

## Analysis of sources of funding boost for government international competitiveness of SMEs in Mexico

### Análisis de las fuentes de financiamiento gubernamentales para el impulso de la competitividad internacional de las PyMEs en México

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#### Abstract

The process of globalization in Which We are Immersed in the present, you Favored That the system of commerce is Carried out at an international level so it is essential That the public policies of the country are oriented to Develop the competitive advantages of small and medium enterprises exporters (Smex). However, the outlook for this type of business in Mexico is unfavorable, since the majority of life expectancy is 7.8 years; the lack of a feasible project and financing are the main causes of failure (Mendoza, 2017). In Mexico there are more SMEs than big companies, According to the National Institute of Statistics and Geography (INEGI), there are 4 million 15 thousand business units Of which 99.8% are SMEs That are responsible for generating 52% of the Gross Domestic Product ( GDP) and 72% of jobs. The federal government has created foreign trade support programs, however, only through the National Bank of Foreign Trade are loans Granted to Increase the International Competitiveness of the country's Smex. The present investigation AIMS at the analysis of the sources of financing to support foreign trade That serves to Evaluate if the SMEs Have The Necessary capability to access them.

**Entrepreneurship, Competitiveness, Innovation, Internationalization, Financing**

#### Resumen

El proceso de globalización ha propiciado que el comercio se realice a nivel internacional por lo que es primordial que las políticas públicas del país se orienten a desarrollar las ventajas competitivas de las pequeñas y medianas empresas exportadoras (PyMEs). Sin embargo, el panorama de este tipo de empresas en México es poco favorable, ya que en su mayoría la esperanza de vida es de 7.8 años; la falta de un proyecto viable y financiamiento son las causas principales del fracaso (Mendoza, 2017). En México existen más PyMEs que empresas grandes, de acuerdo el Instituto Nacional de Estadística y Geografía (INEGI) existen 4 millones 15 mil unidades empresariales de las cuales el 99.8% son PyMEs que se encargan de generar el 52% del Producto Interno Bruto (PIB) y el 72% de los empleos. El gobierno federal ha creado programas de apoyo al comercio exterior, sin embargo, solo a través del Banco Nacional de Comercio Exterior se otorgan créditos para aumentar la competitividad internacional de las PyMEs del país. La presente investigación tiene por objetivo el análisis de las fuentes de financiamiento de apoyo al comercio exterior para evaluar si las PyMEs cuentan con capacidad necesaria para acceder a ellos.

**Emprendimiento, Competitividad, Innovación, Internacionalización, Financiamiento**

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## Introduction

Small and medium-sized exporters (SMEs) face a major challenge today, because, due to immersion of the economies in the world today are exposed to compete with their counterparts in developed countries.

Despite such a significant contribution to the Mexican economy, SMEs have not reached the level sufficient to position itself in the global market (Pavon, 2010) competitiveness.

Sources of funding granted by the federal government are fundamental to the development of international competitiveness Medium-Sized Exporters since, in this way, these companies will be opportunities to acquire the necessary resources to increase productivity.

One of the disadvantages most important of these businesses is in trade in Mexico has been informally, which encourages companies not yet have the necessary administrative arrangements to use the resources obtained through funding from the federal government. In addition, this ignorance on the part of employers about these programs and excessive bureaucracy prevent this type of support are granted efficiently.

This article consists of a literature review of the situation of entrepreneurship in Mexico and then, located on the competitiveness of SMEs and ultimately support programs addressing foreign trade. Then the problem statement, research objectives, the proposed methodology and finally, the research findings will be addressed.

## Theoretical framework

### Entrepreneurship situation in Mexico

Formichella (2004) defines the phenomenon of entrepreneurship as the development of a project which pursues a specific economic, political or social purpose, among others and having certain characteristics, namely that has a share of uncertainty and innovation.

Ahmad and Seymour (2006) define entrepreneurs as people (business owners) who seek to generate value through the creation or expansion of economic activity, which results from identifying and exploiting new products, processes or markets.

Mexico is considered a country with a focus on efficiency, which implies that the market size is large, this allows attractive to entrepreneurial activity (Saucedo, 2014). According to Bosma and Harding (2006) cited in Sánchez (2009), despite legal obstacles to creating businesses, Mexico ranks among the top international positions in total entrepreneurial activity, reaching rates of 18.74%, however, informality in the management of SMEs it has not allowed its growth and expansion into international markets.

In recent years the Federal Government created the National Institute of Entrepreneurship, the Mexico Business Centers and Programs Incubators and the National Entrepreneurship Program, which aim to promote entrepreneurial culture in the country, these coupled with existing focused on foreign trade, which are operated by the Ministry of Economy (SE), the bancomext (Bancomext) and PROMEXICO. However, ignorance of the entrepreneurs towards these government support hinders access of these new companies to international markets. In addition to this, limited technological capacity and informality in the administration of these businesses,

In the OECD study and the Inter-American Development Bank "(In) Formal and (A) Productive: The Productivity Costs of excessive Informality in Mexico, 2012 cited by the National Institute of Entrepreneur (2016), correlate productivity of SMEs with the degree of informal presented. In this regard, the low productivity of SMEs limited national development and promotes inequality between companies, sectors and economic regions, which is reflected in the decrease in productivity in Mexico in previous years to date.

