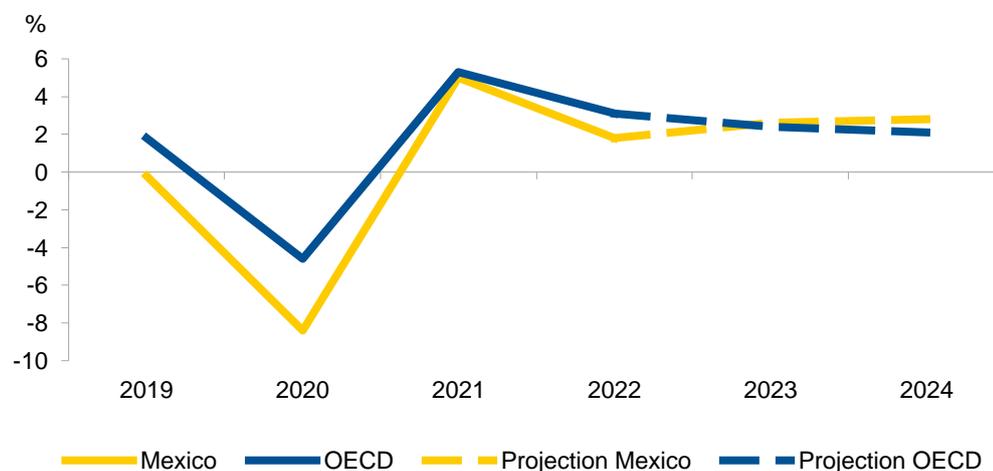
At the end of 2021, Mexico's GDP growth was below the G20's average of 6.2 per cent. According to the OECD's Economic Outlook Report, published in December 2021, the Mexican economy is set to experience slower growth in 2022 and is expected to slow down to 1.9 per cent. The same development is also seen in other Latin American countries. In Argentina, growth is expected to fall from eight per cent in 2021 to 2.5 per cent in 2022, and in Brazil growth is forecasted to slow down from five per cent in 2021 to 1.4 per cent in 2022.

The main economic challenges for Mexico in 2022 will be to relaunch investment and increase productivity. In an effort to boost economic growth, President Andrés Manuel López Obrador has promised further spending on public-private sector partnerships. The budget for the government's priority programmes and projects has likewise increased. For this year, resources allocated to such programmes amount to 1.68 trillion pesos, corresponding to a 26.5 per cent increase on the 1.33 trillion pesos budgeted for 2019. However, it may be added that although this year's budget saw an increase in government spending, overall Mexico adheres to quite an austere fiscal regime.

Despite uncertainty due to the appearance of the Omicron variant at the end of 2021, the Mexican economy performed better than expected during the first quarter of 2022, as further confinement never materialized. Out of Mexico's key sectors, some have returned to their pre-pandemic level, such as the wholesale and retail trade, agricultural activities, and manufacturing sectors. Other industries, like the transport and construction sector, have stayed below pre-pandemic levels.

The performance of state-owned oil giant, Pemex, correlates positively with Mexico's overall economic performance as its oil production accounts for between 10 and 15 per cent of national GDP. Weak results therefore also take their toll on the national economy, and Pemex's finances have hampered the growth for several years, as the company is heavily indebted and loss-making for the last ten years. In a bid to save the company from bankruptcy, the current administration has restated its financial commitment, proposing a real budget increase amounting to circa 13 per cent of the company's programmable spending for 2022. In the first quarter of this year, improved oil prices and an exchange rate gain of the Mexican peso against the dollar, allowed Pemex to report its best results in years.

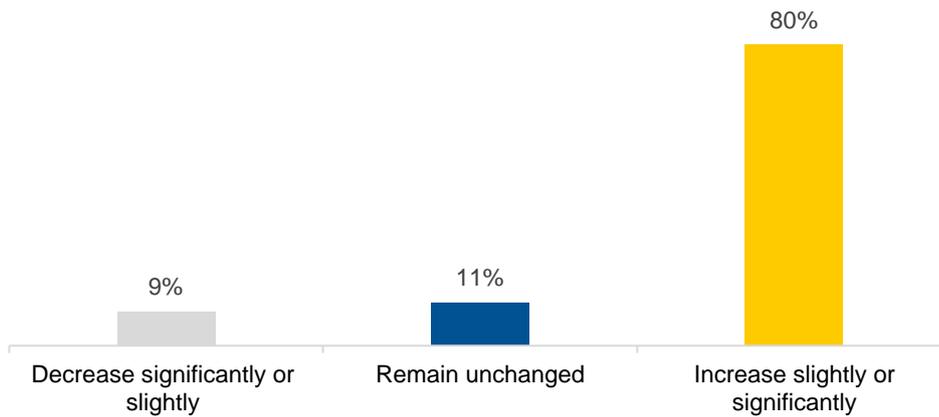
PROJECTED GDP GROWTH IN MEXICO



NOTE: Constant prices.
SOURCE: Oxford Economics 2022

A vast majority of the Swedish companies surveyed express optimism over future prospects – 80 per cent expect that turnover in their industries will increase. About one in ten expects industry turnover to remain unchanged, and slightly fewer expect it to decrease. The results, broken down by sector, show that 75 per cent of professional services companies expect industry turnover to increase whereas the corresponding number for manufacturing companies is 93 per cent.

