

**Unlocking supply chain opportunities:
How Mexico can succeed in the digital revolution**



FOUNDATION
FOR
**FUTURE
SUPPLY
CHAIN**

A recent presentation by:

**Professor John Manners-Bell
Director, Foundation for Future Supply Chains**



Overview

- The World is changing rapidly
- Global economy is in transformation
- This has major implications for Emerging markets
- Mexico can benefit from location next to world's largest economy and friend-shoring trends

But this is not guaranteed

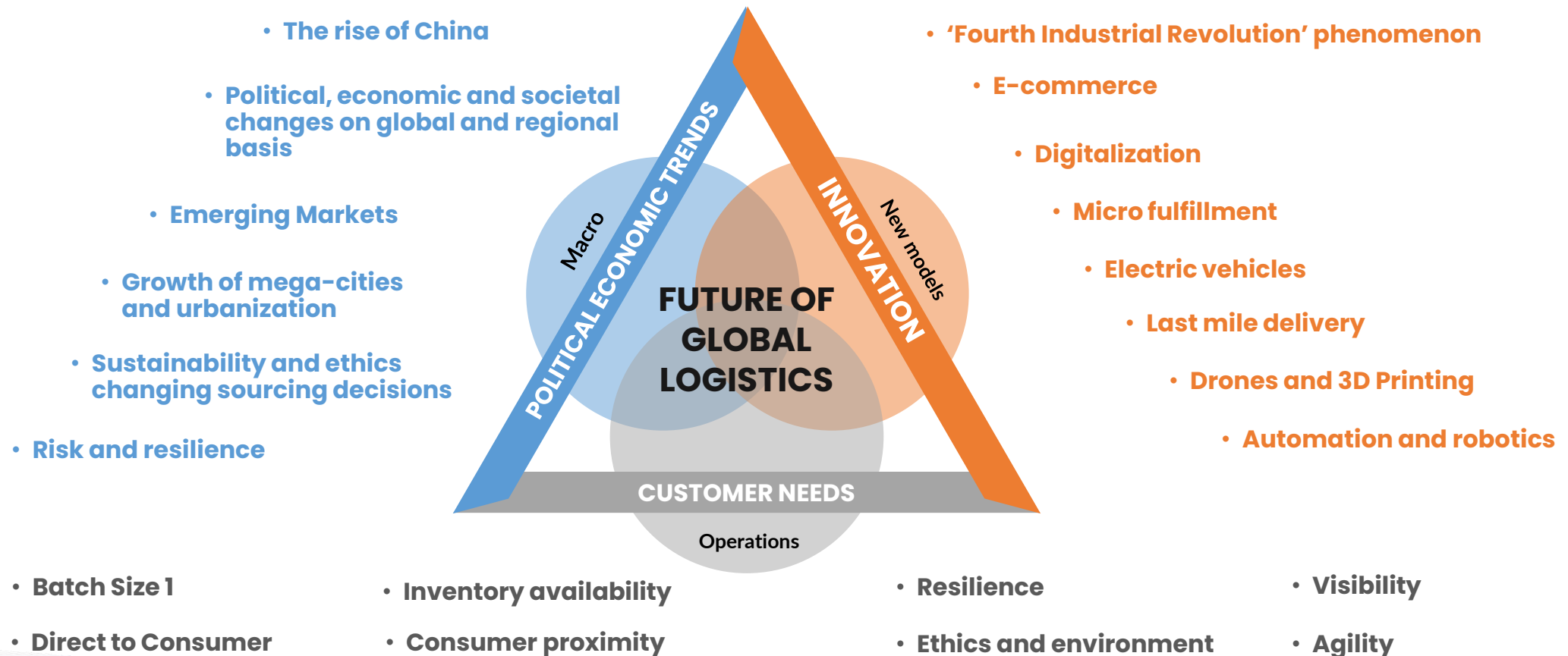
This presentation will examine:

1. Global trends
2. Their impact on Emerging Markets
3. Mexico's opportunities



Global Supply Chain Disruption and De(re)globalization

Forces shaping the global logistics industry



Innovation – transforming the economy

The Fourth Industrial Revolution is transforming the societies and economies in which we live



Information
services

The flow of data through the supply chain

- Digitization of data
- Low cost sensors
- 'Big Data'
- Artificial Intelligence



Logistics
services

New logistics business models

- Digitalization of markets
- E-commerce logistics and last mile
- Crowd-shipping
- On-demand delivery



Delivery
capabilities

Revolutionized delivery methods

- Autonomous Trucks
- Drones
- Delivery robots



Circular
economy

Innovation to drive sustainability

- Sharing economy
- Alternative 'future fuels'

Political and Economic Trends

DOMESTIC

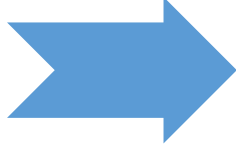
For many years US has been concerned that the growth of China's manufacturing sector has been at the **expense of domestic jobs and economy.**



**RUST BELTS
RE-SHORING**

TRADE WARS

The US has countered with a range of tariffs and non-tariff barriers to trade with China.



