

MEXICO BECKONS MID-AMERICAN SMALL BUSINESS: PROSPECT FOR UNIVERSITY CENTERED EXPORT TRADE ASSISTANCE*

Joe Singer

University of Missouri - Kansas City

Ray Siehndel

Washburn University

ABSTRACT

Midwestern small business firms are being aggressively beckoned to enter the rapidly growing Mexican economy. With the recent passage of the North American Free Trade Agreement (NAFTA), Mexico is ready to start spending to upgrade its quality of life. Small business firms with products that can help with these improvements are being urged to scour Mexico for trade leads.

This study reports on a survey of 1,104 midwest-central small and medium size manufacturing firms who find it difficult to take advantage of the export opportunity that Mexico may offer them. Among the respondents, 287 firms are in industries classified by the U.S. Department of Commerce as having the greatest potential for rapid growth in export to Mexico.

Characteristics of survey firms are presented along with their managerial and technical assistance needs. The prospect for a university-based export assistance center is explored along with the operational dimensions for such an agency partnership.

INTRODUCTION

Since the inauguration of Mexican President Carlos Salinas de Botari in 1989, Mexico has made significant modifications in the operation of its national economy. State-owned companies have been sold to private investors. The government has taken steps to reduce its budget deficit. Inflation has been brought under control. Foreign investment has been permitted in many industries. And, the North American Free Trade Agreement has been negotiated with the United States (U.S.) and Canada. These developments have generated a great deal of enthusiasm among North American investors and business leaders.

** The authors of this paper were invited to submit an article for publication in the journal. The article was not reviewed by the JSBS Editorial Advisory Board.*

As a result, the United States' exports to Mexico doubled, growing from \$12.4 billion in 1986 to \$28.4 billion in 1991. Consumer goods exports from the United States to Mexico tripled, rising from \$1 billion to \$3 billion. Capital goods exports went from \$5 billion in 1986 to \$9.5 billion in 1990 (NAFTA, 1992).

Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, reducing its highest ad valorem duty from 100 percent to 10 percent. Duties currently vary between zero and 20 percent, with the average tariff on goods imported from the United States averaging 10 percent. In addition, Mexico reduced its 11,000 import licensing requirements to 53, mainly on electronics, especially super computers.

Freer trade with Mexico has led to trade and is in the best economic interest of both the U.S. and Mexico. The Mexican economy grew at an annual rate of 4.8 percent in 1990-1994 and is the fifteenth largest economy among the nations of the world (NAFTA, 1992). The United States had a merchandise trade surplus of over \$2 billion in 1992 with Mexico, after a merchandise trade deficit with Mexico from 1982 to 1991. Currently, the citizens of Mexico import more goods per capita from the United States than do the citizens of the European Community (NAFTA, 1992).

President Salinas instituted a liberal revision of the foreign investment regulation law in May, 1989. Consequently, more than two thirds of Mexico's economy is now open to 100 percent foreign ownership of firms. United States business investment in Mexico not only expands its markets but also helps strengthen a company's ability to meet global competitive challenge. For example, Mexico sold a 20.4 percent stake in Telefonos de Mexico, the national telephone company, to Southwestern Bell Corp, France Telecom, and Grupo Carso for \$1.76 billion. Southwestern Bell feels this is so important to the future of its operations that it is moving its headquarters to San Antonio, Texas, from St. Louis, Missouri. Edward Whitacre, Jr., the company's chairman, said, "This move will put us closer to more of our major growth markets and customers... San Antonio serves as the gateway to Mexico." Southwestern Bell's investment of approximately \$950 million in Mexico is currently valued at approximately \$2.4 billion.

Privatization activities continue in Mexico, as 886 government-owned businesses have already sold from the 1,155 held in 1982. These businesses include petrochemical, pharmaceutical, steel, tourist industries, and the national airlines, Mexicana and Aeromexico. Also, Mexico is returning the nation's largest banks to the private sector.

New regulations require no government approval of investment proposals in many areas and formal responses within 45 days in the remaining areas. In 1992, the United States' direct investment in Mexico had risen to \$10.2 billion, a dramatic increase from levels well below \$6 billion before 1989.