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN MEXICO REGARDING TURNOVER?



NOTE: The number of respondents for this question was 43. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

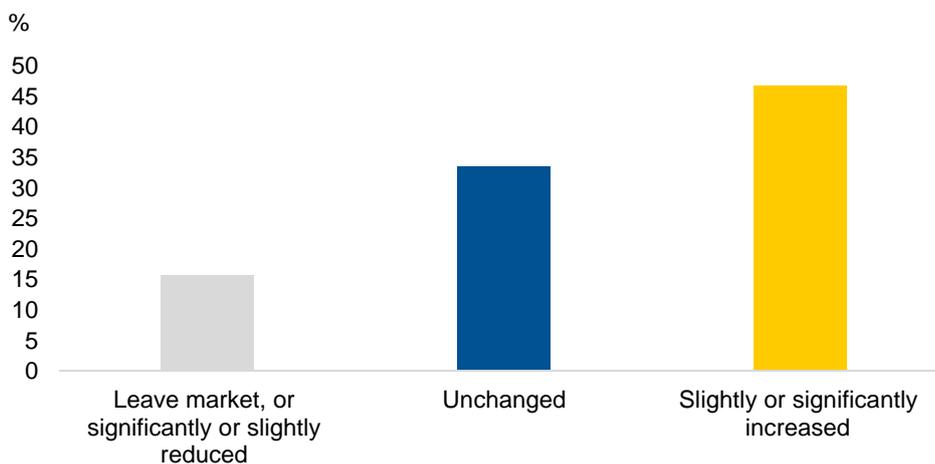
Mexico is among the ten countries with the highest FDI inflow globally

In the first quarter of 2022, Foreign Direct Investment (FDI) to Mexico amounted to 19.4 billion USD, the highest level recorded since 2013 on a quarterly basis.

Many Swedish companies are eyeing increased investments in Mexico in 2022. Almost half (47 per cent) of the surveyed companies say that they will increase their investments within the next 12 months, 33 per cent say that their investment will remain on the same level as last year, while 16 per cent expect their investments to decrease.

A majority of smaller companies say that they will maintain their level of investment at current levels over the next 12 months. About half of large companies (48 per cent) plan to increase their investments, while only one fifth of medium-sized companies say that they will do so over the same period.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN MEXICO, COMPARED TO THE PAST 12 MONTHS?



NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

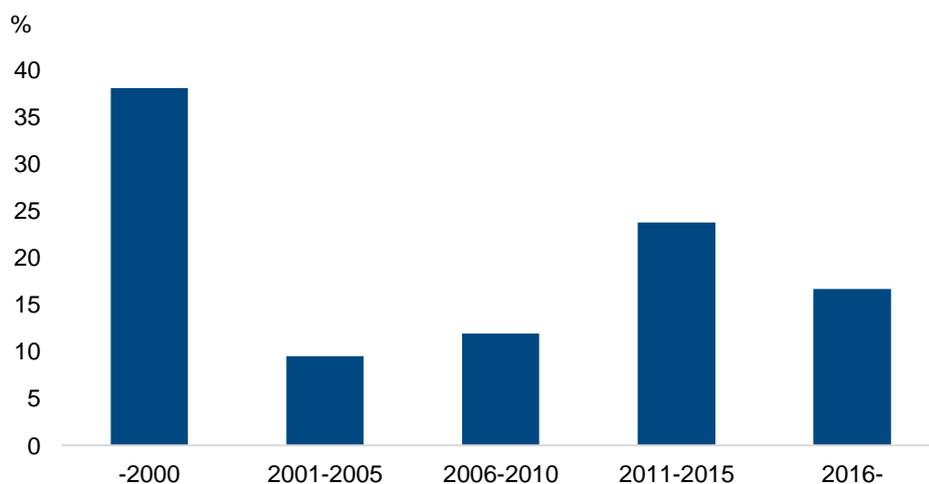
THE MARKET

The number of Swedish companies entering the Mexican market is still rising

As of 2022, there are more than 60 Swedish wholly owned subsidiaries established in Mexico, and over 100 companies represented through partners or agents. Swedish companies have operational facilities in 14 out of the 32 states in Mexico, typically concentrated within larger urban areas and industrial centers.

