SME’s: The Growth of Small Giants in Mexico

The essential part of a country’s economy consists of small and medium sized enterprises (SMEs) that contribute to job creation and economic output. This is evident in Mexico, where SMEs make up 35% of the GDP and contribute with 7 out of 10 formal jobs.

The government of Mexico has implemented an ambitious package of economic policies in order to strengthen the development of the SMEs in a highly competitive global environment. To ensure that the policy attains expected results, the strategy recognizes that each business segment has special needs and requires specific and targeted support to achieve the greatest impact on productivity and competitiveness. This strategy provides funding, marketing support, training, and consulting as well as management support and innovation and technological development for SMEs.

One of the segments created for new business owners is the Entrepreneurs National Program, which supports the development of business ideas and works to jumpstart new companies. This program consists of the Young Entrepreneurs Program which works to develop skills, such as a business attitude, as well as a guide on how to finalize business plans. From January to July of 2011, the program gave advice and training to more than 27,000 entrepreneurs while also incorporating 100 educational institutions and business associations into the program, expanding coverage to a new generation.

Furthermore, the support of the National Business Incubation System (SNEI in Spanish) has contributed to create 7,247 companies and to generate more than 25,000 jobs. Currently, SNEI encompasses 500 business incubators with 283 of these specialized in intermediate and high technology and the rest in traditional economic areas. In addition to the Seed Capital Program, the Entrepreneur Financing Program was launched to encourage commercial banks to lend to SNEI new businesses. Likewise, through training and consulting, nearly 8,000 SMEs have improved their production processes, management, marketing and environmental care.

The segment aimed at the modernization of microenterprises has promoted access to finance for over 3,000 companies in 2011. Training was provided to 12,000 convenience stores between 2007 and June of 2011, and more than 230 shoe micro companies in the state of Guanajuato during the first semester of this year.

The third segment is intended to facilitate access of the SMEs to financing by strengthening loan guarantee schemes. Between 2007 and 2011 nearly half a million SMEs and 220 thousand jobs benefited from these efforts. The National Guarantee System has enabled more than 320,000 SMEs to receive access to financing under the current administration. In the last three years, increased competition among financial intermediaries created a reduction of more than...
7 percentage points for the average interest rate on government-backed SME loans to reach 17.7% in 2011.

In October 2010, the Registry of Secured Transactions began to operate to reduce the cost of credit risk and increase the legal certainty, which was well received by the market. As of July 2011, there have been 2.8 times more securities registered than in the same period in 2010, reaching nearly 30,000 operations.

What’s more, in the first half of 2001, Nacional Financiera (NAFIN), the leading development bank in Mexico, provided financing for more than 20 billion dollars to nearly one million businesses. Of these, 89% were micro enterprises and 10% were small businesses. The industrial sector absorbed 34% of the resources, while commerce and services attracted 43% and 23%, mostly due to the Supply Chain Program.

The fourth segment focuses on promoting companies with dynamic growth to accelerate their sales and generate high value added jobs. One of the instruments used is the Business Acceleration Program, providing advisory and networking services in the fields of processes, products, and business model. This allows the SMEs to access the high-tech international markets and venture capital funds through its network of 33 national accelerators and 6 international technology business accelerators (TechBA). Between January and July of 2011, 70 companies have benefited from the program.

Since 2007, the Fund for Technological Innovation has supported nearly 500 companies by promoting research, development, and business innovation. In the second half of 2010, 231 projects were supported to develop new products, manufacturing processes, and materials or services in a wide range of industries such as nanotechnology, biotechnology, medical devices and chemicals. The projects also included advanced materials, electronics, telecommunications, information technology, mechanical engineering, and industrial applications of energy.

Finally, the fifth segment includes the involvement of SMEs in the supply chains of large companies. In the first half of 2011, the Supplier Development Program supported more than 2,600 SMEs. Currently, 200 retail providers and 60 restaurants are working under the program. The Business Integrators Program supported the creation of 7 companies within various economic sectors benefiting 77 SMEs in 4 states in the country. Likewise, the Exportable Supply Program added 210 export companies, focusing on expanding export destinations in the U.S. whose market absorbs 80% of Mexican SME sales abroad.

