

# **The Small and Medium Sized Enterprises (SMEs) in Mexico: the Case of Jalisco State**

Tomohiro Kakihara

## **1. Introduction**

Since the economic partnership agreements have gone into effect in April 2005, which set FTA as a principal axis, the economical tie-up of Japan and Mexico has not been so active because of geographic factors etc, but on SMEs policy level the cooperation has been activating in recent years between Japan and Mexico. Conventionally, Mexico was taking the industrial policy centering on major companies as a national policy while SMEs policy not so actively.

Although the system design of SMEs policy is carried out in Mexico at present, the policy itself has not resulted in the stage performed effectively. On the other hand, in Japan, SMEs policy is smoothly performed compared with Mexico. Therefore, it is necessary to consider what implications are obtained from SMEs policy of Japan when Mexico develops SMEs policy and cooperates with Japan.

Firstly, the purpose of this report is to clarify the feature and subject of SMEs policy of Mexico performed now. Secondly, we will compare SMEs policy of Japan and Mexico with the points of view of similarity and difference, and, in a situation where SMEs cooperation of Japan and Mexico will be expected to strengthen, put emphasis on examining how SMEs policy currently implemented in Japan could be applicable in the fields where SMEs policy of Mexico has some issues.

## **2. The outline of Mexican Economy**

Mexico is located in the southernmost tip of the North American Continent and

the country size is about 2 million km<sup>2</sup> (about 5 times of Japan), and also blessed with natural resources. It is the country that adjoins the economic big power, United States, and also has the geographical merit. The population of Mexico is over 100 million people in 2008, and Mexico has the young abundant labor force (the average age 23 years old). Moreover, the unemployment rate is low at about 3.5% in August, 2008<sup>1)</sup> (**Table-1**).

Mexico accomplishes economic growth favorably after NAFTA subscription, and nominal GDP is increasing. After 2006 an economic growth rate is in a bearish tendency, under the influence of an economic crisis, the economic growth rate in 2009 is falling sharply with -7.34% by prediction of IMF (**Figure-1**).

Although the trade volume between Japan and Mexico has suited the downward tendency since 2000, it changed to go up in 2004, and is increasing favorably after the EPA conclusion in 2005. The export value from Japan to Mexico is on a high level with 10 billion dollars by customs-cleared basis in 2007 (**Figure-2**).

**Table-1** Population and labor force in 2008 (Japan, Mexico)

(Unit: 10 thousand)

	Japan	Mexico
The total population	12,770	10,657
Labor force	6,620	4,546
The number of workers	6,366	4,386
The number of unemployment	254	159
Unemployment rate (%)	3.8	3.4

(Source)

Japan: Ministry of Internal Affairs and Communications Statistics Bureau

Mexico: INEGI

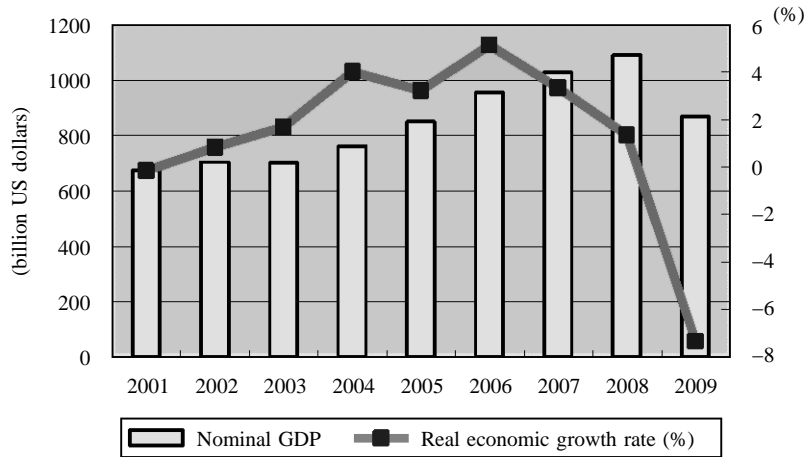
(Notes)