Swedish companies have a long history of doing business in Mexico. About two in five companies have been present in Mexico for more than two decades. Many large companies, such as ABB, AstraZeneca and Tetra Pak, have a history in Mexico exceeding 60 years, while a few, like Ericsson and SKF, established operations in Mexico over a century ago.

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN MEXICO?

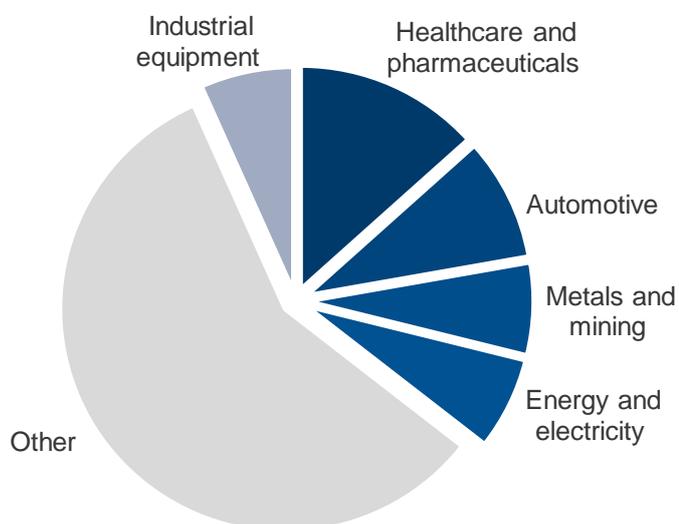


NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

Swedish companies in Mexico are present in a wide range of industries. In contrast to last year, the most common industry classification for Swedish companies in Mexico is healthcare and pharmaceuticals, followed by automotive. Energy & electricity and mining companies also constitute important segments of commercial activity for Swedish companies. Other sectors in which there is Swedish company presence include transport, IT and electronics & telecommunications.

WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN MEXICO?

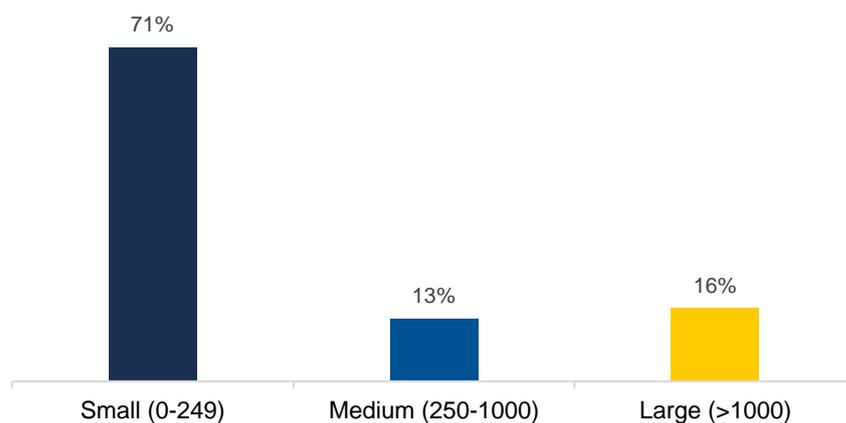


NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

A majority (71 per cent) of Swedish companies established in Mexico are classified as small, with less than 249 local employees. Thirteen per cent are medium sized companies, employing between 250 and 1,000 local employees, and 16 per cent are large companies with more than 1,000 local employees.

SWEDISH FIRMS' NUMBER OF LOCAL EMPLOYEES IN MEXICO IN 2022



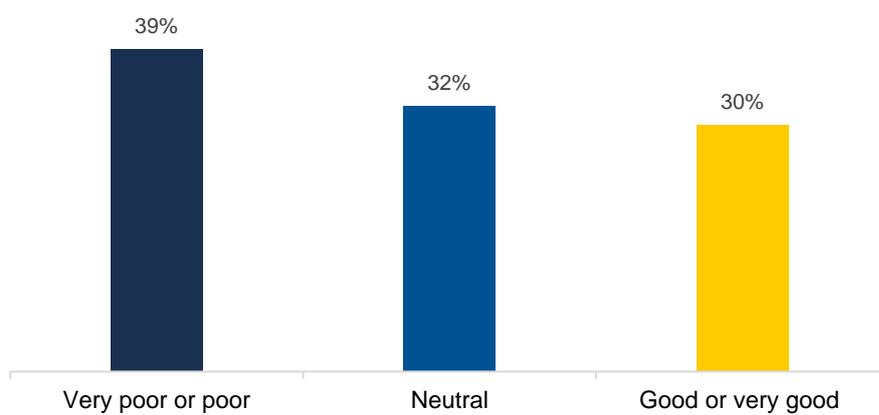
NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

Swedish companies remain cautious with regard to the Mexican business climate

About one third of the respondents perceive the Mexican business climate as “good” or “very good”, a 13 per cent improvement against last year. On the other hand, a considerable share of the companies believes that the business climate in Mexico has grown worse – 39 per cent of the respondents rate it “poor” or “very poor”, compared to 30 per cent last year.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN MEXICO?



