

# Mexican Businesses A World of Inequality

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Mexico suffers from marked inequality on all economic and social levels, an inequality that has sharpened since the crisis that began in the 1980s. Increased economic inequality can be seen, for example, among regions, sectors and branches of activity, the social classes, families and businesses. Here, I am going to look at businesses, pointing to the distinctions among those of different sizes. First I will examine some data about the evolution of their structure with regard to the number of workers and employees in each of the three sectors (manufacturing, the wholesale and retail trades and services) from 1989 to 1999. Then, I will point to some differences in the

way each strata operates and the main problems small businesses face. Finally, I will outline some proposals to mitigate those problems.

## DIFFERENT STRATA OF BUSINESSES AND THEIR EVOLUTION

Since March 1999, the then-Ministry of Trade and Industry (today Ministry of the Economy) classifies Mexican companies as micro, small, medium-sized and large according to the number of their employees and the sector in which they operate (see table 1).<sup>1</sup>

In 1989 there were a total of 1,306,254 economic units; this figure rose to 2,184,558 in 1994 and 2,726,366 in 1999. The number of people they employed went from 6,528,643 to

9,257,079 and 11,937,791 respectively. Thus, the number of businesses increased 108 percent over the entire period, while the number of employees only rose 82.9 percent. Both increased more in the first five years than the second: the number of businesses rose 67.2 percent from 1989 to 1994 and 24.8 percent from 1994 to 1999, while the number of employees rose 41.8 percent and 29.0 percent respectively. The variation was different for each sector and each strata of companies (see table 2).

We can see that from 1989 to 1994 the sector where the number of businesses increased the most was manufacturing, followed by services, which then rose the most from 1994 to 1999. In the first five years, micro-enterprises underwent the greatest increase in all three sectors of the economy. This is

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due to self-employment. In the second five years, however, the increase of micro-enterprises was surpassed by that of large companies in all three sectors. This shows the effects of the crisis following the December 1994 peso devaluation on micro-businesses and confirms that large companies were the least adversely affected. The number of small companies shrank over the 10 years, indicating their vulnerability and the difficulty for micro-enterprises to grow.

The number of medium-sized manufacturing companies dropped over the 10-year period while the number of service-providers and wholesalers and retailers dropped in the first five-year period and remained the same in the second. The percentage of companies classified as large dropped in the first period due to the proliferation of micro-enterprises, but did not change in the second period despite the fact that their absolute numbers increased from 3,497 in 1989 to 4,927 in 1994 and 6,775 in 1999 (93.7 percent higher at the end of the period than at the beginning).

Table 3 shows the variation in the number of employees by sector of activity and company size. We can observe how in the first five years, the firms that most increased their number of employees were micro-businesses, followed by small companies. In the second five years, in contrast, it was large companies that most expanded their personnel rosters, while the lowest rise was among small companies, and micro-businesses increased considerably less than in the previous five-year period.

The service sector shows the greatest expansion in the number of employees in both periods, followed by the wholesale and retail trades in the first

**TABLE 1**  
**COMPANY SIZE BY NUMBER OF EMPLOYEES**

	MANUFACTURING	WHOLESALE AND RETAIL TRADE	SERVICES
Micro	Up to 30	Up to 5	Up to 20
Small	31 to 100	6 to 20	21 to 50
Medium-sized	101 to 500	21 to 100	51 to 100
Large	501 or more	101 or more	101 or more

**Source:** *Diario Oficial de la Federación*, 30 March 1999, pp. 5-6.

**TABLE 2**  
**VARIATION IN NUMBER OF ESTABLISHMENTS  
AND STRUCTURE BY SECTOR (PERCENT)**

SECTOR	VARIATION		PERCENT OF TOTAL NO.		
	1994/1989	1999/1994	1989	1994	1999
<b>Manufacturing</b>	91.2	29.6	100.0	100.0	100.0
Micro	97.7	30.5	91.6	94.8	95.4
Small	20.1	8.7	5.0	3.2	2.7
Medium-sized	20.9	19.6	2.7	1.7	1.6
Large	11.7	45.1	0.6	0.4	0.4
<b>Retail and Wholesale</b>	60.3	19.3	100.0	100.0	100.0
Micro	61.8	19.4	93.9	94.8	94.9
Small	40.9	15.6	5.0	3.2	2.7
Medium-sized	24.3	21.5	2.7	1.7	1.6
Large	57.5	43.1	0.2	0.2	0.2
<b>Services</b>	71.8	32.4	100.0	100.0	100.0
Micro	72.4	32.3	97.6	98.0	97.9
Small	41.6	39.4	1.6	1.3	1.4
Medium-sized	56.1	21.6	0.5	0.4	0.4
Large	57.5	43.1	0.3	0.3	0.3
<b>Total</b>	67.2	24.8	100.0	100.0	100.0
Micro	68.9	25.0	94.8	95.8	96.0
Small	38.0	18.0	3.8	3.1	2.9
Medium-sized	27.7	21.0	1.1	0.9	0.8
Large	40.9	37.5	0.3	0.2	0.2

