2. General background of the problem

2.1. Export orientation of emerging markets in the context of the present financial crisis

"*It is not clear whether or not China is actually competitive. Perhaps it is, but perhaps its current success is based on the fact that they do not respect a series of rules that other countries, such as Mexico, do respect*."

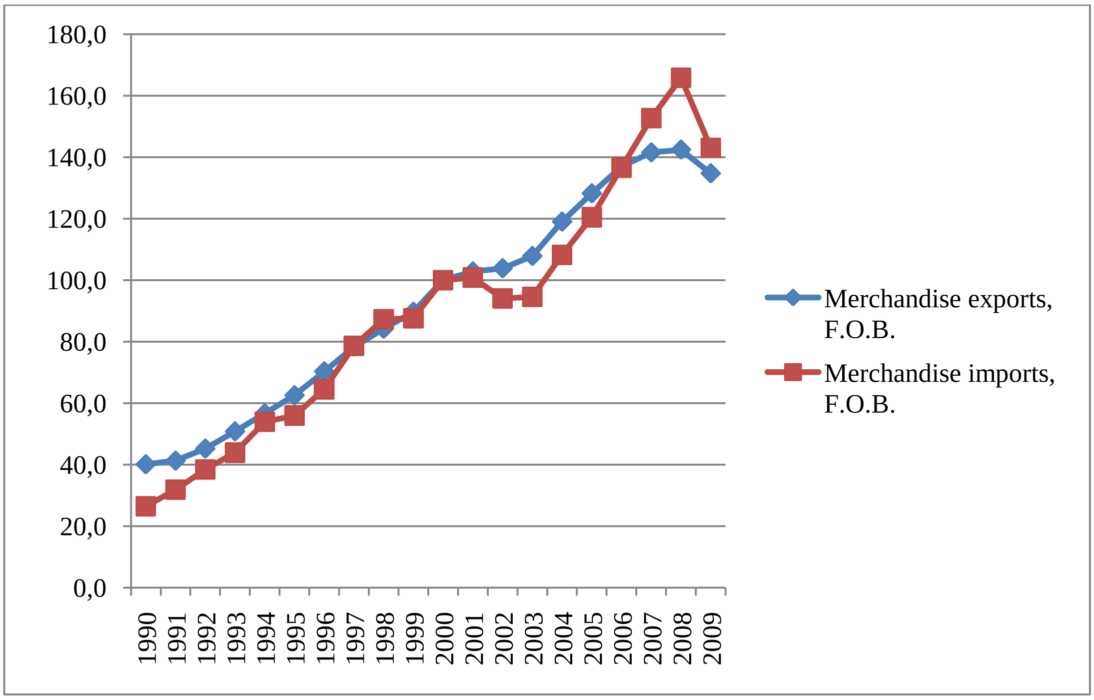
Declaration made by President Fox at the October 2002 APEC summit, as reported on October 22 by Reforma and retrieved from OECD (2008).

Although the past Mexican President Vicente Fox made this declaration in the 2002 APEC summit, it still states very well the present fears of emerging markets with respect to new entrants in world trade such as China. Moreover, it reflects some prejudices that might not be entirely valid as we will see later.

Latin American countries in general experienced an overall constant growth in volume of their exports and imports between the late 80s and today as we can see in the following graph (Figure 1). This growth is due to the trade liberalization that occurred there since the late 80s and early 90s, and to the 1990 Washington Consensus (Ernst, 2005). This phenomenon can also be explained by the shift from import substitution policies to export oriented growth in the relevant countries (Ernst, 2005).

Ernst (2005) argued that Latin American countries, with a focus on Argentina, Brazil and Mexico believed that their comparative advantage in abundant and cheap, low-skilled labor force would highly benefit them in international markets. However, Sterlacchini (1999) emphasized that innovation normally provided countries and sectors with comparative advantages stronger and more durable than those based on unit labor costs. This is certainly one of the main reasons why liberalization of foreign trade in Latin America has led to a rapid export growth but not a rapid export-led growth (Moreno-Brid & Ros, 2009). In other words, the growth in exports has not provided spillovers to the general development for the domestic economy.

Figure 1: Total Latin American exports from 1990-2009 (F.O.B.) – Volume index 2000 = 100



Source: CEPAL (2010)

Since the entry of China into the World Trade Organization in 2001 and the ending of the Agreement on Textiles and Clothing at the beginning of 2005 (Dussel Peters, 2005), Latin American countries have not been able to keep pace with the growth rates in export market shares experienced by China. China has been able to overtake Germany to become the world´s largest exporter and its share of world exports increased to almost 10% in 2008 compared to 6% in 2003[1]. Projections in the IMF´s World Economic Outlook stated that China would reach a record world market share of exports of 12% by 2014 (The Economist, 2010).