NOTE: The number of respondents for this question was 43. “Don’t know/Not applicable” responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

Legal security and personal safety are key concerns for doing business in Mexico

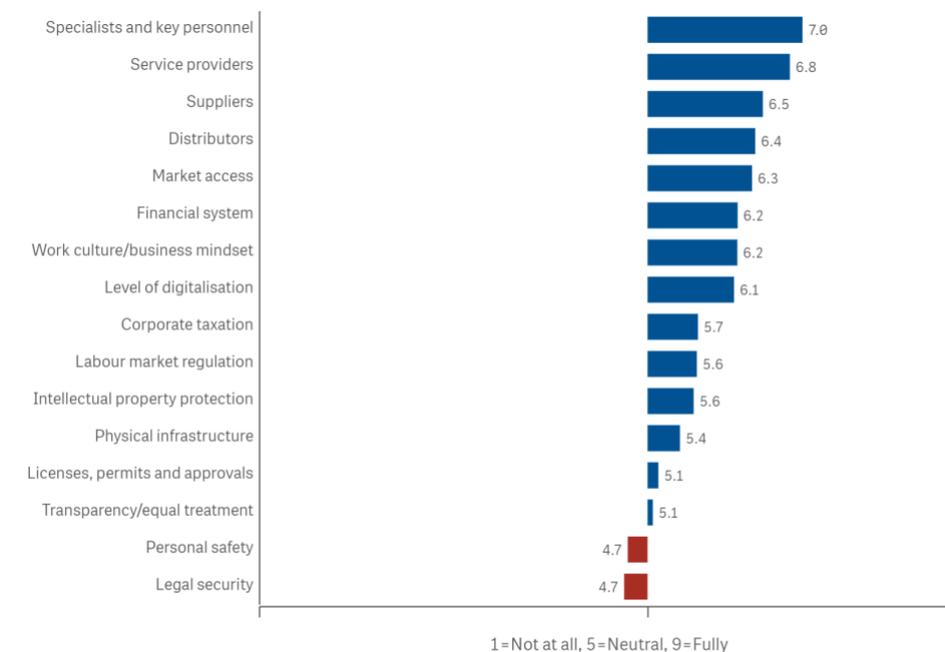
The main advantages of doing business in Mexico according to Swedish companies are access to specialists & key personnel, service providers, suppliers, and distributors.

On the other side of the spectrum, the key challenges that Swedish companies face when doing business in Mexico are related to personal safety, legal certainty, transparency, fair treatment, licenses, permits and approvals.

Some of these problems, especially those related to transparency and personal security, are reflected in Mexico's low ranking in global security indices. For instance, the Global Peace Index (GPI), an index administered by the Institute for Economics and Peace, places Mexico at the bottom of the ranking, at 140th place out of 163 countries (2021).

The Mexican Peace Index (MPI), which is based on the GPI and consists of twelve sub-indicators, shows improvements in three of the five indicators: the incidence rate of homicide, firearm crime and detention without a sentence. On the other hand, the incidence of organized crime and violent crime has risen, reaching near pre-pandemic levels.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN MEXICO?



NOTE: The number of respondents for this question was 44.

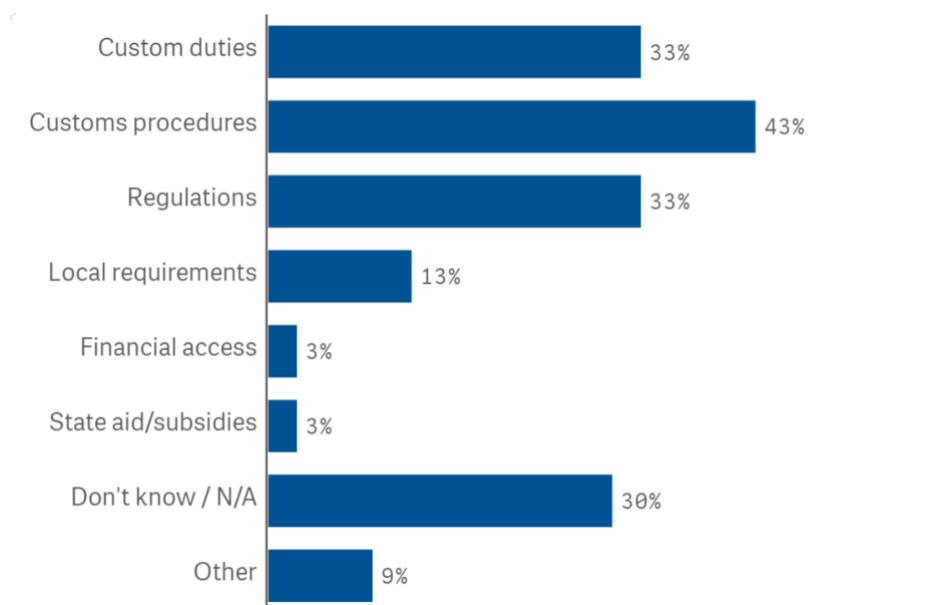
SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