**NEAR SOURCING
'CHINA PLUS'**

GEOPOLITICS

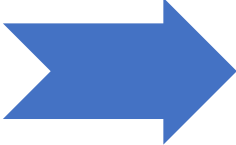
China has used globalization to project soft power. The West is trying to build alternatives to China's Belt & Road.



**ETHICAL SOURCING
FRIEND-SHORING**

SECURITY

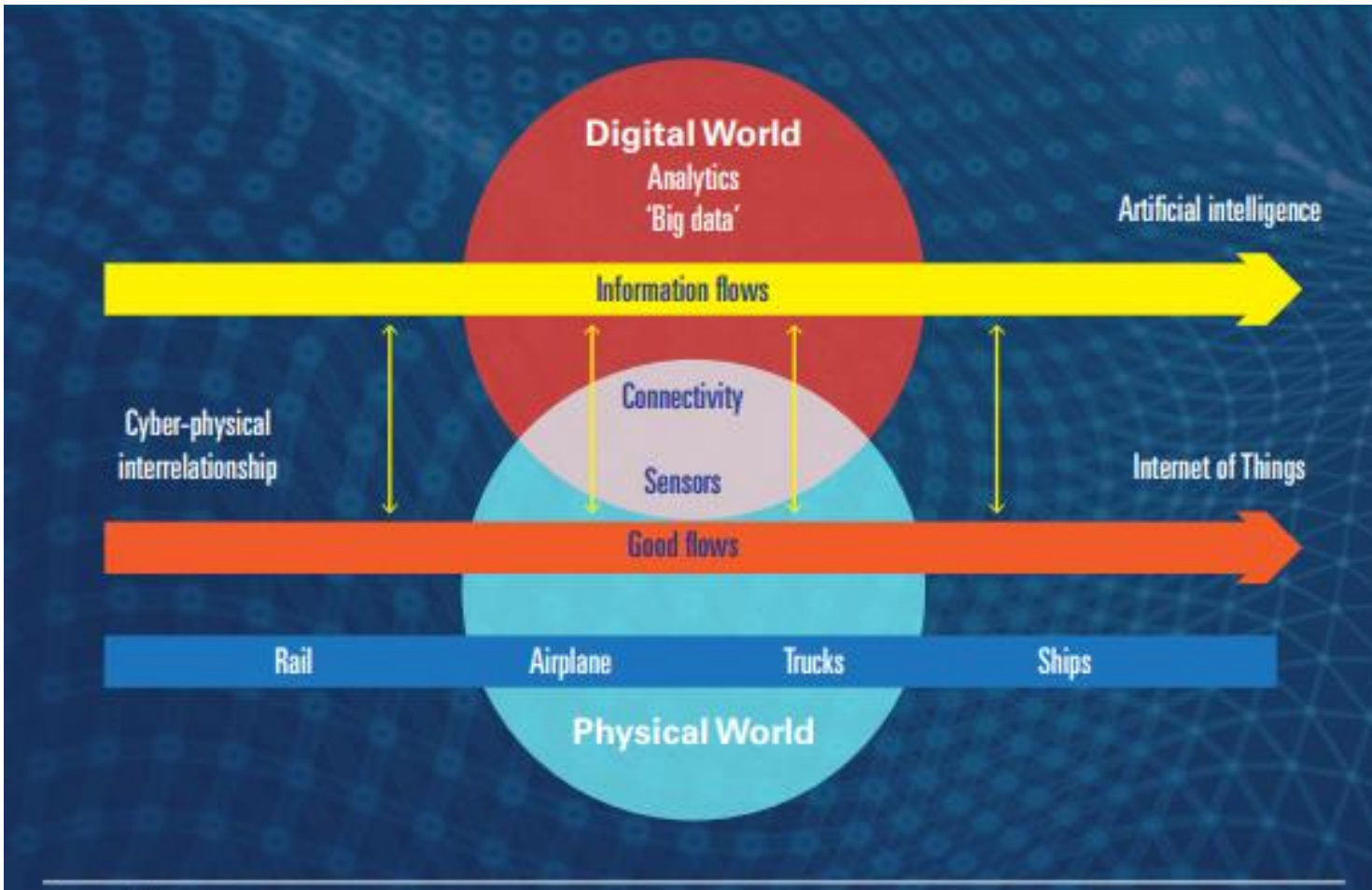
Most recently US has placed controls on the export of advanced technologies to China, threatening growth of high tech sector