It is important to note that Mexico remains a nation controlled by one political party. The Partido Revolucionario Institucional (PRI) dominates Mexican politics; and, President Salinas, elected in 1988 with 50.4 percent of the vote, is the leader of the PRI. The potential for political and economic instability continues in Mexico as the country is not a true democracy. Regular elections are held, but results are widely believed to be fraudulent. The attitudes of other political parties toward foreign trade and investment are not clear.

Mexican Presidents serve one six-year term, and President Salinas will leave office in 1994. He views NAFTA as a way to lock his liberal economic reforms into an international agreement that will hamper future Mexican Presidents from making fundamental changes in the country's economic order.

THE NORTH AMERICAN FREE TRADE AGREEMENT

In August, 1992, President Bush announced that negotiations were complete on the North American Free Trade Agreement. The agreement, as passed by Congress in 1993, phases out tariffs and licensing requirements over a period of years. Approximately 650 of the United States' industrial and agricultural exports will be eligible for duty-free shipments to Mexico within five years. The new agreement also eliminates barriers to service trade, reduces or removes investment restrictions, and helps protect intellectual property rights.

NAFTA was the culmination of a long process beginning with Mexico's entry into the GATT and continuing through a series of negotiations. Business groups and economists have generally supported the agreement on the basis that the removal of barriers will increase access to an important market for U.S. exporters and provide consumers with lower prices. Many private citizens have accepted this position and supported NAFTA. NAFTA created the largest free market in the world and placed the United States in the middle of over 360 million consumers whose output is in excess of \$6 trillion (NAFTA, 1992).

NAFTA causes some concern in Mexico over the possible loss of sovereignty because the regulations are enforceable by multi-national bodies. Objections have also been raised by businesses producing in industries once protected from imports by tariffs and licensing barriers. However, the majority of the Mexican people supported NAFTA based on the belief that it will offer greater prosperity to Mexico and increased access to United States styled consumer goods.

Risks do exist with the implementation of the agreement. Mexico has undertaken major structural change in its economy. The North American Free Trade Agreement is the capstone of that process. The agreement is likely to contribute to the prosperity of Mexico; however, if it fails, an anti-United States backlash could result. Such a backlash could devastate United States exports, particularly if combined with renewed tariffs and other barriers. On a second level, a failed NAFTA could cause invalidation of the liberal market-centered reforms of President Salinas and the unstable one party system may shake on its foundation.

TARGET EXPORT INDUSTRIES

Table 1 shows the major midwestern industries targeted by the United States Department of Commerce as having the potential for greater United States' exports to Mexico. Small- and medium-sized manufacturing firms, located in the midwest, that produce within these industries were identified and surveyed.

Table 1*High Growth Target Industries*

INDUSTRY	1993 MARKET SIZE	1990-1993 GROWTH RATE	1993 IMPORTS FROM THE U.S.
Apparel	\$1.8 billion	20%	\$397 million
Plastic Materials and Resins	\$1.713 billion	12.9%	\$360 million
Computers and Peripherals	\$649 million	11%	\$218.5 million
Telecommunications Equipment	\$322.7 million	10%	\$219.8 million
Computer Software and Services	\$416.4 million	12%	\$174.2 million
Household Consumer Goods	\$563.8 million	12%	\$170.1 million
Sporting Goods	\$525.8 million	12%	\$72.3 million
Pollution Control Equipment	\$480.0 million	20%	\$92 million
Business Equipment (non-computer)	\$189.1 million	8%	\$98.8 million
Management Consulting Services	\$141.7 million	10%	\$123.1 million
Food Processing and Packaging Equipment	\$233.9 million	9%	\$79.1 million
Agricultural Machinery and Equipment	\$260 million	12%	\$83 million
Building Products	\$94.7 million	20%	\$42.4 million

SURVEY DESIGN

The survey of potential export clients was conducted by the Henry W. Bloch Center for Small Business and Entrepreneurism during May, 1993. Thirteen industries were chosen from the United States Commerce Department's "Hot List". Published directories of manufacturers were used to locate 1,485 companies located in the central midwest United States that produce goods within these industries. Fourteen hundred and twenty-seven of these firms were surveyed regarding their general export experiences relative to Mexico, capacity to fill orders, current sales efforts in Mexico, belief regarding management assistance, whether a manufacturer's representative would augment their efforts, and interest in university-based technical assistance related to their exports to Mexico. Eleven hundred and four firms (77 percent) responded.