Bureaucratic excess is a serious concern for Swedish companies doing business in Mexico

Mexico has one of the most liberal trade policy frameworks in Latin America, with 14 Free Trade Agreements collectively encompassing 50 countries. Despite favourable tariff regimes, however, there are other trade barriers that negatively impact the ease of doing business in Mexico.

Especially poignant are aspects related to the issuance of permits or certificates by the government. The trade barriers most frequently cited by Swedish companies are customs formalities (43 per cent), followed by customs duties and regulations (both at 33 per cent).

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN MEXICO WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 44.

SOURCE: Business Climate Survey for Swedish Companies in MEXICO 2022.

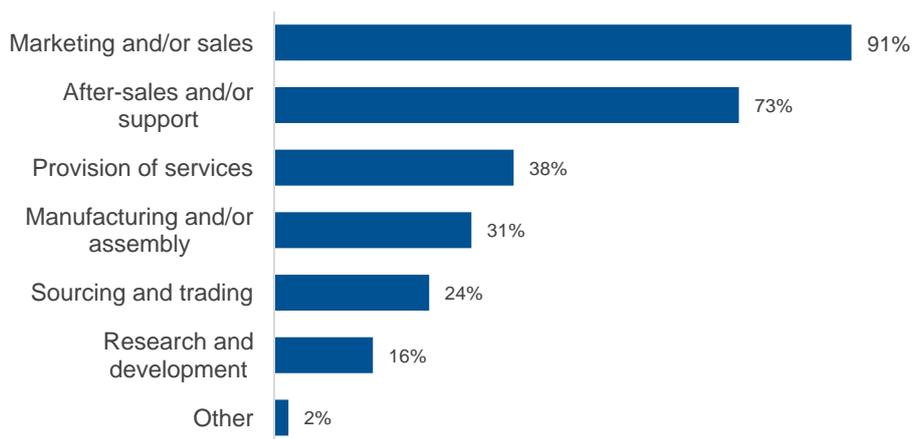
HOW SWEDISH COMPANIES SUCCEED IN MEXICO

About one third of Swedish companies in Mexico have local manufacturing or assembly

Most Swedish companies in Mexico (91 per cent) have a marketing and/or sales organisation, and about three fourths (73 per cent) have an after-sales and/or support organisation.

About a third of Swedish companies in Mexico have local manufacturing and/or assembly operations – some of these serve adjacent markets, for instance the U.S., taking advantage of e.g. comparative cost advantages and beneficial trade agreements.

OPERATIONS OF SWEDISH FIRMS IN THE MARKET



NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

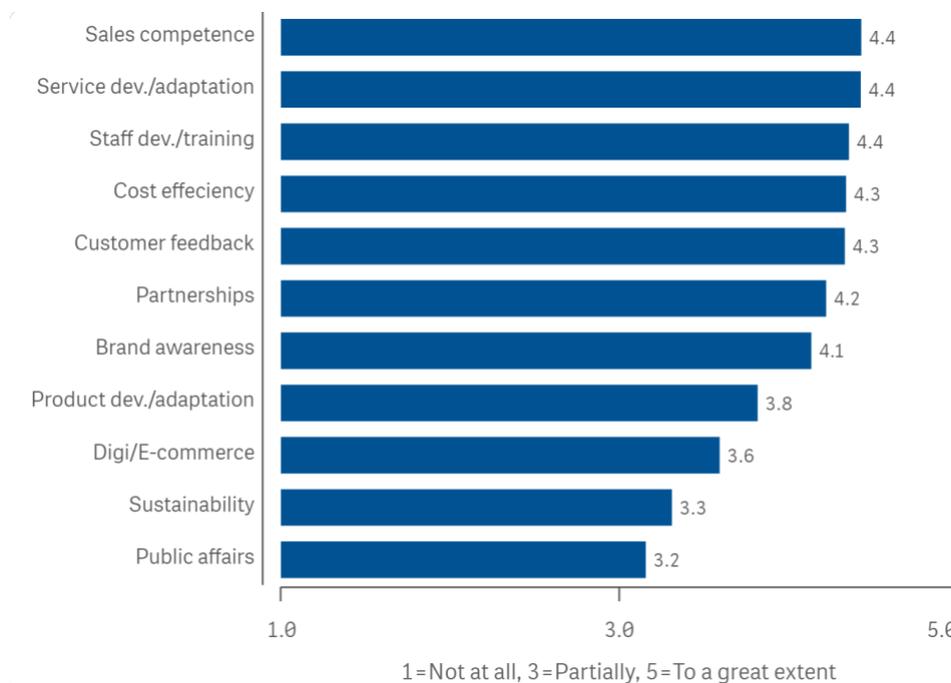
SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

Sales competence and service development are key factors of competitiveness in Mexico

Among Swedish companies in Mexico, sales competence and service development/adaptation are the factors held in highest esteem for maintaining competitiveness.