The small and medium enterprises are one of the pillars of economic growth and job creation. Incorporating the SMEs successfully into the international markets opens up enormous potential for increasing trade flow between Mexico and its trading partners in North America and around the world.

Mexico is Online with the Internet and e-Commerce

As the fastest growing and second largest technology market in Latin America, Mexico has one of the world’s highest rising rates of Internet penetration. In the last ten years, Mexican online users have grown more than 1,000%, reaching almost 35 million users in 2010. This exceeds the total number of users in Spain and Italy. Considering the Internet as a distribution channel of products and services, e-commerce in Mexico has also grown in importance and it is expected to continue its expansion as more Mexicans begin to shop and do business online.

In 2009, e-commerce sales in Mexico surpassed $2.6 billion, a fourfold increase from 2005, and it is projected to reach $3.4 billion in 2016 as reported by Forrester Research. Although online purchases still represents a small percentage of the domestic economy, 16% of the country’s overall sales, the potential for sustained growth makes Mexico one of the most attractive e-commerce markets in the world. It is expected important increases year after year, considering the fast-growing internet access, improvement payment methods, better logistics services, and the ample opportunities for global-minded e-retailers.

Additionally, a growing number of Mexicans are able to purchase products from markets abroad. Because of Mexico’s proximity to the U.S. and its logistic integration, Mexican online users have the ability to shop directly from the most popular U.S. e-retailers. In fact, Mexico is the country where the most purchases in U.S. stores originates from, accounting for one-third of the total e-commerce in Mexico, according to VISA. Likewise, many Mexican immigrants to the U.S. prefer to shop online directly in stores where their relatives reside instead of sending remittances.

The products that Mexican online shoppers buy the most includes a variety of gadgets such as computers, cell phones, video games and game consoles and other consumer electronics, as well as designer clothes and accessories. Tourism also contributes to the growth in e-commerce within Mexico, along with players who have made large investments to promote the direct online sales. Tourism-related products, mainly plane tickets and hotels, account for three times as many online sales as retail products. The streamlined video market has recently become available with much potential to expand among Mexican consumers.

Online services are also a business on the rise. Mexican people are increasingly using the internet for banking transactions, payments, cash on delivery and other non-banking operations. In 2010, 75% of online payments were related to credit cards, but transfers and deposits have also gained participation. Mexico also scores high in the possibility of paying personal taxes online, an activity which attracts large numbers of people to more sophisticated internet transactions.

In addition to expanding new infrastructure to support the use of the Internet, e-commerce also promotes job creation which directly impacts wages and productivity. The jobs created are mainly found in the sector of IT-related services, entertainment, and software. These efforts are bolstered by the 600,000 professionals currently employed in the IT industry in Mexico, as well as the 65,000 students a year that graduate into the field.

The high growth being experienced by e-commerce is due largely to the Internet providers servicing Mexico. Internet providers have invested heavily in the deployment and delivery of a high speed internet networks across Mexico and in the introduction of new internet platforms such as mobile broadband. High speed internet lines are now widely available in most towns and cities in Mexico. In certain regions, cable companies also offer excellent high-speed internet services in addition to TV channels and phone services.

In recent years, competing internet providers have focused their work in mature markets such as Mexico City, Guadalajara, and Monterrey due to the concentration of large economic activities there. However, with a middle class growing and continuously spreading across the country, internet access is increasingly demanded even in mid-sized towns. Such growth is presenting investors with the opportunity to expand businesses and facilitate the spread of the IT sector to all parts of Mexico.

Currently, 29% of the Mexican population has access to internet and there is still room for growth. In a nation with 112 million inhabitants, where 77% of the Internet users are less than 35 years and the median age of the population is 27; the younger generations are emerging as the driving force in regards to online trade. Currently, they are engaged in using the online connection for casual browsing, social networking, and emailing mainly, spending 1,688 minutes per month online while visiting 1,898 pages per month.