**DUAL SUPPLY
CHAINS**

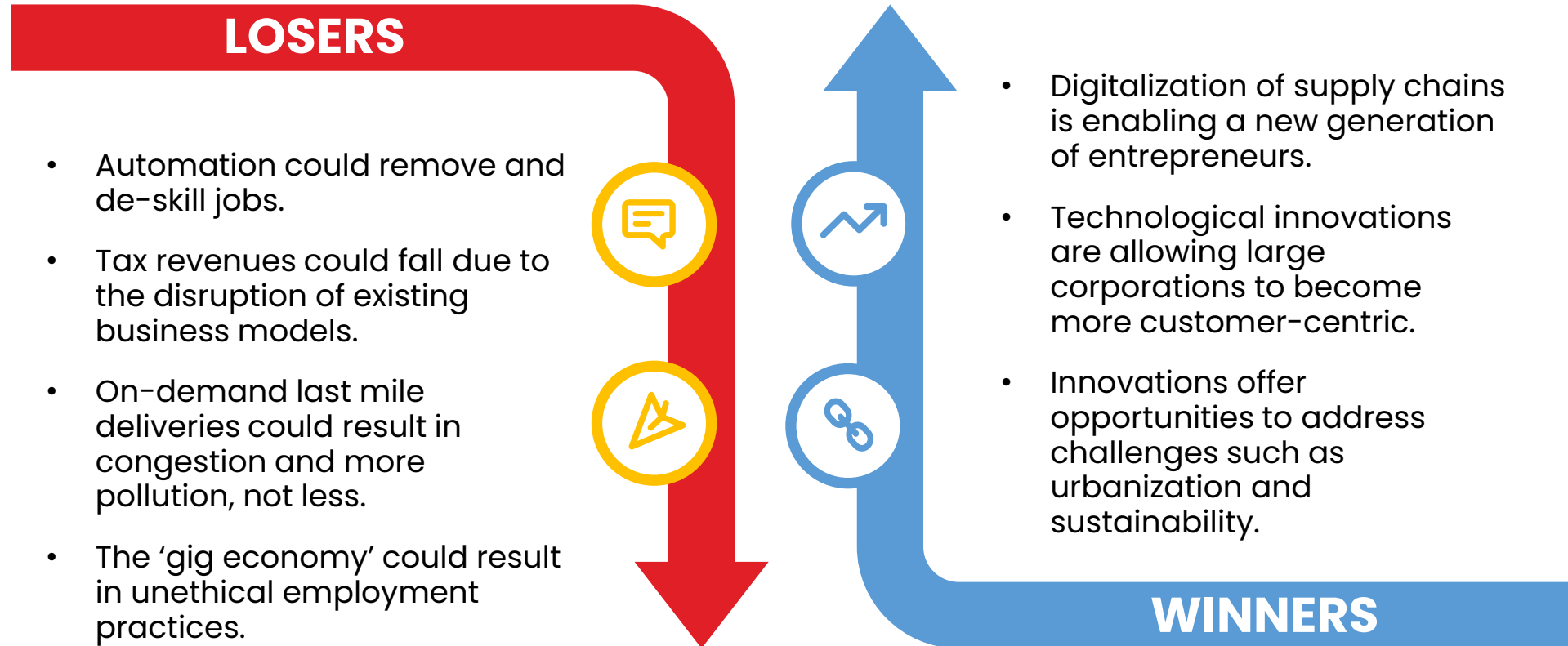
Many emerging markets 'caught in the middle'

Digital & Physical World Intersect to meet Customer Needs



- Customer needs**
- Inventory 'right sizing'**
 - Order volatility**
 - Shipment fragmentation**
 - Inventory availability**
 - Just in Time**
 - Dispersed location**
 - Resiliency**

Opportunities...but also risks



Many questions remain

Where next for Emerging Markets in a Post Covid/'Post China' world?