[1] Please compare with figure 2

Figure 2: World merchandise exports by region and selected economy 1948, 1953, 1963, 1973, 1983, 1993, 2003 and 2008

(Billion dollars and percentage)	1948	1953	1963	1973	1983	1993	2003	2008
	Value							
World	59	84	157	579	1838	3676	7377	15717
	Share							
Mexico	0.9	0.7	0.6	0.4	1.4	1.4	2.2	1.9
South and Central America	11.3	9.7	6.4	4.3	4.4	3.0	3.0	3.8
Brazil	2.0	1.8	0.9	1.1	1.2	1.0	1.0	1.3
Argentina	2.8	1.3	0.9	0.6	0.4	0.4	0.4	0.4
Asia	14.0	13.4	12.5	14.9	19.1	26.1	26.2	27.7
China	0.9	1.2	1.3	1.0	1.2	2.5	5.9	9.1

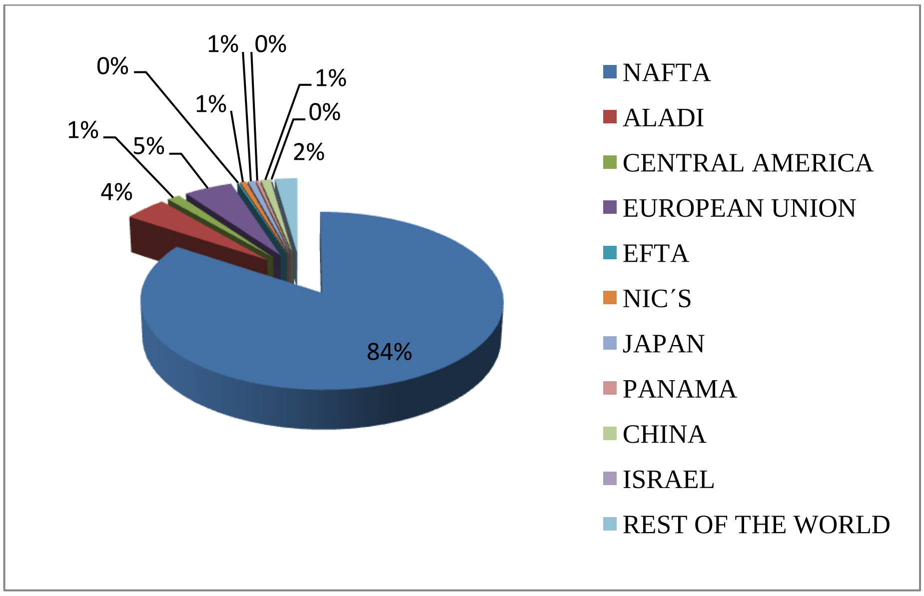
Source: WTO (2009)

The preference of Latin American countries for a short-term economic orientation instead of long-term investments (Blanke, 2009), played an important part on the economic slowdown in relation with exports in the context of the present financial crisis. The whole Latin American and Caribbean Region experienced a decrease of 31% of exports in manufactured goods and a decrease in imports of 29% in value in the first half of 2009 compared to the same period in 2008 (Romero, 2009).

Mexico particularly, has been suffering the most compared to its Latin American neighbors due to its strong economic interdependence with the U.S. economy. NAFTA has left Mexico highly dependent on the economic performance of the U.S., especially in the car manufacturing sector and the construction industry (The Economist, 2009). The Economist (2009) stated that Mexico´s GDP growth tended to correlate closely to industrial production in the U.S.

Mexico´s main trading partners that belong to NAFTA accounted for more than 84% of total Mexican exports and for 51% of total Mexican imports (2009)[2].

Figure 3: Major destinations of Mexican manufacturing exports in 2009 in %



Source: Secretaría de Economía (2010)

Mexico until now could profit from the complementary production structure of its northern partners as well as from playing the role of a platform between the U.S. to Central – and South America (The Economist, 2009).

But why doesn´t this work anymore? Do there exist other reasons, apart from being highly dependent on the U.S. and NAFTA economy that caused a constant decline in export performance, especially during the present financial crisis?

The U.S. is the biggest client of China (24% in 2008 and 25% in 2009 (The US-China Business Council, 2010)) as well as of Mexico (80% in 2008 and 81% in 2009 (Secretaría de Economía, 2010)). Nevertheless, China “only” suffered a decline in merchandise exports to the U.S. by 12% (The US-China Business Council, 2010) compared to 29% (Secretaría de Economía, 2010) of Mexico in 2009, so that China is occupying an even bigger slice of U.S. imports.

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[2] Please compare with figure 3

We need to understand the urgency of this development in Latin America - especially in Mexico - due to the tremendous importance of the U.S. market for the Mexican economy as the surplus in the trade balance between the U.S. and Mexico represents the only big surplus which Mexico maintains with its trade partners.[3] Besides, Mexico's overall exports contributed with up to 27% to its total GDP (2008) compared to 21% of Argentina, 14% of Brazil and 40% of Chile (CEPAL, 2010), proving the export dependence of the Mexican national economy on its exports, only topped by Chile.