The past few years, internet usage and e-commerce in Mexico have rapidly streamlined, promoting new business opportunities for innovative companies. Mexico is one of the leaders of internet exploration and development in Latin America with all the current growth and progress taking place within this sector.
NAFTA Related Events

**FERIA INTERNACIONAL DEL LIBRO DE GUADALAJARA 2011**

*November 26th – December 04th, 2011*

The most outstanding fair of books and publishing houses

**Location:** Expo Guadalajara, Guadalajara, Jalisco.
**Phone:** 52 (33) 3810-0331
**E-mail:** fil@fil.com.mx

**EXPO MUJER**

*December 2nd – 4th, 2011*

Trade fair with all related products for young ladies and women

**Location:** World Trade Center, Mexico City.
**Phone:** 52 (55) 9000-9117
**E-mail:** pbarragan@expowtcmex.com

**EXPO PIE I Y CALZADO**

*December 2nd – 9th, 2011*

Exposition of footwear and leather products

**Location:** Puebla Convention Center. Puebla, Puebla.
**Phone:** 52 (222) 223 6422
**Email:** 122@convenciones-puebla.com.mx

**BAZAR NAVIDEÑO COSMETOLOGIA Y ESTETICA**

*December 6th, 2011*

Trade show related to beauty products, cosmetics and spa furniture.

**Location:** World Trade Center, Mexico City.
**Phone:** 52 (55) 5584-0840
**Email:** info@utbe.com.mx

**EXPO MUEBLERA Y DEL HOGAR, OAXACA 2011**

*December 9th –11th, 2011*

Household products and furniture exhibition

**Location:** Centro de Convenciones Monte Alban. Oaxaca, Oaxaca.
**Phone:** 52 (222) 602 90 97
**Email:** puebla@expomodus.com
**Website:** [www.expomuebleoaxaca.mex.tl/953477 ---INICIO.html](http://www.expomuebleoaxaca.mex.tl/953477 ---INICIO.html)

**CONCOMICS**

*December 10th –11th, 2011*

Trade show of comics, anime, and related products

**Location:** Expo Guadalajara, Guadalajara, Jalisco.
**Phone:** 52 (33) 3343-3000
**E-mail:** concomicsmx@gmail.com
**Website:** [www.concomics.com](http://www.concomics.com)

**LA MOLE ET**

*December 16th –18th, 2011*

Comics and manga exposition.

**Location:** Expo Reforma CANACO, Mexico City.
**Phone:** 52 (55) 5698.6273
**E-mail:** comite@lamole.com.mx

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**DIARIO OFICIAL NOTICES**

- Notice announcing the decision No. 66 of the G-3 Free Trade Commission regarding temporary use of non-originating materials to manufacture certain textile and apparel goods and exporting them under the FTA’s preferential treatment, adopted on September 2, 2011, October 4th.
- Final determination of the sunset review and the ex officio revision of the countervailing duty order imposed on imports of certain type of partially hydrogenated fatty acid originating from the USA, regardless of the shipping country (Mexican tariff item 3823.19.99), October 6th.
- Final determination of the sunset review and the ex officio revision of the countervailing duty order imposed on imports of certain type of stearic acid originating from the USA, regardless of the shipping country (Mexican tariff items 3823.11.01 and 3823.19.99), October 7th.
- Decree that approves the Protocols to amend the Air Transport Agreement between Mexico and Canada. October 17th.
- Amendment to the Regulation for Health related drugs and materials. October 19th.
- Notices announcing the tariff rate quotas and their allocation mechanism to import sugar during 2011 and January 2012, originating from Nicaragua and from other WTO members. October 20th.
- Resolution amending the General Rules and Criteria for Foreign Trade issued by the Ministry of Economy. October 20th.
- Amendments to the preferential duty rates for NAFTA originating goods, on regards to U.S. originating goods. October 21st.
- Final resolution of the antidumping investigation on imports of cotton woven denim originating from China, regardless of the shipping country (Mexican tariff items 5209.42.01, 5209.42.99, 5211.42.01, and 5211.42.99), October 21st.
- Decree that approves the Protocol to amend the Agreement between Mexico and Singapore for the avoidance of double taxation and the prevention of fiscal evasion in terms of income tax, signed in Mexico City on September 29, 2009. October 25th.