1. The data of Japan shows the number in October, 2008.
2. The data of Mexico shows the number in August, 2008.

---

1) In Mexico, since unemployment compensation does not exist, people have to work inevitably. Those who worked per week for at least 1 hour are no longer a jobless people. Jobless people are defined only as those in whom job-hunting activities are possible, without working at all. It is difficult to grasp an actual unemployment rate since it is necessary to consider many laborers engaged in unstable and inadequate labor. (Overseas Vocational Training Association [2008], p. 2)

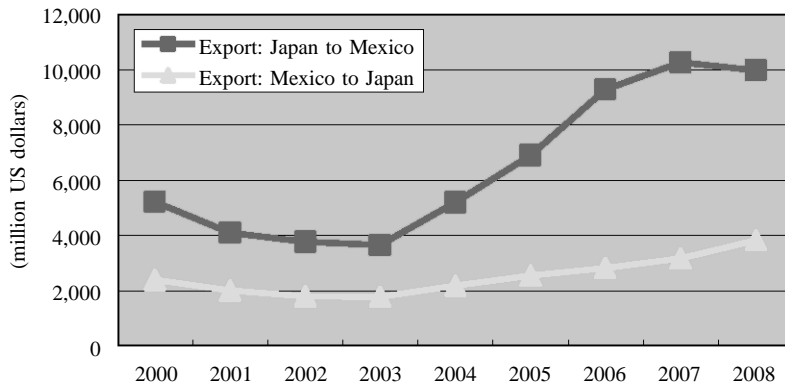
**Figure-1** Nominal GDP and real economic growth



(Source) IMF - World Economic Outlook

(Note) The value in 2009 shows an estimation value by IMF.

**Figure-2** Trade volume (Japan, Mexico)



(Source) JETRO (<http://www.jetro.go.jp/indexj.html>)

(Note) The amount of money depends on a value on a customs-cleared basis.

### 3. SMEs in Mexico

#### (1) A definition of SME

The SME of Mexico are defined by the law (Ley del desarrollo de la competitividad de la Micro, Pequeña y Mediana Empresa: Established in 2002) as a small- and medium-sized enterprises method of Japan; as for the manufacturing industry, 250 or less employees are defined as SME and as for commercial service business,

100 or less employees are defined as SME<sup>2)</sup>. Although a definition of SME changes with each country, **Table-2** shows comparison of SME by the number of employees.

At the classification by the number of employees of Japan, Mexico, and EU, there is no much difference. In the U.S. case, the number has increased a little. Moreover, each country has classified the companies by adding the capital, sales, etc. to the number of employees<sup>3)</sup>.

**Table-2** A definition of SMEs of each country (the number of employees)

country	Sector	The number of employees
Japan	Industry	300 or less
	Service	100 or less
Mexico	Industry	250 or less
	Commerce and Service	100 or less
America	Industry	500 or less
EU	No specification	250 or less

(Source)

Japan: White Paper on Small and Medium Enterprises in Japan (2007)

Mexico: SMEs in Mexico (2007)

America: The Small Business Economy (2006)

EU: Recommendation 03/361/EC

## (2) The number of SME and size of business

The number of companies of Mexico is about 2,900,000 companies in 2005, and micro companies form about 95% of the whole. Although the share of micro companies is a little low in the manufacturing industry it is over 90% in each type of industry. Moreover, the rate of SME forms about 99.6% of the whole and the

2) In micro company, the number of employees is from 0 to 10 persons regardless of a type of industry. In small company, the number of employees of the industry and a service industry is from 11 to 30 persons and commerce is from 11 to 50 persons. In middle-sized company, the number of employees of the manufacturing industry is from 51 to 250 persons and a service industry is from 51 to 100 persons and commerce is from 31 to 100 persons a service industry is from 51 to 100 persons (OECD [2007] SMEs in Mexico, p. 15). In addition, legal revision is made 2009 and sales will be added to the number of employees.

3) For the details of a definition of SME of each country, please refer to follows. Japan: "White Paper on Small and Medium Enterprises in Japan", U.S.: "The Small Business Economy", and EU: "03/361/of Recommendation(s) EC".

