

## Doing Business in Mexico

### Country Overview

Mexico is the world's 15<sup>th</sup> largest economy, according to the International Monetary Fund (IMF). World Bank analysts and Goldman Sachs predict that its economy could be the world's 5<sup>th</sup> largest by 2050. Mexico has a stable democracy and the country has considerable growth potential, with many advantages including a large, young workforce, a privileged geographical position for trade, and stable macroeconomic indicators. With a population of around 128 million, it is the largest Spanish-speaking country in the world and the second most-populous country in Latin America after Brazil.

Mexico City, the capital and one of the largest cities in the world, lies in the center of the country together with a number of other large cities in the Valley of Mexico, a temperate region between the hot, arid deserts in the northwest and wetter regions including rainforest in the southeast.

The European Union (EU) and Mexico have a free trade agreement known as the Global Agreement, which helps EU goods gain preferential access to Mexico. The agreement focuses on three main areas:

- commercial liberalization
- political dialogue
- co-operation

Mexico is a member of the United States – Mexico – Canada Agreement (USMCA). USMCA enables European companies to use Mexico as a low-cost manufacturing base with direct, duty-free access to the United States and Canada.

Mexico City is one of the most important economic hubs in Latin America. Mexico City had a GDP of \$390 billion, ranking it as the eighth richest city in the world and the richest in Latin America. Mexico City alone would rank as the 30<sup>th</sup> largest economy in the world. The high spending power of Mexico City inhabitants makes the city attractive for companies offering prestige and luxury goods. Mexico City has one of the world's fastest-growing economies and its GDP is set to double by 2020.

### Economic overview

Mexico is an upper-middle income country with a population of around 128 million. According to IMF forecasts GDP per capita for 2017 will be 19,893 PPP. However, wealth is distributed very unequally, with 46% of the population living in poverty and 38% of the national income held by the top 1%. Mexico's GDP is mainly driven by the services sector, which accounted for 62% of GDP in the third quarter of 2016. In terms of competitiveness, the 2016 World Bank's "Doing Business" index ranked Mexico as the easiest country to do business with in the Latin American and Caribbean region.

Mexico is the biggest exporter in Latin America. Mexico's commercial structure is defined by large intra-industrial trade, as its main exports are in the same industries as its main imports: machinery, electrical equipment, automobiles, mechanical inputs, minerals, oil and gas. With 12 Free Trade Agreements covering 46 countries, including the US and the EU, Mexico is one of the most open economies in the world. Nevertheless, Mexico's main trading partner remains the US, where around 81% of Mexican goods and services are exported (2016). Despite only 2.7% of Mexican products being exported to Canada, it is Mexico's 2<sup>nd</sup> largest exporting destination, whilst the UK accounts for less than 1%.

The Mexican economy is highly dependent on US demand for imports (mainly manufactured goods) and economic activity has decreased since 2010 mainly as a result of falling international demand for Mexican goods – in 2010 growth reached 5.5%, by 2016 it was 2.3%. The IMF predicts annual growth of 1.7% in 2017 and of 2% in 2018, against 1.2% growth in the Latin American region as a whole in 2017. The low growth expectations are the result of a fall in consumer and investment confidence, a decrease in government revenue due mainly to low oil prices, the depreciation of the Peso against the Dollar, and overall uncertainty regarding the US-Mexico relation.

Monetary policy is responsible and efficient. Inflation was low and within the limits of the Central Bank target (+/- 3%) in 2016 (with an average monthly general inflation of 2.86%), however, it reached a peak of 4.7% in the first month of 2017. The main factor driving this increase was the adjustment of energy prices, mainly of petrol and LP gas. Underlying inflation is very low, with an average monthly rate of 3.06% in 2016.

There has been an increase in debt-to-GDP since 2014, especially due to the mentioned collapse in oil prices. However, with the tax reform of 2014, non-oil revenue has increased and non-mandatory expenditures have decreased, so net public debt as a proportion of GDP in 2016 (46.2%) continues to be low compared to international figures – for example UK (85%), US (81%), Spain (65%). Additionally, the tightening of public expenditure is expected to continue during 2017, making it possible to achieve a surplus for the first time in the last ten years.

International reserves are currently around US \$174 billion and represent an important shield against exchange rate volatility. Current account deficits are more than compensated for by large capital account surpluses. This, added to huge reserves, prevents Mexico from suffering a balance of payments crises or a sudden stop.

Mexico has considerable growth potential; World Bank analysts and Goldman Sachs predict that its economy could be the world's 5<sup>th</sup> largest by 2050. Mexico has many advantages, including a large, young workforce, a privileged geographical position for trade, and stable macroeconomic indicators.

## Cultural differences in Mexico

You will meet with different cultures when you start doing business abroad. You'll be more likely to succeed if you're aware of these differences.

Being familiar with local customs will help you deal successfully with foreign business partners. Holland House Mexico can give you tips and advice. We know the local business culture and can work with language and cultural barriers. According to Geert Hofstede's cultural dimensions, Mexican culture can be understood in the following manner.

### POWER DISTANCE

This dimension deals with the fact that all individuals in societies are not equal – it expresses the attitude of the culture towards these inequalities amongst us. Power Distance is defined as *the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally*.