**Source:** Based on data from Nacional Financiera, *El mercado de valores*, Year LXI, 10 October 2001, p. 46.

**TABLE 3**  
**VARIATION IN NUMBER OF WORKERS AND STRUCTURE BY SECTOR**

SECTOR	VARIATION		PERCENT OF TOTAL NO.		
	1994/1989	1999/1994	1989	1994	1999
<b>Manufacturing</b>	22.9	30.4	100.0	100.0	100.0
Micro	68.6	25.4	19.5	26.7	25.7
Small	21.3	9.2	14.4	14.2	11.9
Medium-Sized	19.3	22.6	30.5	29.6	27.8
Large	1.7	53.0	35.6	29.4	34.5
<b>Wholesale and Retail Trade</b>					
Micro	48.1	17.8	100.0	100.0	100.0
Small	61.6	14.8	54.6	59.6	58.1
Medium-Sized	36.1	17.2	16.5	15.1	15.0
Large	23.2	21.5	16.2	13.4	13.9
<b>Services</b>					
Micro	37.2	29.3	12.8	11.8	13.0
Small	62.8	40.1	100.0	100.0	100.0
Medium-Sized	64.2	33.4	60.5	61.1	58.2
Large	42.8	36.5	11.6	10.1	9.9
<b>Total</b>					
Micro	57.0	27.1	8.0	7.7	7.0
Small	72.3	65.9	19.9	21.0	25.0
Medium-Sized	41.8	29.0	100.0	100.0	100.0
Large	63.9	24.0	42.0	48.5	46.6
	31.5	18.6	14.3	13.3	12.2
	24.3	22.9	19.8	17.4	16.6
	23.5	52.3	23.9	20.8	24.6

**Source:** Based on data from Nacional Financiera, *El mercado de valores*, Year LXI, 10 October 2001, p. 46.

Large firms dominate national sales, covering 75 percent, and also effect the immense majority of exports, 80 percent of which are from the manufacturing sector.

five-year period and manufacturing in the second. The figures also indicate that larger companies tended to be strengthened, particularly in services, followed in the second five-year peri-

od by manufacturing. From 1989 to 1994 large manufacturing establishments only insignificantly increased their number of employees, diminishing their share of total employment in

the first five-year period and raising it in the second. In micro-enterprises, the opposite occurred. Small and medium-sized companies reduced their proportional share of employees over the whole 10 years.

#### DIFFERENCES IN COMPANIES' OPERATIONS

Most micro-enterprises operate on a cash basis, without resorting to credit. About 70 percent of their sales are made in the local market and to the final consumer. Therefore, their involvement in productive chains as suppliers to other companies is very low. On an average, this strata has a lower technological level and many micro-enterprises go under very quickly. In fact, almost half these companies have been in business for less than five years; 31 percent for under three years; and only 31 percent for over 10.<sup>2</sup> These companies' vulnerability increased with the abrupt opening to the external market in 1986 when Mexico joined the General Agreement on Tariffs and Trade.

Most small companies make their sales on credit; less than half sell to the final consumer; and the markets for their products are local, regional and even national. Many have advanced technology and manage to consolidate and become medium-sized or large businesses.<sup>3</sup>

Medium-sized companies sell more than 60 percent of their products to the national market and less than 35 percent to the final consumer. More than three-quarters of their transactions are done on credit. On the average, they use medium-level technology.<sup>4</sup>

The large firms dominate national sales, representing 75 percent of them,

and also effect the immense majority of exports, 80 percent of which are from the manufacturing sector. Only a few companies sell abroad: in 1996, 20 percent of foreign sales were made by only five companies and 80 percent by 630 businesses.<sup>5</sup>

The enormous inequality among Mexican companies is also reflected in the degree of training their employees have: generally it is higher in larger companies, a circumstance linked to the wages they can pay and the government support they receive, since it is medium-sized and large companies that are able to take better advantage of that support. This is due, for one thing, to their better access to information. Also, government red tape is very complicated, time-consuming and

often redundant, harming smaller companies more since they do not have the specialized personnel needed to deal with it, leaving the owners themselves to dedicate an important part of their time to it.

For this reason, the government should carry out a real administrative reform to cut down on red tape and create training programs for its employees that deal with micro- and small companies. Non-subsistence micro-enterprises also require temporary support from the government to consolidate and grow, as well as fixed-rate, low-interest loans, up-to-date, timely information about how to link up with other companies as suppliers or subcontractors and preferential treatment and training so they can be govern-

ment suppliers. It is also important to foster a greater link-up between companies and universities. ■■■

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#### NOTES

<sup>1</sup> Before March 30, 1999, companies were classified according to the number of workers and annual sales, regardless of the economic sector to which they belonged.

<sup>2</sup> Gerardo Flores, "Viven menos de cinco años 50% de las microempresas," *El Financiero* (Mexico City) 18 September 1996.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

<sup>5</sup> Alejandro Souza Vidal, "El entorno económico y financiero de México y las PYMES," (Mexico City: Confederación Patronal de la República Mexicana [Coparmex]-International Labor Organization [ILO], 1997), p. 12.