**Mexican Official Standards**

- Draft PROY-NOM-012-SCT3-2010, establishing the requirements for aircraft instruments, equipment, documents and manuals. October 5th.
- Conformity assessment procedures (CAP’s) draft for products and systems subject to CONAGUA’s NOM’s. These procedures apply only to NOM’s without specific CAP’s. October 6th.
- Draft to modify NOM-144-SEMARNA-2004, that establishes the phytosanitary measures internationally recognized for wood packaging used in international trade. October 18th.
- Official announcement to participate in the process for obtaining approval as a verification unit of NOM-027-SESH-2010, related to the recollection and transport’s hydrocarbon pipelines integrity management. October 24th.
Industrias Bachoco to Acquire O.K. Industries, Inc.

Industrias Bachoco, Mexico’s leading producer and processor of poultry and other food products, reached an agreement to acquire O.K. Industries, Inc., one of the largest vertically-integrated poultry companies in the United States based in Fort Smith, AR. O.K. operates facilities across the River Valley area in Arkansas and Oklahoma, processing 2.5 million chickens per week, with total annual sales of approximately $600 million. O.K. supplies grocery retailers, foodservice distributors, and commodity customers all over the U.S. as well as in foreign markets. Mr. Rodolfo Ramos, Bachoco’s CEO, stated: “It is our first international acquisition and first entry into the U.S. poultry market.”

The First Microsoft Technology Center in Mexico was Inaugurated

Microsoft, the company leader in technological innovation, opened its first Microsoft Technology Center (MTC) in Latin America and announced an investment plan for over $600 million in Mexico. This new center will provide training to 2,300 software developers, as well as contribute to significantly impulse Mexico’s development and economic growth. Chuck McCann, Worldwide MTC Alliances Program Director with Microsoft, said that the purpose of this MTC is to bring technology to companies in an easier and simpler way, with the clear purpose of making difficult platforms less complex.

Eurocopter will Open a New Plant in Mexico

The French-German-Spaniard company, Eurocopter, is going to invest $150 million in the construction of a new plant to manufacture aeronautical components in Queretaro. Dieter John, Executive Vice-president, said that due to the impulse given and development achieved by activities carried out in such facilities, investments will sum $550 million in the next five years. This project will expand Eurocopter’s world industrial network, supported on technological transference to foster the development of high level abilities in Queretaro.

Boehringer Inaugurates New Vaccines Plant in Mexico

Boehringer Ingelheim inaugurated a new plant to develop and produce veterinary biological products in Guadalajara, Jalisco, and will serve the poultry, pork and cattle markets. The new $10 million plant has a production capacity of over 100 million of vaccine doses to be sold in both the domestic and international markets. Francisco Escudero Olivos, CEO, said that this biopharmaceutical complex will provide growth to agribusiness in Jalisco, by spearheading research, development and production of vaccines and pharmaceuticals for animals.

Eight Report on Potentially Trade Restrictive Measures

Author: European Commission

October 2011

This report provides the latest state of play regarding trade activities. The past three years have indicated that major recourse to trade protectionism has overall been contained during the recovery period and that trade openness has been a crucial element to ensure economic recovery worldwide. Nonetheless, 333 trade-restrictive measures were introduced between January 2008 and September 2010 with impact on world trade, and the pace of introduction of new measures has not decelerated. This worrying trend runs counter to the necessity of keeping trade flows open, which is the only way to ensure a sustainable and balanced growth worldwide.


Infrastructure Projects in Mexico

El Zapotillo Aqueduct

Sponsor: Mexican Water Commission (CONAGUA)
Location: Jalisco and Guanajuato
Project Value: $566 million

Spanish engineering group Abengoa won the contract to build an aqueduct in central Mexico, which it will operate and maintain for 22 years after its construction. The 139-km aqueduct will carry water from the El Zapotillo dam to the city of Leon, Guanajuato, and Los Altos de Jalisco region. It will supply drinking water to nearly 1.5 million people in an efficient, sustainable, and secure way. The project also includes a water treatment plant with a 3,800 liter/second capacity, a 100,000 m3 storage tank, and a 40 km distribution circuit in Leon.