In addition, 103 Mexican companies were identified that import and/or distribute goods in these industries. The National Trade Data Base and other United States Department of Commerce sources were used in this effort. The vast majority of the importers and exporters who identified themselves to the Foreign Traders Index of the Department of Commerce were located in Mexico City. The concentration is probably due to the large percentage of Mexico's population and economic activity that is concentrated in the capital, plus the close proximity to the center of federal government power. It is also easier for Mexican importers and distributors to contact the United States Department of Commerce when they are located in the same town as a Consulate.

INCREASING TRADE WITH MEXICO

The survey of potential export clients has identified 287 qualified leads for managerial and technical assistance. They indicated the ability to ship orders within 30 or 90 days. These firms do not have company personnel selling their products in Mexico nor do they have a representative in Mexico. Finally, 89 percent of these firms believe that the time and effort of a university-based export program, including a manufacturers representative, would benefit their sales efforts in Mexico. Ten percent of the firms indicated that they were in need of university-based technical assistance related to their Mexico exports.

Figure 1 depicts the qualified leads from the various industries. Figure 2 indicates 95 companies produce household consumer goods, 85 make building products, while 43 produce computer components and 4 make plastics. Twenty firms operate in the pollution control industry and 21 make sporting goods. Fifty-three companies operate in other industries.

Figure 1. Potential Export Clients Qualified Leads

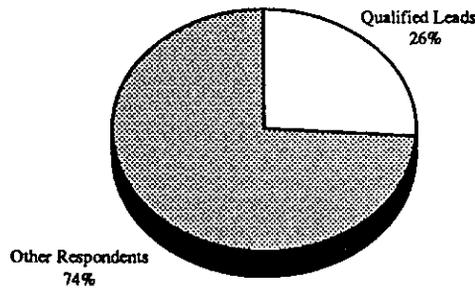
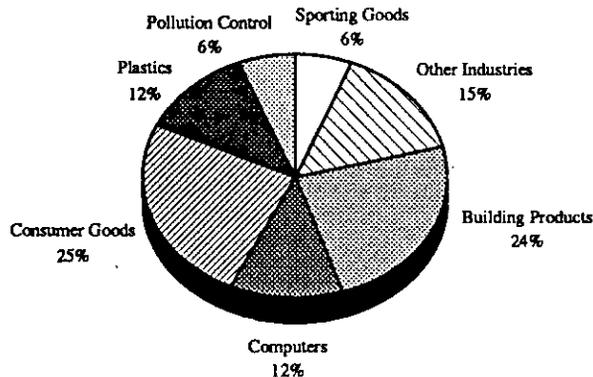


Figure 2. Qualified Leads by Industry



The firms are small to medium size, as depicted in Figures 3 and 4. Firm size was determined by its listing in published directories of manufacturers. One hundred seventy-four of the qualified leads had annual sales under \$4.9 million. Seventy-four achieved sales between \$5 million and \$9.9 million. One hundred twenty-eight of the companies were found to be employing between one and nine persons. Fifty-two of the companies employed between 10 and 24 people while 86 others employed between 25 and 99 people. Twenty-one firms had a work force over 100 people.

Figure 3. Qualified Leads: Annual Sales

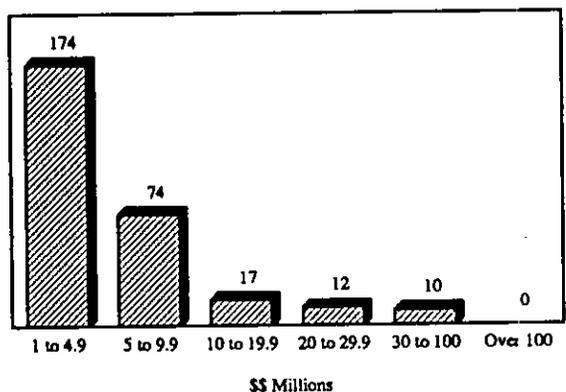


Figure 4. Size by Number of Employees

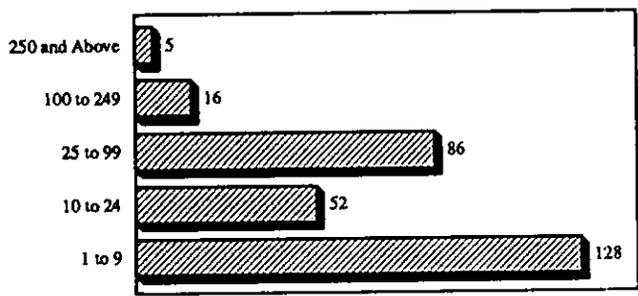


Figure 5 shows that among the qualified leads who are currently exporting, 159 of the firms are selling their goods outside the United States while 128 are not. Forty-two of the leads are exporting to Mexico at this time (see Figure 6).