As in last year's survey, cost efficiency is viewed as the most important competence by mature and large companies, while newcomers and small companies tend to prioritize differently, rating customer feedback and sales competence as the most important factors to maintain their competitiveness in Mexico.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN MEXICO?



NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

The "Swedish brand" makes an important contribution to business success in Mexico

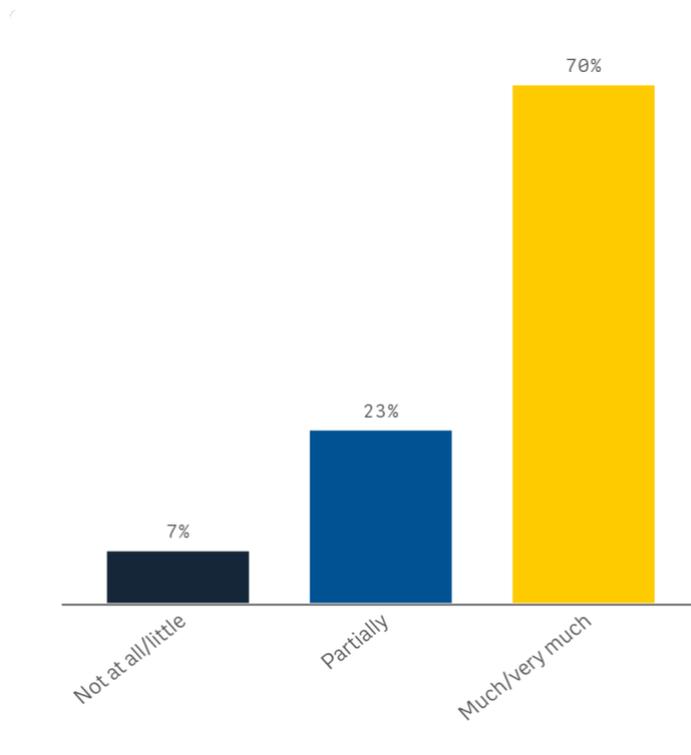
In Mexico, Swedish companies are typically associated with innovation and technical solutions. They are also viewed as taking transparency seriously. For a government set on improving transparency amid pervasive corruption, this is an important fact.

Digitalization in Mexico have matured significantly since 2020. Spurred by the pandemic, the rate of digitalization is thought to have taken a 10-year stride in only two years. According to the Association for Manufacturing Technology (AMT), technology investments by manufacturing companies is estimated to amount to 3.5 billion USD by the end of 2022.

The Mexican president has often praised the "Nordic healthcare system", stating that the federal government seeks to emulate the "welfare state" of countries such as Sweden.

According to 70 per cent of respondents, the "Swedish brand" contributes greatly to the success of their businesses, 23 per cent think it contributes partially while seven per cent believe it has little to no influence on their business success. Companies who report deriving benefits from the "Swedish brand" are found in all sectors – 79 per cent of manufacturing and 59 per cent of professional services companies report that the "Swedish brand" contributes to some or a great extent to their businesses.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE "SWEDISH BRAND" CONTRIBUTES TO YOUR BUSINESS IN MEXICO?



NOTE: The number of respondents for this question was 44. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