### International Competitiveness of SMEs in Mexico

Competitiveness can be described as the ability of a, non-profit or public or private organization to systematically maintain advantages that enable it to achieve, sustain and improve a specific position in the socioeconomic environment. (Vega, A; Flores, M, Soli, M. 2011 cited in Botero, 2014).

According to Esser (1996) cited in Saavedra (2012), the conceptual elements applied to the systems approach to competitiveness indicate that there are four areas that influence and shape the performance of an SME, first the microeconomic level, which is made competitive advantages within companies; secondly the meso level, where the efficiency of the environment, market factors and policies for creating competitive advantages are contemplated; and finally the economic or strategic goal level, where plays an important role the political and economic structure oriented development. In this regard, SMEs in Mexico could strengthen its competitive edge in the meso level, if there was greater participation in government funding programs,

The main economic goal is to create a nation for its citizens a high standard of living and rising. The ability to do so does not depend on "competitiveness" but productivity with the resources of a nation take advantage: capital and labor. (Porter, 2008) From this perspective, external to the company variables play an important role in the competitiveness of SMEs in Mexico, both infrastructure and business environment should be conducive for businesses to be competitive enough to meet the needs consumers at local, regional, national and global levels.

For the process of internationalization SMEs, various forms can be adopted, such as direct exports, indirect exports, non-equity contractual agreements and direct foreign investment. However, direct or indirect trade is usually considered the first step for penetration in global markets. (World Trade Organization, 2016). Currently with the implementation of electronic commerce and international value chains, SMEs can achieve openness to international trade, however, the limited technological capabilities of this type of companies in Mexico is a great limitation for the performance of activities of logistics required in international markets. In addition to this, the excessive bureaucracy of the tariff regulation and the costs of export logistics as well as the reduced skilled labor become determining factors for the low level of international competitiveness of this type of companies in Mexico.

Due to the informal nature of SMEs in Mexico, the use of technology as well as the fundamental administrative models for the performance of the activities of this type of company is mostly reduced, which is a reason for the low level of competitiveness of these companies in Mexico. The internet and information and communication technologies are a watershed for increasing the participation of SMEs in international trade, however, according to data from INEGI (2016), 7.6% of small companies and 1.6% of medium-sized companies in Mexico do not use the internet.

### **Foreign Trade Support Programs**

The Mexican government in support of the need to support the link between the various links of the productive chains in the international market, through the Ministry of Economy, has promoted various supports aimed at strengthening and supporting the productive sector, among which the Sectoral Promotion Programs (PROSEC), which grants preferential tariffs for producing companies with the purpose of acquiring inputs and machinery necessary for their productive processes (Secretaría de Economía, 2010).

On the other hand, the General Directorate of Foreign Trade is responsible for administering export promotion programs, whose objective is to increase the competitiveness of companies through the reduction of tariffs for the necessary inputs, parts and components for the product. of export and simplification of administrative procedures by the federal government.

The program of manufacturing industry, maquiladora and export services (IMMEX), allows producers of goods destined for export or companies that provide services to export, import various goods, without paying the general import tax, of the value added tax and countervailing duties. On the part of the Prograa for Highly Exporting Companies (ALTEX), it grants the refund of the value added tax that they have in their favor for the export of merchandise and, finally, the registration of Foreign Trade Companies (ECEX), benefits the marketing companies with administrative facilities and financial support from the development bank (Secretaría de Economía, 2010).

The National Bank of Foreign Trade (BANCOMEXT) aims to contribute to the development and generation of employment in Mexico, through financing to Mexican foreign trade (Banco Nacional de Comercio Exterior, 2016). This agency offers credit products for exporting and importing companies whose financing needs are superior to 3 million dollars, such as:

- Institutionalization and corporate governance program for issuance in the Mexican Stock Exchange.
- Financing for working capital, equipment, development of industrial infrastructure, investment projects, etc.
- International factoring of export and import.
- Guarantee.
- Financial markets: Purchase and sale of debt securities in national currency and bank deposits in foreign currency.
- Fiduciary Services
- International Financing through the credit lines of Kreditanstalt Für Weideraufbau (KfW) and Japan Bank for International Cooperation (JBIC).

On the other hand, BANCOMEXT has a program of financing to small and medium importing companies, exporters and generators of foreign currency through commercial banks and other financial intermediaries called SMEs Credit, from which the following products are released:

- Financing program for importing and exporting SMEs, which includes an international factoring program and letters of credit.
- Program Improves Your Hotel.
- Financing scheme for MiPyMEs suppliers of the Electric-Electronic sector.
- Program of financing to SMEs Tourism.

Finally, ProMéxico is the federal government agency responsible for coordinating strategies aimed at strengthening Mexico's participation in the international economy, supporting the export process of companies established in the country and coordinating actions aimed at attracting foreign investment (ProMéxico, 2017).