Figure 5. Qualified Leads: Current Export Status

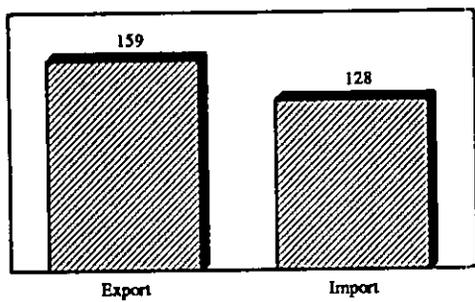
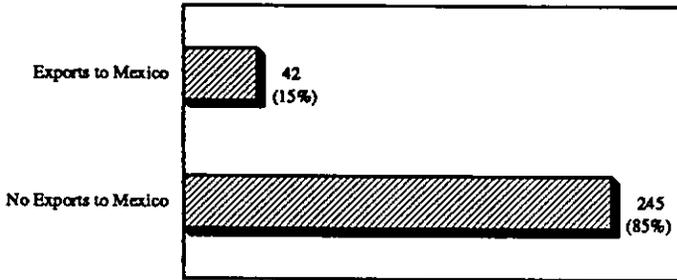
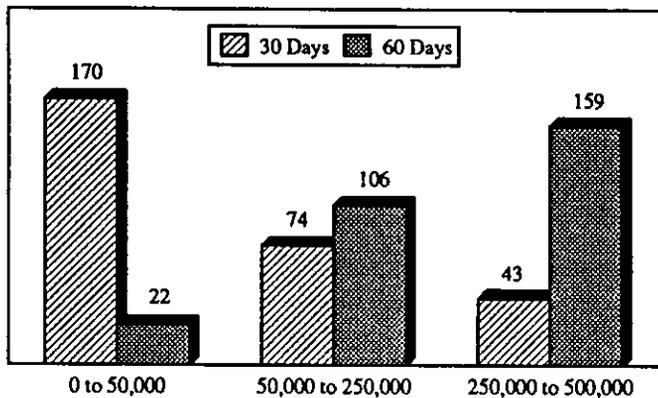


Figure 6. *Qualified Leads: Exports to Mexico*



The qualified leads appear to have excess capacity as demonstrated by their ability to ship orders within 30 or 90 days. Figures 7 shows the number of firms that could fill particular dollar amounts of orders. Forty-three companies could ship orders between \$250,000 and \$500,000 within 30 days, while 159 companies could ship this volume of orders within 90 days. Seventy-four companies indicated that they could fill orders worth between \$50,000 and \$250,000 within 30 days and 106 firms indicated that they could meet this amount of orders in 90 days. One hundred and seventy qualified leads reported that they could fill orders between \$0 and \$50,000 within 30 days. This number fell to 22 firms at the 90 period as companies reported that they could meet even larger orders.

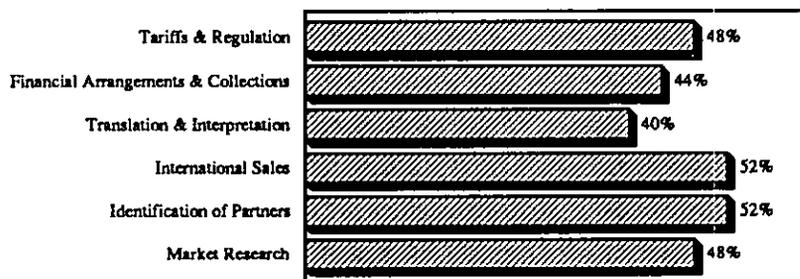
Figure 7. *Ability to Ship an Order Within 30 or 90 Days*



Many of the leads identified several areas where they are in need of technical assistance related to their exports to Mexico (see Figure 8).

- 149 said that they needed help in the identification of partners,
- 148 others indicated that international sales were an area of need,
- 138 responded that they were in need of market research,
- 138 specified tariffs and regulations as an area where they are in need of assistance,
- 28 mentioned financial arrangements and collections, and
- 117 identified translation and interpretation as an area of need.