ACTING SUSTAINABLY

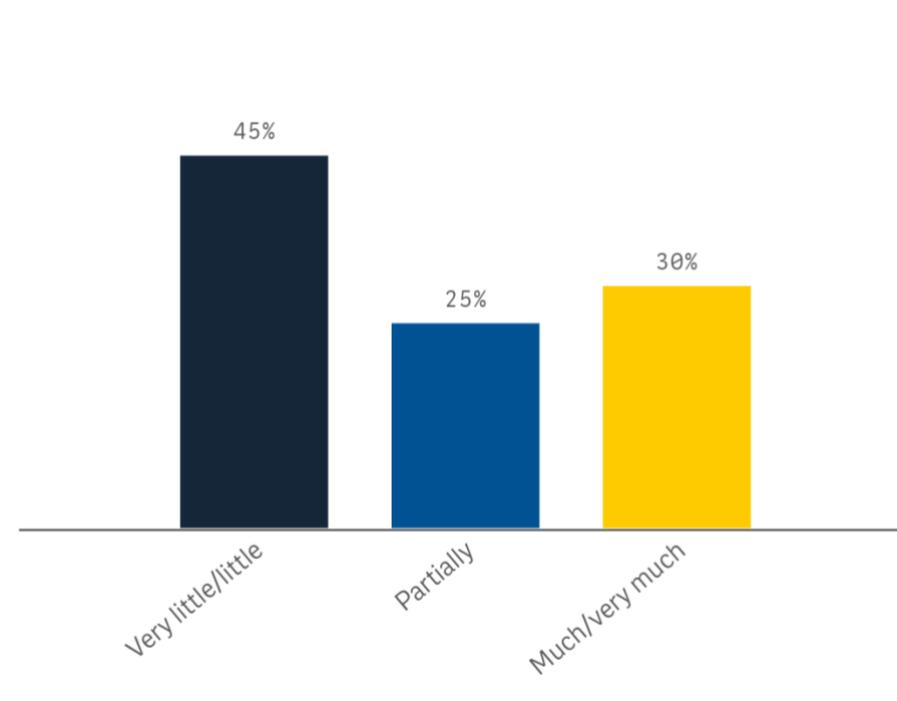
Sustainability aspects are not important factors for purchasing decisions in Mexico

Many Swedish companies (45 per cent) view Mexican buyers as giving little thought to environmental aspects in their purchasing decisions. The current government in Mexico went to the polls on a “green agenda”, expressing its ambition to bring about positive change for the environment. However, the general perception among Swedish companies in Mexico is that the government, in action if not in principle, discourages the implementation of sustainability projects.

Mexico City is a national champion for electric mobility, both for public and private transport, leading the implementation of different strategic projects, such as the “Zero Line” – a project with the scope to acquire 260 electric buses. Interest in green investments is manifest in some other Mexican states too, notably in Nuevo León, Jalisco and Puebla.

The Mexican private sector may become an important force for change. Fifty-five per cent of companies in Mexico say that they have a sustainability strategy. In addition, Mexico counts the highest number of private sector investments in sustainability in Latin America.

TO WHAT EXTENT DO CUSTOMERS IN MEXICO CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



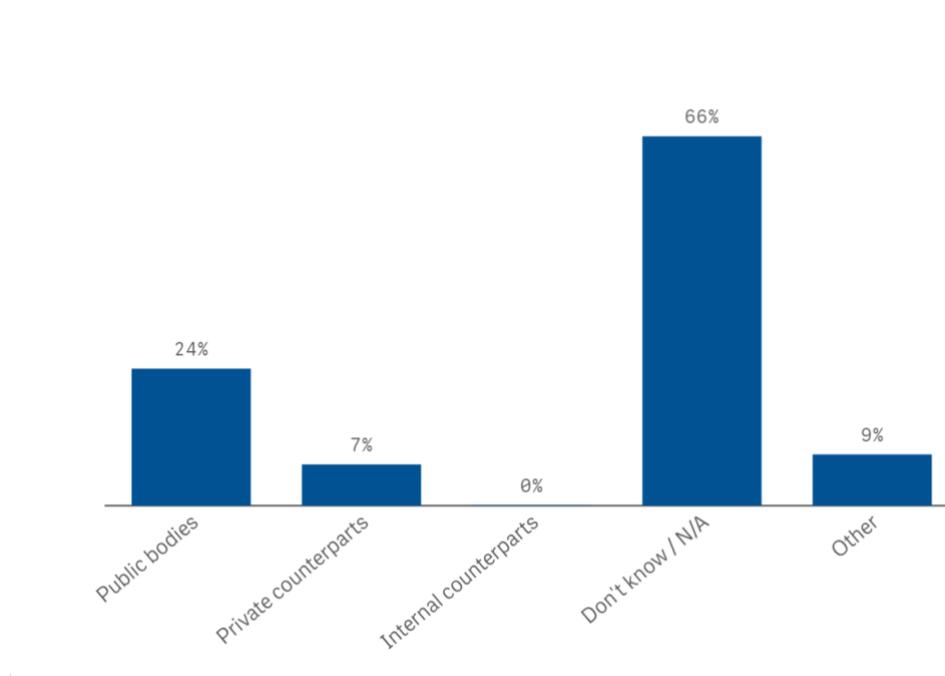
NOTE: The number of respondents for this question was 44. “Don’t know/Not applicable” responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022

Most Swedish companies do not perceive that corrupt practices impact their businesses

About one in four of the respondents state that they have been exposed to public body corruption, while only seven per cent report that they have experienced corruption with counterparts from the private sector. About two thirds of the respondents (66 per cent) either have not had any exposure to or do not know whether they have been exposed to corruption.