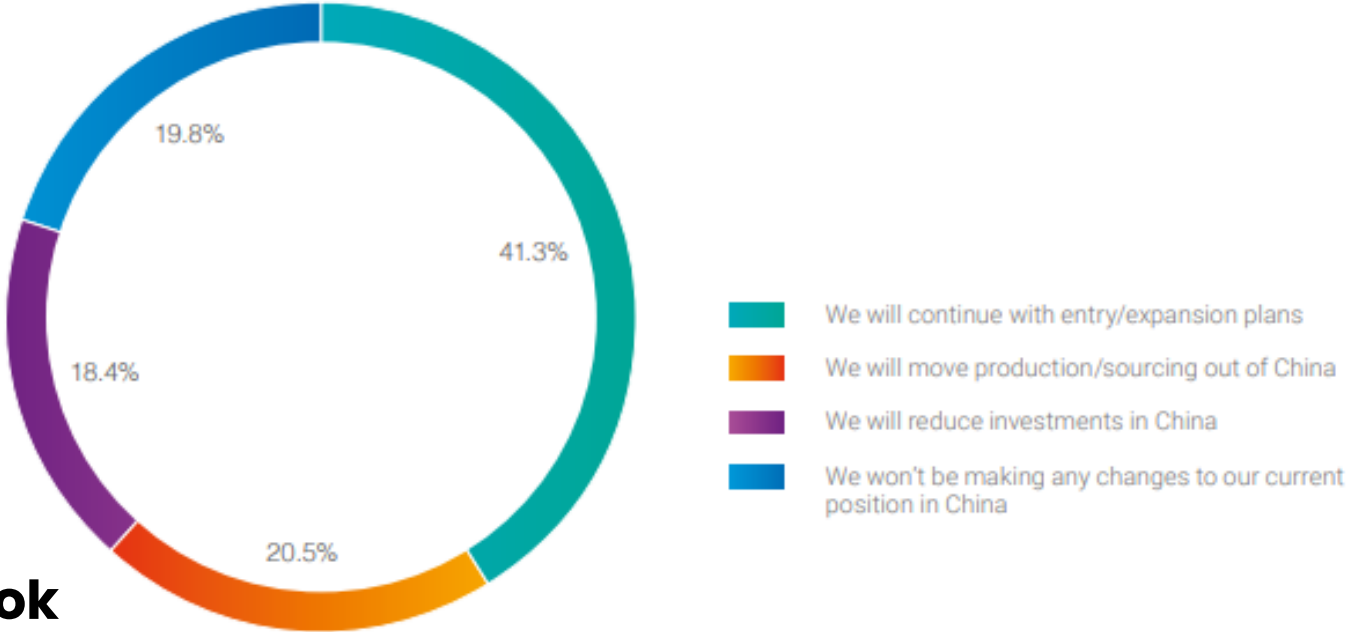
Impact of trends of Emerging Markets

About 20% of manufacturers surveyed say they will move production and sourcing out of China

About 20% of customers surveyed say they will reduce investments in China

But what will future supply chains look like?

Which statement best reflects your plans for the Chinese market over the next 5 years?



Survey results come from a recent TI survey – full results are available through <https://gsci.ti-insight.com/>

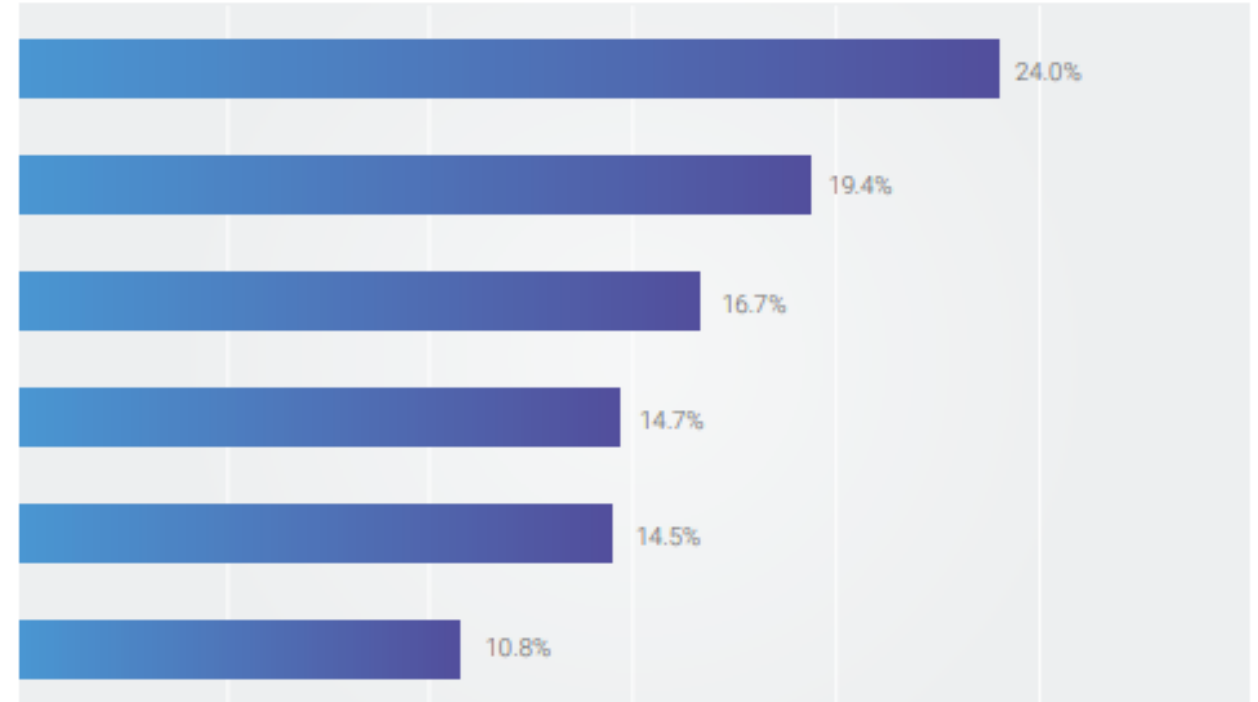
Post Covid/Post China investment

Which of the following statements best describe your company's post-Covid supply chain?