Figure 8. Managerial and Technical Assistance Needs



Of all 1,104 responding firms, 220 respondents export to Mexico (20 percent) and 178 companies export to countries other than Mexico (16 percent). The remaining firms do not export.

Table 2 offers data on the sales volumes of all respondents that export to Mexico, the firms that export to other countries, and the companies that do not export.

Table 2

Sales Volume Characteristics of Firms that Export to Mexico

	RESPONDENTS (n=1,104)		EXPORTERS TO MEXICO (n=220)		OTHER EXPORTERS (n=178)	
\$1 - 4.9 MM	629	57%	77	35%	76	43%
\$5 - 9.9 MM	220	20%	51	23%	59	33%
\$10 - 19.9 MM	77	7%	26	12%	9	5%
\$20 - 29.9 MM	99	9%	33	15%	18	10%
\$30 - 100 MM	55	5%	18	8%	16	9%
Over \$100 MM	22	2%	15	7%	0	0%

NOTE: Sales information was obtained from published directories of firms and not from the survey.

This information suggests that current exporters are larger than firms in general and that this tendency is particularly strong in the case of exporters to Mexico.

Figures 9 and 10 address the number of responding companies who export particular volumes of their goods to Mexico. One hundred and seventy-eight firms do not export to Mexico (16 percent) and 220 do export their products to Mexico. Figure 10 considers only those companies who export to Mexico. One hundred and forty of these firms export less than \$250,000 annually. Twenty-six companies send between \$250,000 and \$500,000, and 54 firms export over \$500,000 a year to Mexico.

Figure 9. Volume of Exports to Mexico

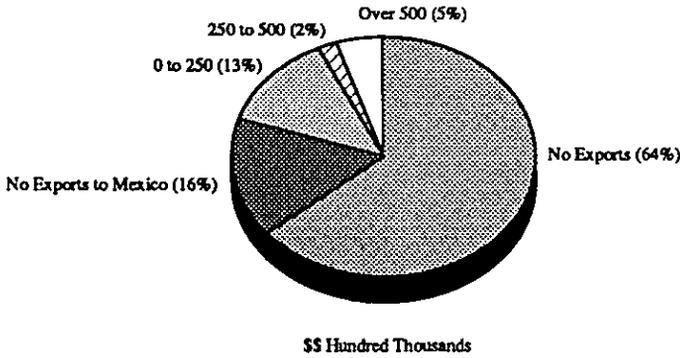
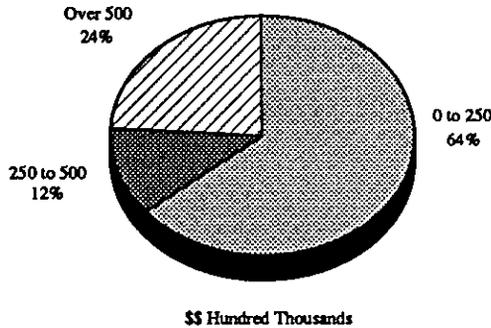


Figure 10. Export Volume of Firms Exporting to Mexico



One hundred and sixty respondents expected exports to grow at a faster rate than their domestic sales while 944 did not. Given the slow growth (3.50 percent) and projected growth of the United States economy, the emphasis on international business, and the higher growth rates of other nations, these results are surprising.

Table 3 examines the number of employees of the 160 firms that are bullish on their exports. Table 4 looks at the sales volumes of these groups of companies while Table 5 considers their export volume.

Table 3

Number of Employees of Export Bulls

	RESPONDENTS (n=1,104)		ALL EXPORTERS (n=398)		EXPORT GROWTH > DOMESTIC SALES GROWTH (n=160)	
1 - 9	386	35%	32	8%	11	7%
10 - 24	243	22%	68	17%	21	13%
25 - 99	298	27%	135	34%	43	27%
100 - 249	122	11%	103	26%	53	33%
250 and Above	55	5%	60	15%	32	20%