At a score of 81, Mexico is a hierarchical society. This means that people accept a hierarchical order in which everybody has a place and which needs no further justification. Hierarchy in an organization is seen as reflecting inherent inequalities, centralization is popular, subordinates expect to be told what to do and the ideal boss is a benevolent autocrat

### INDIVIDUALISM

The fundamental issue addressed by this dimension is *the degree of interdependence a society maintains among its members*. It has to do with whether people's self-image is defined in terms of "I" or "We". In Individualist societies people are supposed to look after themselves and their direct family only. In Collectivist societies people belong to 'in groups' that take care of them in exchange for loyalty.

Mexico, with a score of 30 is considered a collectivistic society. This is manifest in a close long-term commitment to the member 'group', be that a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group. In collectivist societies offence leads to shame and loss of face, employer/employee relationships are perceived in moral terms (like a family link), hiring and promotion decisions take account of the employee's in-group, management is the management of groups.

### MASCULINITY

A high score (Masculine) on this dimension indicates that the society will be driven by competition, achievement and success, with success being defined by the winner/best in field – a value system that starts in school and continues throughout organizational life.

A low score (Feminine) on the dimension means that the dominant values in society are caring for others and quality of life. A Feminine society is one where quality of life is the sign of success and standing out from the crowd is not admirable. *The fundamental issue here is what motivates people, wanting to be the best (Masculine) or liking what you do (Feminine).*

Mexico scores 69 on this dimension and is thus a Masculine society. In Masculine countries people “live in order to work”, managers are expected to be decisive and assertive, the emphasis is on equity, competition and performance and conflicts are resolved by fighting them out.

#### UNCERTAINTY AVOIDANCE

The dimension Uncertainty Avoidance has to do with the way that a society deals with the fact that the future can never be known: should we try to control the future or just let it happen? This ambiguity brings with it anxiety and different cultures have learnt to deal with this anxiety in different ways. *The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these* is reflected in the score on Uncertainty Avoidance.

Mexico scores 82 on this dimension and thus has a very high preference for avoiding uncertainty. Countries exhibiting high Uncertainty Avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. In these cultures there is an emotional need for rules (even if the rules never seem to work) time is money, people have an inner urge to be busy and work hard, precision and punctuality are the norm, innovation may be resisted, security is an important element in individual motivation.

#### LONG TERM ORIENTATION

This dimension describes *how every society has to maintain some links with its own past while dealing with the challenges of the present and future*, and societies prioritize these two existential goals differently. Normative societies, which score low on this dimension, for example, prefer to maintain time-honored traditions and norms while viewing societal change with suspicion. Those with a culture which scores high, on the other hand, take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future.

The relatively low score of 24 means that the Mexican culture is normative. People in such societies have a strong concern with establishing the absolute Truth; they are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results.

#### INDULGENCE

One challenge that confronts humanity, now and in the past, is the degree to which small children are socialized. Without socialization we do not become “human”. This dimension is defined as *the extent to*

*which people try to control their desires and impulses, based on the way they were raised. Relatively weak control is called “Indulgence” and relatively strong control is called “Restraint”. Cultures can, therefore, be described as Indulgent or Restrained.*

With a very high score of 97, Mexican culture has a definite tendency toward Indulgence. People in societies classified by a high score in Indulgence generally exhibit a willingness to realize their impulses and desires with regard to enjoying life and having fun. They possess a positive attitude and have a tendency towards optimism. In addition, they place a higher degree of importance on leisure time, act as they please and spend money as they wish.

### **Do's-and-don'ts in Mexico**

You'll notice that doing business in Mexico takes more time than in The Netherlands. Mexican culture will focus on first establishing a solid personal relationship, before venturing into business. Furthermore, processes will take longer to finish, especially when dealing with governmental entities. Patience is the way to go.

### **Language**

The official language in Mexico is Spanish, which is spoken in different dialects across the country. A great number of indigenous languages prevail. It is not uncommon for businessmen not to speak English. Most government officials also do not speak English. In the north of the country there are more English-speaking Mexicans. Their subculture is also more direct than other parts of the country.

### **Business meetings**

The communication style in business is diplomatic and indirect. Although infamous for always being late, it is very important to be on time for a business meeting. Failing to do so will be interpreted as a lack of interest in the counterpart. Generally, a Mexican will not answer you with a clear “no”. This in no way means that your counterpart is saying “yes” to your ideas. The Mexican businessman tends to take their time to take decisions. It is also common that certain opinions get expressed multiple times, as if they were being highlighted. This should give you a better understanding of what your counterpart is really thinking. It could happen that you assume a deal is coming through, but no action is taken by your Mexican partner, hence silently indicating they were not (entirely) on board with the project. Agreements with large international corporations are generally strictly honored.

### **Communication**

Mexico is a culture with high power distance, hence status is important to acknowledge in everyday encounters. Status is based on family background and professional achievements. As in many Spanish speaking countries, it is custom that people have two last names; from the father and the mother. Make

sure to address people stating their professional position (Licenciado, Doctor, Maestro etc.) followed by their two last names. In case a professional position is not clear, address people with Señor, Señora, Señorita, etc.

Due to the hierarchical structure of Mexican culture, employees are unlikely to give critical feedback, particularly to those in higher positions. It is common to ask for permission before starting new tasks and projects. During business communications, make sure you are directing your efforts towards people that have the power to take decisions.

### **Closing the deal**

Coming to Mexico, your goal is probably to establish successful business relationships. However, the average Mexican will take business decisions based on the personal relationship you have built. If you have transmitted to be trustworthy and have treated your Mexican counterpart with care and attention, you are likely to have established a solid basis for successful business.



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