HAS YOUR COMPANY IN MEXICO BEEN EXPOSED TO CORRUPTION SUCH AS, BUT NOT LIMITED TO, ATTEMPTS OF BRIBERY OR FRAUD IN CONTACTS WITH ANY OF THE FOLLOWING AREAS?

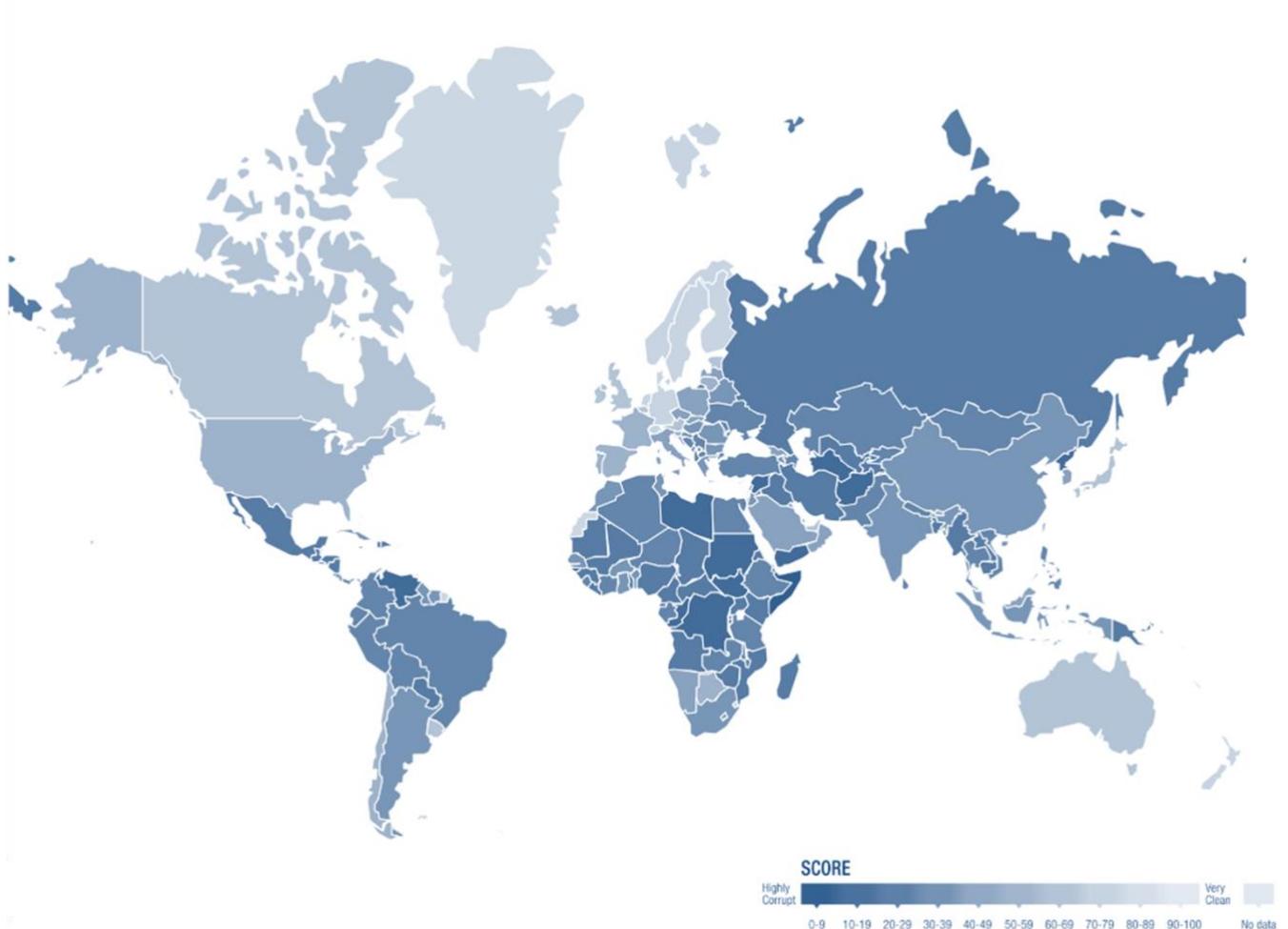


NOTE: The number of respondents for this question was 41. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mexico 2022.

Curtailing corruption has been a priority in Mexico for a long time, and it was one of the defining questions of the 2018 presidential election. In Transparency International's 2021 edition of the Corruption Perception Index (CPI)², published earlier this year, Mexico's position remained unchanged with a score of 31, compared against a global average of 43 (with a maximum score of 100 indicating very low levels of perceived corruption.)

CORRUPTION PERCEPTION INDEX 2021



SOURCE: Transparency International.

² The index ranks 180 countries and territories according to their perceived level of government corruption, with scores ranging from zero to 100, where zero indicates a high level of perceived corruption and 100 indicates a low level.