Table 4*Sales Volume of Export Bulls*

	RESPONDENTS (n=1,104)		ALL EXPORTERS (n=398)		EXPORT GROWTH > DOMESTIC SALES GROWTH (n=160)	
\$1 - 4.9 MM	629	57%	151	38%	32	20%
\$5 - 9.9 MM	220	20%	111	29%	32	20%
\$10 - 19.9 MM	77	7%	36	9%	32	20%
\$20 - 29.9 MM	99	9%	52	13%	23	14%
\$30 - 100 MM	55	5%	36	9%	21	13%
Over \$100 MM	22	2%	12	2%	20	13%

Table 5*Export Volume of Export Bulls*

	ALL EXPORTERS (n=398)		EXPORT GROWTH > SALES GROWTH (n=160)	
\$0 - 250 MM	212	53%	32	20%
\$250 - 500 MM	44	11%	20	13%
Over \$100 MM	142	36%	108	67%

The survey suggests that respondents who believe that their exports will grow faster than their domestic sales tend to be larger companies than other exporters and the respondents in general, both in terms of sales volume and number of employees. A higher percentage of these "export bulls", export over \$500,000 per year, more than the exporters in general.

MANAGEMENT AND TECHNICAL ASSISTANCE

The North American Free Trade Agreement ensures that procedures will become simpler, but these changes are scheduled to take place gradually. A significant need revealed by this research is the establishment of university-based technical export assistance serving as the sales agent for Mid-American firms' exports to Mexico. The assistance would determine the marketability of a firm's products through an analysis of manufacturing costs, transportation costs, remaining tariffs, sales commissions, and resulting price. The examination would compare the firm's products relative to Mexican consumers' preferences and buying patterns.

A university-based technical export assistance center would invoke a process of bringing suppliers and buyers progressively closer together. It would obtain the sales catalogue of potential supplier and published and personal company information to determine if the products merit further attention. The center staff would meet with the supplier to discuss the potential for the company's product in Mexico and begin identifying distribution channels. These discussions could be the impetus for market research teams to analyze products' sales potential in Mexico.

Initially, the university-based technical export assistance center would not be acting as a representative. However, if the discussions with distributors were positive, a sales agent contract would be established with Mexico as the service territory. The university export assistance center would develop agreements with representatives, who would work in partnership with the company for the sale of goods in Mexico. The center would earn a fee on sales made in Mexico.

The center would identify a representative to promote products in Mexico and establish working relationships with those agents. The center would assist and coordinate the sales contract between the supplying firm and the end buyer. It would assure that irrevocable letters of credit are obtained through reliable banks and would advise on arrangements for the shipment and delivery of goods. The center could not purchase goods or hold title to them; however, they would collect fees based on sales.

This same service could identify Mexican firms that have potential for exporting to the United States but lack a distribution channel. The center would help those firms determine the marketability of their products and serve as their sales agent in the United States. The pattern of operations would be tailored to meet opportunities in the market and the needs of particular customers. For example, some firms might be in need of only a portion of the services that a university-based technical export assistance center could provide. In such cases, the center might only handle the sale of the goods, leaving other considerations to the seller. On other occasions, they would accept market research assignments for firms who wanted to study potential in the Mexican or North American market.

Other university-based centers could help a Mexican firm establish a network of representatives throughout the United States and collect a fee on all sales. As the center develops trading relationships, it could make some sales directly to final buyers and expect suppliers to pay some fees as part of the cost of entering the international marketplace. These costs would vary based on particular cases but they would include translation and legal review of liability.

A major function of a university-based technical export assistance center would be the maintenance of continual communication with representatives, buyers and other participants in the markets of Mexico and the United States. The center would be reduced expenses for the supplier and would maintain a data base with accurate and current information regarding distribution opportunities, representatives, and other matters. The center could also function openly as a representative "head hunter" to market its capacity to identify quality representatives for a particular firm's products. to Mexico.

SUMMARY AND CONCLUSIONS

Approximately 650 of survey respondents did not export and only 20 percent had general experience relative to Mexico. The most significant finding is that approximately 90 percent of the firms believe that external managerial-technical assistance would best benefit their sales

efforts in Mexico. The concept of a university-based technical export assistance center is not unique. The U.S. Small Business Administration has sponsored the Small Business Institute program and the Small Business Development Centers for over 20 and 13 years, respectively. The U.S. Department of Commerce has its Minority Business Development Program and University Centers For Economic Development. The U.S. Department of Defense funds its Procurement Assistance Centers on university campuses throughout the nation.