Multi-sourcing



Moved production/sourcing to multiple locations to diversify and lower supply chain risk (multi-sourcing/multi-shoring)



Re-shoring



Moved more production/sourcing onshore (home market)

Near-shoring



Moved more production/sourcing to countries close to our markets (near-shoring)

Friend-shoring



Moved production/sourcing to countries with policies akin to home country's policies (friend-shoring)

Regionalized



Regionalised our supply chains (reorganised production/sourcing into smaller blocks belonging to more localized economies)

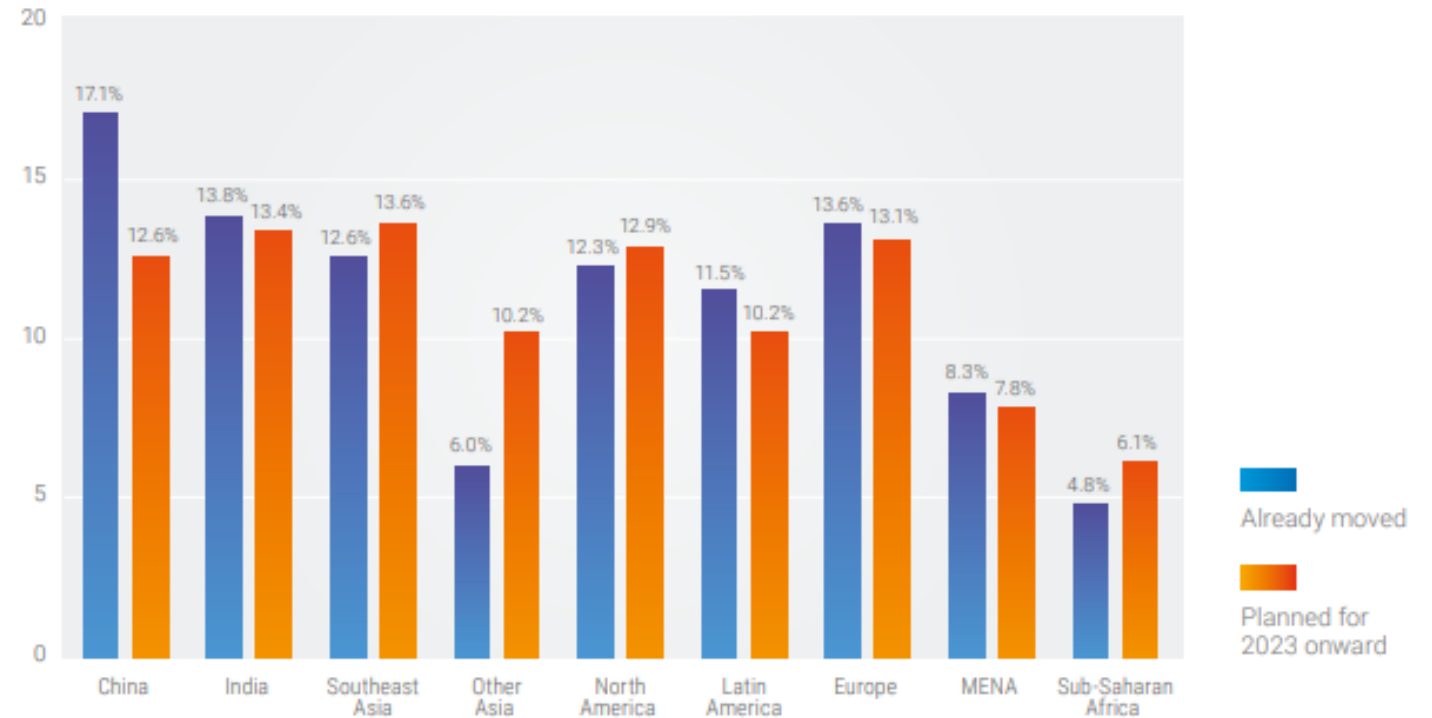
Looks about the same

Survey results come from a recent TI survey – full results are available through <https://gsci.ti-insight.com/>

Where will production and sourcing move?

Do you plan to move production/sourcing activities TO any of the following regions?

- China falling in importance
- India, South East Asia, North America, Europe more important destinations in future
- Latin America not so much