Business opportunities: large diameter pipes, pumping stations, construction materials.

Durango Solar Power Park

Sponsor: Government of Durango
Location: Canatlan, Durango
Project Value: $300 million

Siliken, a Spanish solar park developer and panel maker, will build one of the largest solar power parks in the world in the state of Durango, Mexico. The $300 million solar park will have a power output of 100 MW and cover 300 hectares. The company has signed a 30-year land lease in Canatlan and is talking to local companies interested in buying its electricity. The project would be built in four phases beginning in 2012 and would use solar panels provided by Siliken manufacturing plant located in Tijuana.

Business opportunities: construction materials, electrical equipment, transmission lines, power stations.

Mexico Economic Update

<table>
<thead>
<tr>
<th>Financial Indicators</th>
<th>Sep 2010</th>
<th>Sep 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation Rate</td>
<td>3.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Interest Rate (Cetes)</td>
<td>4.43</td>
<td>4.23</td>
</tr>
<tr>
<td>Stock Market Index (IPC)</td>
<td>33,330</td>
<td>33,503</td>
</tr>
<tr>
<td>Exchange Rate (pesos/dollar)</td>
<td>12.7</td>
<td>13.9</td>
</tr>
<tr>
<td>International Reserves (US dollars)</td>
<td>106.3</td>
<td>137.9</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Unemployment</td>
</tr>
</tbody>
</table>

Source: Ministry of the Economy with Banxico and INEGI data.

US bдр = US billion dollar

Economic Growth

August 2010 | August 2011

Global Economic Activity Index (IOAE) | 6.8% | 4.4%

Industrial Activity

Industrial Production | 7.6% | 3.1%
Manufacturing | 11.8% | 4.3%
Mining | 3.9% | -4.4%
Construction | 1.6% | 5.0%

Success Stories

Selected Readings
Louisiana

In 2010, Louisiana's exports to Mexico reached $2.77 billion, up $2.27 billion from their level in 1993 and an increase of 28% in comparison with the previous year.

In the first half of 2011, Louisiana exported $2.69 billion worth of products to Mexico, an increase of 106% in comparison with the same period last year.

Among all U.S. states, Louisiana was ranked 6th as an exporter of goods to Mexico in the first semester of 2011.

In 17 years of NAFTA, Louisiana's exports to Mexico have increased by 453%, while those to the rest of the world rose 172%. This means that the export growth rate to Mexico is 2.64 times higher than its export growth rate for the rest of the world.

Since NAFTA was implemented, Louisiana's sales to Mexico have grown at an annual average rate of 10.6%.

Mexico is an important trading partner to Louisiana. It was ranked as the 2nd largest export market for goods from Louisiana in the first six months of 2011, illustrating the impact of NAFTA for Louisiana's growing businesses. Mexico accounted for 10% of Louisiana's exports worldwide in the January-June period of 2011.

Mexico is a large market for products from Louisiana

Sorted by 2010 Exports to Mexico, total value in millions of US dollars

<table>
<thead>
<tr>
<th>NAICS</th>
<th>Description</th>
<th>Exports to Mexico</th>
<th>Exports to the World</th>
<th>Mexico's Share</th>
<th>Rank among state Exports to Mexico</th>
<th>Rank among state Exports to the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>324</td>
<td>Petroleum and coal products</td>
<td>1,530.6</td>
<td>27,090.1</td>
<td>10.0%</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>111</td>
<td>Agricultural products</td>
<td>488.3</td>
<td>8,880.7</td>
<td>5.5%</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>325</td>
<td>Chemicals</td>
<td>354.1</td>
<td>3,923.7</td>
<td>9.0%</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>311</td>
<td>Food and kindred products</td>
<td>126.8</td>
<td>2,288.5</td>
<td>5.5%</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>333</td>
<td>Machinery, except electrical</td>
<td>41.1</td>
<td>494.6</td>
<td>8.3%</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>212</td>
<td>Minerals and ores</td>
<td>30.3</td>
<td>841.5</td>
<td>3.6%</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>312</td>
<td>Beverages and tobacco products</td>
<td>28.4</td>
<td>285.0</td>
<td>10.0%</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>336</td>
<td>Transportation equipment</td>
<td>15.4</td>
<td>252.5</td>
<td>6.1%</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>322</td>
<td>Paper</td>
<td>14.7</td>
<td>190.4</td>
<td>7.7%</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>332</td>
<td>Fabricated metal manufacturing</td>
<td>13.6</td>
<td>178.0</td>
<td>7.7%</td>
<td>10</td>
<td>11</td>
</tr>
</tbody>
</table>