**Table-3** The number of companies and a size of business rate (2005)

Sector	Number of Companies	Size of Companies			
		Micro	Small	Medium	Large
Industry	328718	90.9	6.0	2.2	0.9
Commerce	1580587	97.0	2.1	0.6	0.2
Service	1013743	94.7	4.3	0.5	0.5
Total	2923048	95.6	3.3	0.7	0.4

(Source) OECD [2007] SMEs in Mexico

numerousness of the numbers of SME is conspicuous (**Table-3**).

### (3) SMEs policy

The main public institution which is performing SMEs policy in Mexico is SECRETARIA DE ECONOMIA (say, SE). SE is taking charge not only of SMEs policy but of the policy on the big business. At least one SE is arranged in each state, and there are 50 branch offices in the whole country<sup>4)</sup>.

SE is supporting business in various fields (finance, management, qualification acquisition, innovation, advertisement, etc.) and covers what are almost required for corporate management.

#### Personnel training

##### COMPITE

In the state of Jalisco, SE cooperated with the organization on the national level called "COMPITE", and has dispatched the specialists for technical support to each company and to their seminars. SE is assisting holding expenses, when companies hold seminars, such as improvement in technology<sup>5)</sup>. The specialists who belong to COMPITE are unearthed on a state level, and the recruitmet is usually performed

---

4) There are 32 states in Mexico, and there is also a state which 2 branch offices have set. Moreover, the branch office of SE is established in the country which considers that it is important, and these sum totals are 50 branch offices. In addition, please refer to SE homepage for details. (<http://www.economia.gob.mx/?P=279#>)

5) The auxiliary amount changes with company scales; micro company : 70%, small company : 50%, middle-sized company : 30%, large company : with no assistance.

in the university, the chamber of commerce, etc. The persons who subscribed take an examination and are registered after that. All the type of occupation has been applicable and there are 540 registrants in the whole country in March 2009 (the state of Jalisco: about 30 persons). COMPITE pays the total of remuneration to specialists. The expense is covered from companies and SE. Although the remuneration is not clear, it is reasonable to the extent that at least the pay of COMPITE can hold a usual life. Moreover, the quality of service is standardized and also evaluated from the user companies.

When a company actually wants to invite a specialist, it is necessary to take the procedure by advancing a request to COMPITE. COMPITE which received the request chooses and dispatches a specialist considered to be fit. At the time of the beginning there is no right for a company to choose the specialist dispatched. When a company is pleased with the specialist dispatched first, the company is able to nominate him/her as long as his/her time allows 2nd one henceforth. Although COMPITE is also carrying out the follow-up after a seminar, the direct access from a company side to a specialist is prohibited.

#### Incubation policy

##### SARE

There exists the system of “SARE” for the purpose of promoting new business. This system quickly performs procedures for starting new business. As for companies treating other than science substances and alcohol contents, the period to starting the operation, for which had conventionally taken 90 days, becomes 72 hours at the shortest. It is restricted that commencement of business in the shortest 72 hours is attained when it applies in the specially set-up booth installed in each cities, towns and villages, but it is in only ten cities, towns and villages that the specially set-up booths are installed among 125 cities, towns and villages in the state of Jalisco. It is necessary to increase in the number of installation of booths, and to provide the method of applying efficiently even in a remote place by utilizing the Internet etc.

## SNIE

By the system of “SNIE”, assistance to incubation institutions is offered as a plan of promoting new business. The percentages of the present incubation institutions are 20% for the private sector and 30% for universities. The incubation is mainly made by using the facilities of universities, not in the private sector from the start. In the usual pattern, a private company carries a plan into a university, and after the university evaluates, it is started. As for expense, the country and states pay about 70% and the company pays about 30%. In the State of Jalisco, the first incubation was performed at the Guadalajara University in 2004, and now there are about 30 incubation institutions in Jalisco. In the whole country, there are about 450 incubation institutions.

## **4. The subject and measure of SMEs policy**

At the symposium held in Mexico in March, 2009, personnel training and financing were mainly mentioned as a common subject of a small-and-medium-sized-enterprises policy. The interest to personnel training is especially high, and to performing the bottom raising of SME, they now recognize personnel training to be indispensable. Moreover, it is a main issue for SMEs how financing can be made easy in the situation where they cannot easily take out loans from banks. In what follows, we explore whether there is any Japanese system which is applicable from both sides of personnel training and financing.