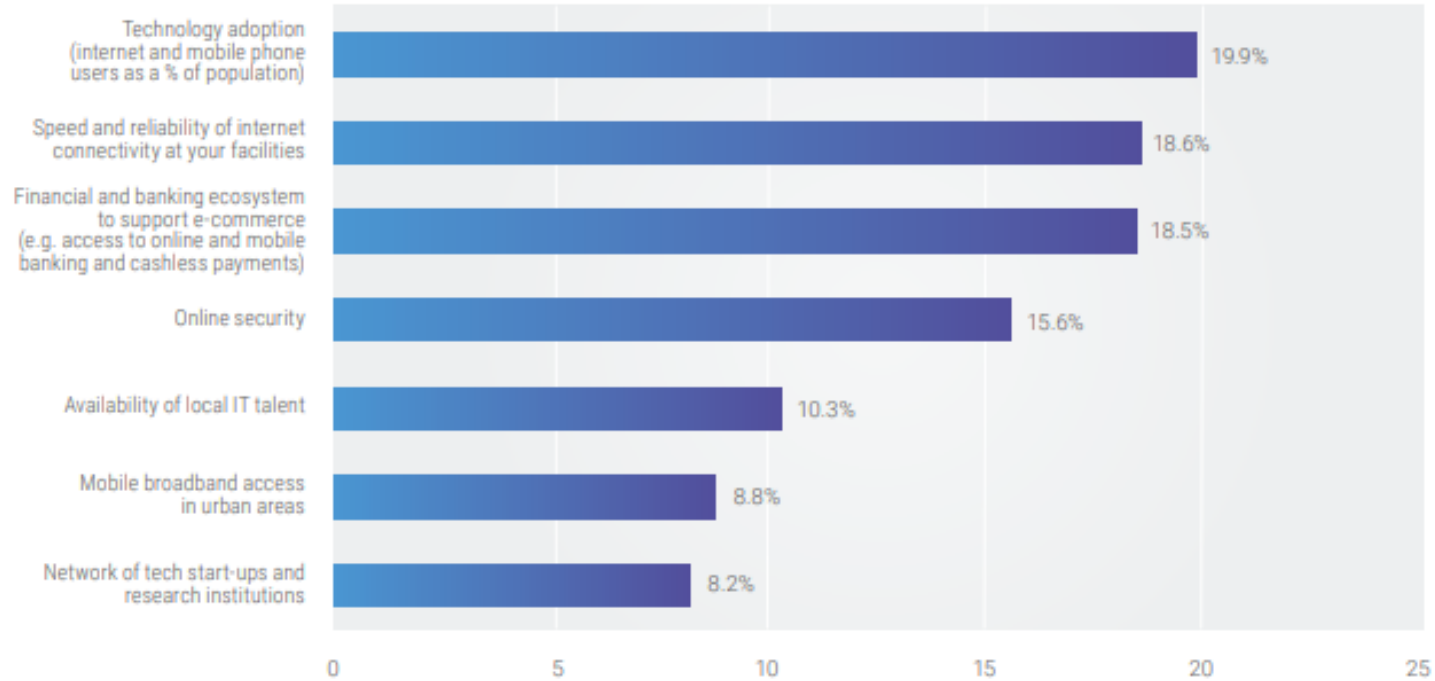


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Most important aspect of Digital Readiness for Emerging Markets

Which of the following digital readiness factors are important to your business when deciding whether to invest in an emerging market?

- Internet/mobile penetration →
- Internet speed and reliability →
- Banking penetration →
- Online security →
- Tech resources →
- Broadband access →
- Tech start ups and research →



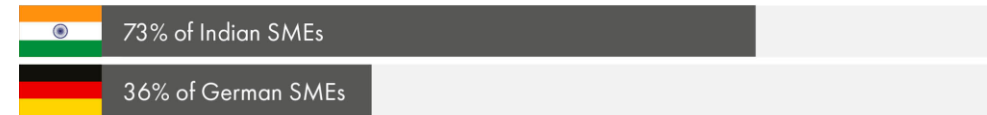
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Crossborder e-commerce small business survey

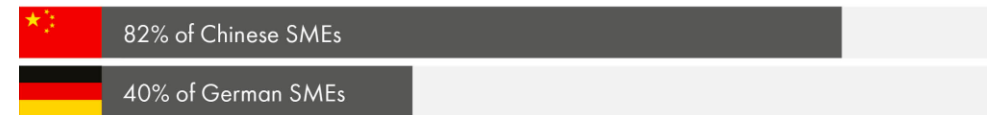
- No accurate picture of landed costs
- Costs too high
- Difficulty understanding documentation procedures
- Logistics providers not providing services
- Shipments stopped in Customs
- Goods lost or untraceable

Regional comparisons: the proportion of SME leaders who say the following issues are challenging

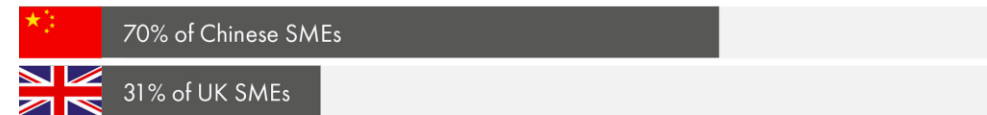
 International laws and compliance



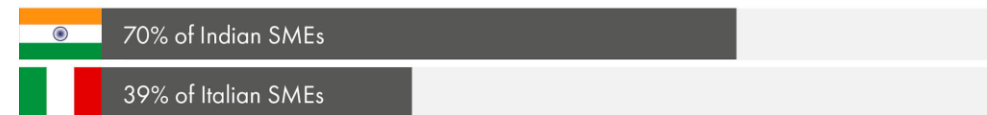
 Economic risks



 Legal risks



 Political risks



Seizing the e-Commerce opportunity

- Integrate infrastructure, multimodal logistics networks with technology, trade process and compliance
- Barriers to market access include:
 - Foreign investment
 - Trade process complexity
 - Regulatory environment
 - Bank account penetration