This body provides complementary support and services for the internationalization of companies in Mexico through various programs aimed at improving business processes, the promotion and marketing of Mexican products and services abroad, as well as the internationalization of Mexican companies through the different business concepts, to encourage foreign trade and foreign investment. At the same time, provides advice to companies for the improvement and strengthening of production processes in international standards to meet the requirements of the international market, as well as provides advice for the implementation of promotion schemes for Mexican products and services through fairs comerciales and international business forums. On the other hand, ProMéxico provides training services and technical assistance to improve the conditions of competition of Mexican companies in international markets and, in this way, achieve the development of studies and research on international business that encourage the preparation of professionals to promote the commercial development of Mexican companies abroad.

## **Methodological framework**

### **Problem Statement**

Within the global panorama, the volume of world trade has increased slowly since 2015, and until the first quarter of 2016, the value of merchandise trade seemed to stabilize because the dollar stopped its rise and oil prices began a modest recovery (World Trade Organization, 2016).

According to Martínez, García and Navarrete (2016), foreign trade brings macroeconomic benefits, such as the increase in foreign exchange reserves that contribute to reducing the deficit in the trade balance; as well as microeconomic benefits since the export allows to offer more profitable prices, increasing the profit margins of the companies.

For this reason, the federal government has implemented various foreign trade support programs that benefit SMEs. However, the reality is that in Mexico the bureaucracy is slow and too long, according to the 2016 Doing Business report in Mexico, opening a company requires an average of 8 procedures that take 14.6 days and represent a disbursement of 11.4% of the per capita income. In this year, Mexico fell nine places globally in this ranking because the ease of opening businesses decreased 21 sites, as well as obtaining electricity and paying taxes, losing 14 and 2 positions respectively. Therefore, even when other indicators such as obtaining construction permits, fulfilling contracts, registering property and obtaining credits are favorable, companies with best practices in the country are not sufficiently competitive internationally. (Doing Business, 2016)

The objective of this research is to analyze the sources of financing for foreign trade support granted through government programs, to assess whether the SMEs have the necessary elements and capacity to access them or, if appropriate, know the reason why these supports are not requested.

### **Overall objective**

Analyze the determining factors for access to government funding sources to support foreign trade for SMEs.

### **Specific objectives.**

- Identify the viability of foreign trade support programs.
- Describe the main sources of government financing to support foreign trade for SMEs.

### **Methodology**

The starting point of the research is the existence of the problem, which should be analyzed to try to find a solution, for the development of the present research will be applied applied research, which is enriched by the discoveries and advances of scientific progress to generate new knowledge that can be applied in practice. Likewise, the research is descriptive, since the descriptive studies seek to specify the important properties of people, groups, communities or any other phenomenon subjected to analysis.

"The descriptive investigation, in comparison with the exploratory, requires knowledge of the area that is investigated to formulate the specific questions that are sought to respond" (Dankhe, 1986 cited in Hernández, Fernández and Baptista, 1997). The research will use the deductive method, which consists of establishing specific propositions from general propositions, since the sources of financing for foreign trade support of the various government programs of the country will be analyzed and then, those offered for the small ones will be analyzed. and medium-sized export companies and, in this way, generate a comparative scheme that allows determining the viability of this type of programs so that they can be requested by SMEs.

By the collection and analysis of data for this research they will be collected through surveys of small and medium-sized exporters that have benefited from any of the support given by the National Bank, so it will be under a quantitative approach because this approach uses data collection and data analysis through the statistics to pinpoint patterns in a population. After obtaining the data, IBM SPSS software will be used for the analysis and obtain the results of the investigation.

### **Conclusions**

"The international projection is the cornerstone of a Mexico with Global Responsibility. The privileged geographical location of the country is one of the great comparative advantages of the nation. Mexico has vast access to international trade through its coastal and shares a long border with the world's largest economy. " (Official Journal of the Federation, 2013)

The Mexican government proposes, in the National Development Plan for programming and budgeting of the federal government, itself containing the objectives, strategies, indicators and targets to achieve in the current administration. Among the five national goals is Mexico with Global Responsibility, in which the need to strengthen the country's competitive position in the international community through the promotion of free trade falls, mobility of capital, productive integration and attracting investment talent in the country.

Also, one of the strategic objectives includes boosting entrepreneurship and strengthening SMEs in Mexico by facilitating access to financing and capital and support business growth and export capacity of these businesses. However, despite the many efforts of the federal government for the creation of new programs to boost international competitiveness, the limitations of SMEs in Mexico are many, from the limited access to physical and financial capital, shortcomings in human resources trained, limitations to implement techniques and technologies to production processes, institutional environment and favorable environment for business recently and innovativeness poor compared to large enterprises, foster internationalization is contemplated as a remote possibility the country. In addition, the three agencies that provide support to encourage the export capacity of enterprises in Mexico, Bancomext only through its website, provides full information on credits for SMEs. However, funding for these businesses is carried out with financial intermediaries through commercial banks, which limits the benefits that could be obtained if, on the contrary, they were granted directly by the federal government.

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