### (1) Personnel training

There are two aspects of affairs in personnel training. The one is an aspect of supporting SME: the public offerings of various supports to SME and the support service of those who have the qualification for supporting SME. For the public offerings, there are SE of Mexico, the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, prefectural support centers, chambers of commerce, commerce-and-industry meetings, etc. On the other hand, for the support service of those who support SME, there are supports of qualified persons,

such as the Small and Medium sized Enterprise Consultants and licensed tax accountants. In another aspect of affairs, there is various personnel training to SME; such as the training activities on the improvement in capability of managers and in nature of employees, etc. This includes training of the succession and corporate revival of SME.

In Mexico, the main public support organization<sup>6)</sup> of SME is SE. SE determines and implements SMEs policy, but in order to implement a policy effectively, we need the specialists who mediate a public office and SME and smoothly communicate the intention of a policy. Now, there is no unification examination system in Mexico which authorizes such specialists by the state. At present, the managers of SME have acquired the required information by asking local consultants and local public offices.

Since a consultant is what is performing business privately, it may be unable to declare that technical knowledge is enough. In order to improve this present condition, SE of the State of Jalisco cooperated with JICA in 2008, picked up the specialists (lawyers, accountants, consultants and so on) and constructed the system of introducing the specialists to SME, adapted to the contents which SME had for consultation (say, COMPITE). Although the registration number is not large, it seems that the further fine correspondence is attained by expanding special fields of study and the number. Since the registered specialists usually has their own jobs, it is not necessarily certain whether a specialist can respond to a request, when SME needs advice. In order to perform the system effectively, a measure to which SE directly employs specialists as full-time job may be needed from now on.

Another subject about personnel training is standardization of knowledge. In the situation which has a remarkable difference of temperature in an understanding of the policy enforced between a policy side and a company side, it is useful to improve the unific qualification by a state. In Japan qualification systems, such as

---

6) Although NAFIN is one of things like a credit guarantee association, this remains for carrying out the guaranty of liabilities to the bad debt of many financial institutions by management of fiduciary estate. So, this has not achieved a function completely like a Japanese credit guarantee association.

(<http://www.nafin.com/portalnf/content/otros/english.html>)



Small and Medium sized Enterprise Consultant, are established. The system of small and Medium sized Enterprise Consultant is employed some countries, such as Indonesia and Thailand, (even the Philippines under examination) and, from the viewpoint of standardization, it may function effectively in Mexico. It seems that SMEs policy will become effective by carrying out training of specialists in an organization like SME University in Japan. Towards the establishment of the system, strengthening cooperation between Japan and Mexico will be desired from now on.

In Mexico, the systematic training programs (establishment of a training organization etc.) with the personnel training to the managers and employees of SME have not been fixed.

## (2) Financial system

Although Mexico is in a “market-based” position of developing countries on a financial system, there are not so many companies which can finance from a market, most companies finance from a bank. However, if a company is not beyond a fixed scale, the company cannot take out a loan from a bank. Especially in the case of a small business, it is difficult for micro companies to finance not only from a market but also from a bank. Therefore, micro companies mainly finance by family connection (fund accommodation in relatives).

Although it seems that the commercial bank of Mexico is negative to the loan for SME, it is indispensable to analyze the existence of policy finance institutions

**Table-4** Fund-raising sources

(Unit: %)

Source of funds	Company scale		
	Small	Medium	Large
Suppliers' credit	66.7	57.2	52.3
Commercial Banks	13.7	19.8	21.1
Foreign Banks	0.9	2.9	3.1
Development Banks	1.7	1.2	3.1
Other Sources	17.0	18.9	20.4
Total	100	100	100

(Source) OECD [2007] SMEs in Mexico, p. 19

which complement this tendency, such as a national loan bank (NAFINSA), a national public-works bank (BANOBRAS), a national trade bank, and a farm village loan bank. According to the homepage, these policy finance institutions are not specializing in the loan and investment for SME. Therefore, a policy finance system which has such a function as the old Japan Finance Corporation for Small Business and Public Finance Corporation of Japan becomes important. At this point, it will become an imperative subject to improve a postal savings program in Mexico, which leads to form financial funds of policy finance.