The number of qualified leads suggests that no agency or individual firm is completely fulfilling the needs and opportunities revealed in this study. The research identified three individuals who broker trade between Mexico and the United States, but none represent large numbers of small-to medium-sized businesses in Mexico. Two of the firms did express interest in participating in ventures that could grow out of this research.

Export agents are limited in the number of firms they can effectively represent. A clear and substantial demand appears to exist for this service, as many businesses whose products could have a market in Mexico do not have representatives.

REFERENCES

- Aguascalientes profile. (1993, May). *Mexico Business Monthly*.
- Commercial opportunities. (1993, February). *La Paloma*.
- Corporate location. (1993, May). *Mexico Business Monthly*.
- Cross-border links: where the action is. (1992, October). *Border Lines*.
- El TLC en San Francisco y Sacramento. (1992, June). *La Paloma*.
- Free trade the ifs ands and buts. (1993, Spring). *Resource Center Bulletin*.
- Irrefrendable Desarrollo de Maquiladoras. (1993, January 13). *El Periodico USA*.
- Adriano, Jerry. (1993, April 27). Personal interview.
- Burkart, Norm. (1993, April 28, & 1992, October). Personal interviews.
- Buskirk, Richard H., Courtney Price & R. Mack Davis. (1992). *Developing Entrepreneurial Opportunities*. Stevenson Enterprises.
- Cavazos, R. Daniel. (1993, April). Las Exigencias de los Opositores al Tratado de Libre Comercio son Irreales e Injustas. *El Periodico USA*.
- Correador, Alvaro. (1993, May 4). Personal interview.
- Crumpley, Charles R.T. (1992, December 20). Trade pact: nations on new path. *Kansas City Star*.
- Delgado, Charles. (1993, April 21). Personal interview.
- Games, Keith. (1993, April 16). With the right assistance, your business can cross any border. *Kansas City Business Journal*.
- Games, Keith. (1993, March 12). Here's how to enter the wide world of exporting. *Kansas City Business Journal*.
- Gose, Joe. (1992, November 6). Area exporters learn lessons through losses. *Kansas City Business Journal*.
- Guadalupe, Patricia. (1993, April 7). En Duda 'Consenso de Grupo Latino' Sobre TLC. *El Periodico USA*.
- Heller, Michele. (1992, September). Exclusive interview with President Carlos Salinas de Gotari. *Hispanic*.
- Hiatt, Roger L. (1992, October 30). The NAFTA spells opportunity for business. *Kansas City Business Journal*.
- Keck, Herb. (1992, Fall). Personal interview.
- Kissick, Robert. (1993, April 28). Personal interview.

-
- Leigh, Robert. (1993, January). Personal interview.
- Lasar, Jack. (1993, February 4). Oposicion Organizada al TLC. *El Periodico USA*.
- Letterman, G. Gregory. (1993, March). Product standards and certifications in international trade. *ITC Reporter*.
- Long, Victoria Sizemore. (1993, March 9). Know your trading partner. *Kansas City Star*.
- Manzella, John L. (1992). *Opportunity in Mexico a Small Business Guide*. Buffalo: Free Trade Consultants.
- Mendoza, Rick. (1993, January). Natural bridges of opportunity. *Hispanic Business*.
- Mexico Business Monthly*. (1993). Maplewood, New Jersey.
- Moffett, Matt. (1993, April 20). Amigos for now: Mexicans anticipate passage of trade will lift economy. *Wall Street Journal*.
- Moffett, Matt. (1993, March 8). U.S. firms yell ole to future in Mexico. *Wall Street Journal*.
- National Trade Data Bank. (1993, March 9). *Foreign Traders Index*.
- Rosenberg, Martin. (1992, December 21). Area firms planning to enter little-tapped Mexico market. *Kansas City Star*.
- Silver, Lloyd. (1993, April 30). Personal interview.
- Toskin, Paul. (1993, April 30). Personal interview.
- Turner, Sherman. (1992, November). Understanding NAFTA. *Kansas City Small Business Monthly*.
- Wagner, Ace. (1993, April 6 & 1992, Fall). Personal interviews.
- Werrett, Rosemary. (1993). A surge in trade with Latin American. *Nations Business*.
- The North American Free Trade Agreement*. (1992, August 12). Washington, D.C.: The White House.
- Wilder, Scott. (1992, Fall). Personal interview.
- Williams, Ray. (1993, April 21). Personal interview.