Mexico's opportunities and challenges

Mexico's position in the Emerging Market Logistics Index 2023

Rank	Rank Change	Country	Overall Score	Last Year's Score
1	0	China	8.31	9.75
2	0	India	7.43	7.23
3	0	UAE	6.59	5.73
4	0	Malaysia	6.16	5.92
5	0	Indonesia	6.08	5.51
6	0	Saudi Arabia	6.07	5.95
7	0	Qatar	6.02	4.89
8	0	Thailand	5.67	6.01
9	0	Mexico	5.55	6.40
10	1	Vietnam	5.52	5.87

9th 

Mexico appears in top 10 Agility Emerging Markets Logistics Index

Highest ranking of any Latin American country

However, no room for complacency

The political environment in many Latin American countries not conducive to investment.

Some regarded as hostile to foreign companies

Post-pandemic recovery slower

Wage increases nullify competitive advantage over Chinese competitors

Low public investment holding market back (Mexico lowest amongst OECD countries)

The full Agility Emerging Markets Logistics Index is available here:

<https://www.ti-insight.com/whitepapers/2023-agility-emerging-markets-logistics-index>

Mexico in the Agility Emerging Markets Logistics Index 2023

8th



Domestic Logistics Opportunities			
1	China	8.47	0
2	India	8.04	0
3	Indonesia	6.34	0
4	Qatar	5.91	0
5	UAE	5.60	0
6	Brazil	5.42	1
7	Saudi Arabia	5.38	1
8	Mexico	5.37	-2
9	Malaysia	5.29	0
10	Pakistan	5.16	6

3rd



International Logistics Opportunities			
1	China	9.75	0
2	India	7.45	0
3	Mexico	6.32	0
4	Vietnam	6.03	1
5	Thailand	5.98	-1
6	Indonesia	5.89	0
7	UAE	5.89	2
8	Malaysia	5.88	-1
9	Saudi Arabia	5.74	2
10	Turkey	5.70	-2

24th



Digital Readiness			
1	India	7.61	4
2	UAE	7.37	-1
3	Malaysia	6.72	-1
4	China	6.63	-1
5	Qatar	6.38	2
6	Saudi Arabia	6.30	-2
7	Indonesia	6.21	1
8	Thailand	6.04	-2
9	Philippines	5.99	1
10	Oman	5.81	5
23	Sri Lanka	5.12	7
24	Mexico	5.11	-6
25	Kazakhstan	5.10	3

25th



Business Fundamentals			
1	UAE	9.10	0
2	Qatar	7.92	2
3	Saudi Arabia	7.86	0
4	Malaysia	7.85	-2
5	Oman	7.24	1
6	Bahrain	7.15	-1
7	China	7.11	1
8	Chile	7.01	-1
9	Jordan	6.72	1
10	Morocco	6.45	-1
11	Kuwait	6.23	1
24	Kenya	4.97	1
25	Mexico	4.93	-4
26	Tanzania	4.70	0

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Re-shoring: Advantage Mexico?

Innate advantages:

- Similar geographies and overlapping time zones
- Producers can shorten lead times
- Improve service delivery
- Offer greater levels of customization.



Lower risks:

- West Coast congestion
- Political stability within USMCA
- Covid 19

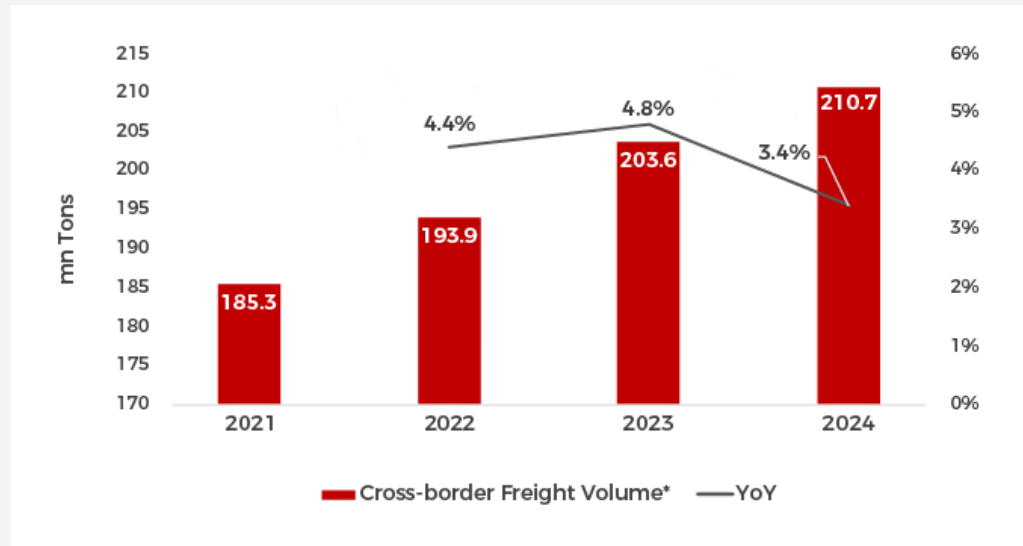
More competitive than China, according to BCG:

- Lower factory wages (\$3.90 vs \$5.58)
- Attractive currency exchange rates
- Lower energy costs
- Better productivity
- Lower tariffs (0.04% vs 19.2%)
- TFA implementation 100%

Re-shoring taking hold

- Freight on MX- US trade routes set to grow by 5% in 2023, more than double global trade rates
- Record 203m tons of freight forecast in 2023 up from 194m in 2022
- Automotive and food and beverage are key growth sectors
- **16% of surveyed companies said they had benefited from a demand increase over the previous 12 months resulting from nearshoring.**

In Latin America, the volume of **all freight moved could reach 200 mn tons** for both southbound and northbound shipments in 2023

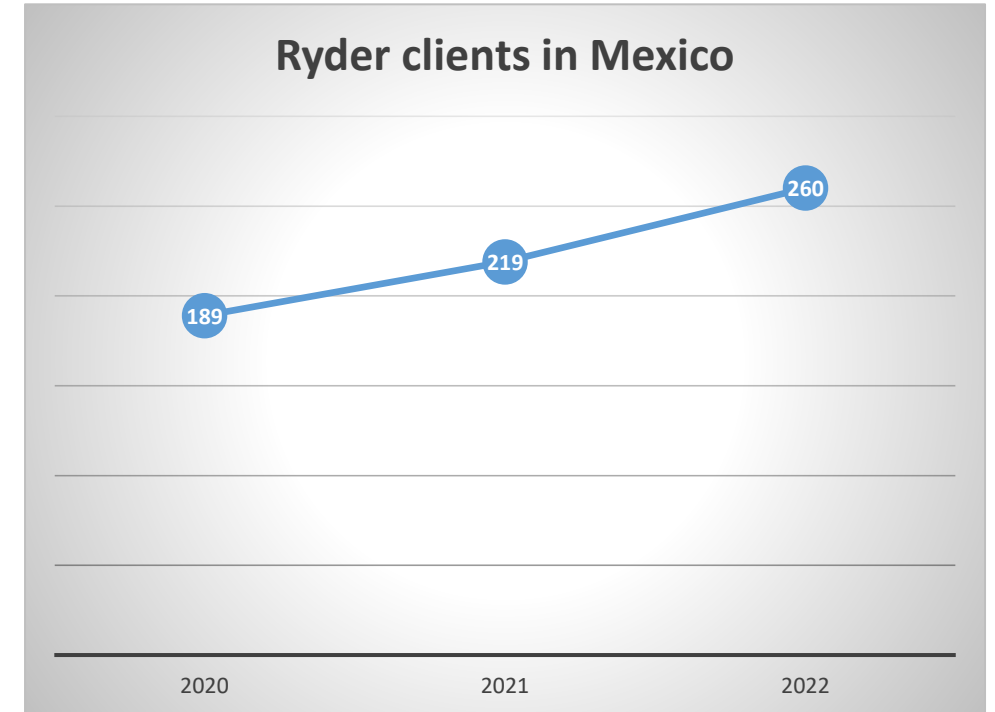


*Includes northbound and southbound

Source: AMI analysis based on US DoT, and US and Mexican trade data

Re-shoring drives logistics investment

- US logistics and rail companies ramping up operations
- Ryder – ‘automotive and industrial driving growth’
- ‘40% of logistics leasing in Mexico in 2022 was driven by nearshoring activities – a new record high’ – Prologis
- Redwood Logistics leverage investments in automotive, pharma and food and beverage.
- Clients are ‘shortening lead times and diversifying their supply chains’.



“With Mexico, you simply put what you need on a truck and can have it at a final-mile distribution warehouse within days, rather than months.” Redwood Mexico.

5 key challenges for Mexico's supply chains

1. Rising labour costs
2. Level and location of public infrastructure investment
3. Business policies and regulation
4. Lack of management staff, skills shortage, education investment and driver shortage
5. Corruption, cargo crime and security



Source: Supply Chain Dive

What must Mexico do to leverage digital economy?

- Increase investment in broadband and mobile telecom infrastructure.
- Encourage take up of bank accounts to allow consumers to participate on digital platforms.
- Push for increased level of digitization of shipment documentation to reduce frictional costs, improve efficiency, as well as increasing shipment visibility.
- Adopt open data policies allowing app development and platforms which support SMEs.
- Liberalize domestic logistics sectors and encourage investment by international companies.
- Provide consumers with the confidence that they will be able to return e-commerce goods bought internationally.
- Increase levels of training and skills which equip an entrepreneurial workforce to thrive in this new digital market.



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