These 10 sectors account for 98% of the state’s total exports to Mexico, and account for 96.5% of the state’s total exports to the World

Source: US Census with adjustments made by the World Institute for Strategic Economic Research (Wiser), and SE-NAFTA.
Durango

Investments in Durango have experienced strong growth as a result of economic policies implemented to transform the state into a strategic economic center within North America. Durango is situated in an advantageous geographical position with access to the U.S. market and the ports along the Pacific coast. Job stability, business friendly policies, skilled workers, wide availability of land, water and electricity, and a modern yet expanding infrastructure makes Durango highly attractive to investors worldwide.

Main cities: Durango (pop. 464K, the capital), Gomez Palacio (pop. 323K), Lerdo (pop. 139K)


67% in urban areas

Education: 38K college students, 35% in engineering

83 Universities and technological institutes

67K Students enrolled in high school or technical school

Infrastructure: 2,826 miles of paved roads

238 miles of four lane highways, the Durango-Mazatlán highway, once finished, will give the state the shortest access to the Pacific markets through a deep sea port.

1,564 Truck companies; 11,728 trucks total

716 miles of railroads link state’s main industrial cities to the U.S. and Mexico’s largest economic poles and ports on both the Atlantic and Pacific coasts

1 International airport: Durango provides access to Chicago and Houston in the U.S. and 8 domestic destinations with more than 1,300 flights annually

1 International bad terminal

1 Strategic fiscal enclosure

4 Industrial parks

227K Fixed telephone lines

45 Mobile telephone users per 100 inhabitants

112K Cable TV subscribers

116 Bank branches

360 ATMs

Durango’s key economic sectors are: textile and apparel (the state is the world’s 2nd largest denim producer), forestry and lumber based products (over 500,000 hectares has been certified by Forest Stewardship Council), mining, electronics, and automotive.

Gross Domestic Product 2009

- Manufacturing: 20.5%
- Commerce: 13.0%
- Financial Services: 14.9%
- Other Services: 8.8%
- Other: 17.6%
- Other Services: 16.3%
- Other: 17.6%

Web-site: www.sedecodurango.gob.mx
www.promociondurango.gob.mx
Tel: (011 52) (618) 812 1121, 812 4808
Email: erosas@durango.gob.mx
sedeco@durango.gob.mx

Exports: $1.28 billion (2010)
Imports: $1.23 billion (2010)

Major exports: autos, harnesses, electric motors, radiators, electronic devices & components, jeans, clothes & accessories, wood, containers, cardboard, paper, cattle, beef, food, furniture, silver, gold

Foreign Direct Investment (FD) $1.86 billion (1999-2Q 2011)
FDI Companies: 142
Countries with major investments: Canada, United States, Netherlands, United Kingdom, Spain, and Luxemburg

Foreign Direct Investment by Sector (1999-2Q 2011)

- Mining: 61.3%
- Commerce: 7.9%
- Other: 5.2%
- Financial Services: 16.8%
- Other Services: 8.8%
- Other: 17.6%
- Other Services: 16.3%
- Other: 17.6%
- Other: 16.3%
- Other: 17.6%

Largest corporations in the State:
Corporación Durango, LG-Philips, Grupo Armas, Yazaki Union
Fenosa, Sumitomo, Masisa, Grupo industrial San Luis, York International, First Majestic International Wire, Linamar, Sitec Corp, Maderas Nueva Vichaya, Carhartt, Bull Denim, Joana Company, Jones Apparel Metzeler Automotive, Minas de Bacis, Lala, Jumex, Bimbo, Gruma, Chichota, Barcel, Tyson Foods, Sorana, Walmart