## **5. Conclusion**

The survey of SMEs policy of Mexico has been made in this paper, which confirms that there are many subjects peculiar to emerging countries. One of them is a problem of personnel training and the relevant training system, and another is a financing support system of SME. As for the former, it is important to improve the training system of special talented people like the Small and Medium sized Enterprise Consultant system. For this point, we may refer to the Small and Medium sized Enterprise Consultant system (many countries in East Asia under introduction) of Japan. Furthermore, for various kinds of training of SMEs own managers and employees, we may also refer to a training organization like SME University in Japan or a job training school. At this point, the business model of SMRJ may be utilized more actively.

The support of financing is the problem of a financial system. Although the financial system of Mexico was led by the commercial bank, the financial institutions also lapsed into a big crisis under the economic crisis for 1994-95. This was so serious that a large sum of financial expense, corresponding to 20% of the gross domestic product, was estimated for relief of banks. In the process of this bank crisis, such a legal defect was exposed that the recovery of securities which guarantee bank loans was delayed and the bankruptcy processing was carried out very slowly. The laws correcting these defects are under construction.

The economic crisis from the end of 1994 brought about the increase in

bad loans and decline in a capital–adequacy ratio to the banking system. The government set about relief of the bank section focusing on CNBV and FOBAPROA. Debtor and creditor relief measures were prepared and, to the banks in which a large amount of bad loans are held, the intervention in the bank management and the sale of their properties were performed by the direct support of CNBV and FOBAPROA. As a result, the reorganization of the bank section advanced in the form of promotion of competition made by the concentration to big banks and advance of foreign-affiliated company banks. In this process, the loans for SME were reduced. Therefore, they need maintenance of the financial institution to SMEs (: it may be substituted for the part by the nonbank), and the complement by policy money. In maintenance of the financial institution to SMEs, an organization like Japanese financial institutions established by credit unions becomes important. However, about this point, we need much more scrutinization. It is necessary to fix together with financing of a public section about the complement by policy money. It may be necessary to consider introduction of a postal savings program of Japan like the case of Vietnam.

#### **Bibliography**

- BANCO DE MEXICO [2008], *Financial System Report*
- Hisamatsu, Y. and Sato, M. [2002] “Reorganization of the bank section of Mexico”, *Latin America Seikei-gakkai-ronshu, No. 36, Japan Society of Social Science on Latin America*
- Hoshino, T. [1996], *The company and industrial prosperity of Latin America*, Institute of Developing Economies, Japan External Trade Organization
- Hoshino, T. [1998], *The company and industrialization of Mexico*, Institute of Developing Economies, Japan External Trade Organization
- Hoshino, T. and Suehiro, A. [2006], *Top management of family business*, Institute of Developing Economies, Japan External Trade Organization
- Koike, K. and Hoshino, T. [1993], “Developing countries’ business group”, Institute of Developing Economies, Japan External Trade Organization
- Miura, S. [2009], *The viewpoint of the Japan-Europe small-and-medium-sized-enterprises policy in regional improvement*, Co-operative finance for commerce and industry
- OECD (Organization for Economic Co-operation and Development) [2007], *SMEs in Mexico: ISSUES AND POLICIES*
- Okabe, Y. [2008], *Comparative Study of Financial Restructuring: South Korea, Thailand and Mexico*, <http://asj.ioc.u-tokyo.ac.jp/html/052.html>.

經濟研究所研究報告 (2010)

Overseas Vocational Training Association [2008], "The situation of the labor market : Mexico",

<http://www.ovta.or.jp/info/southamerica/mexico/06labor.html>

SBA ( Small Business Administration) [2006], *The Small Business Economy*

Small and Medium Enterprise Agency [2007], *White Paper*

YASUHARA, T. [2003], *Financial unrest quality of the Mexican economy*, Shin-hyoron

**Home pages**

IMF (International Monetary Fund), <http://www.imf.org/external/index.htm>

INEGI (National Statistics, Geography and Informatics Institute ),

<http://www.inegi.org.mx/inegi/default.aspx>

SMRJ (Organization for Small & Medium Enterprises and Regional Innovation, JAPAN),

<http://www.smrj.go.jp/>

Researcher

The Institute for Economic Studies Seijo University