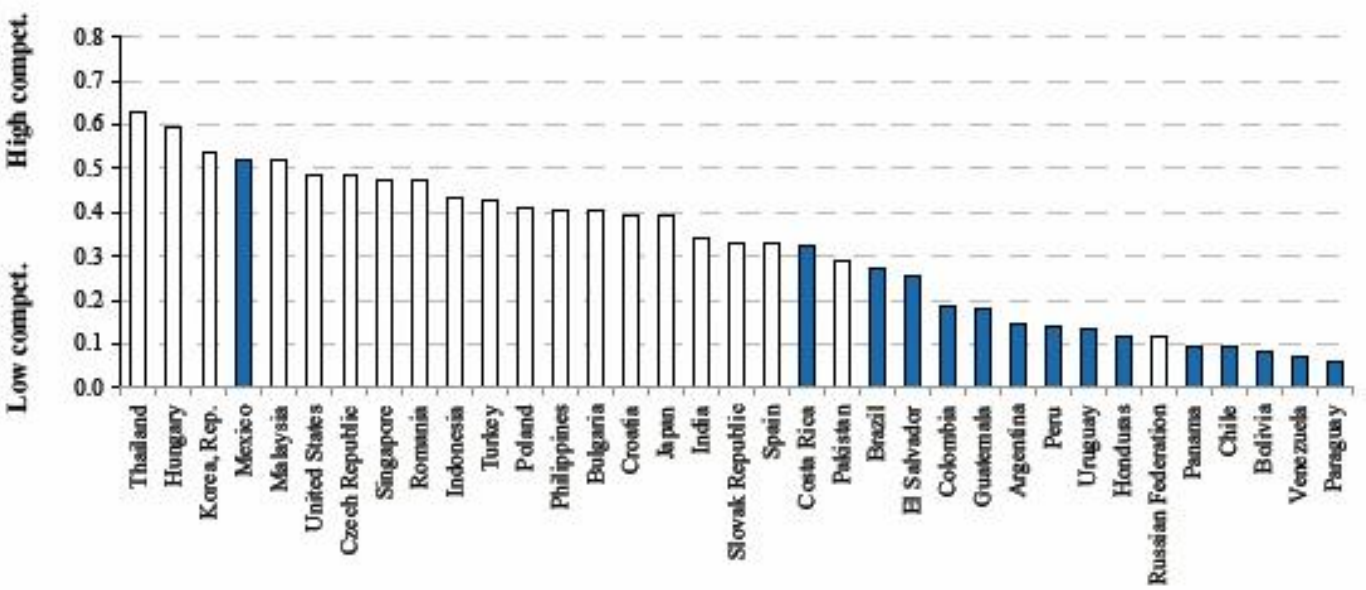
Although Latin American countries in general have been suffering from the present financial crisis and the threat of new entrants, they have not been hit as hard as Mexico. The larger economies in South America, Argentina, Brazil and Chile avoided a worst-case scenario due to their specialization on exporting agricultural products and commodities - highly demanded by China and India. The Latin American Economic Outlook 2008 pointed out that of the 19 biggest Latin American and Caribbean exporters 11 are focused on commodities – needed by the Chinese and the Indian economy (OECD, 2008).

In fact, Brazil represents the eighth most important import supplier of China. (The US-China Business Council, 2010). Whether this kind of specialization on primary, semi-processed or low-value added goods represents an advantage or not, will be discussed below with the example of Mexico.

The following table, provided by the Latin American Outlook 2008 shows us the conformity of the trade structure of several countries compared to China (OECD, 2008). Mexico – within its Latin American neighbors – shows the highest conformity of its trade structure compared to China indicating that Mexico suffers a high competition from China in world markets (OECD, 2008). This factor, combined with a loss in general productivity (Chiquiar & Ramos-Francia, 2009) – as we will see below – results in an overall loss of comparative advantage of the Mexican economy in the world market.

[3] In 2009 Mexico had an overall trade balance deficit of 4.764 Mio. dollars, maintaining only with the U.S. a huge surplus of 72.444 Mio Dollars (Secretaría de Economía, 2010)

Figure 4: China's export competition with Latin-America and other selected countries



Source: Latin American Economic Outlook (OECD, 2008)

In the following, we will identify the major source of problems of the recent development of Mexican trade. Due to the high importance of the Mexican economy for this work, we will concentrate predominantly on Mexico and thus shifting away from the Latin American overview.

Compared to Argentina, Brazil and Chile, Mexico was able to acquire a comparative advantage in manufacturing during its import substitution industrialization period, allowing Mexico to integrate itself into the international economy, exporting not only oil, but also low value-added manufactured goods as well as medium value-added products (Moreno-Brid & Ros, 2009). In 2008, 72, 9% of Mexican total exports were represented by manufactured products (CEPAL, 2009), showing the importance of the manufacturing sector for the overall Mexican foreign trade. Comparing to Argentina with 30,8%, Brazil 44,6% and Chile 12% (CEPAL, 2009), we realize the high importance of the Mexican manufacturing sector for its economy, as no other country in the Latin American and Carribean region reaches similar numbers regarding the share of manufactured products in overall exports. In the following, we will identify four major problem areas which highly affect the future performance of the Mexican economy and which require a special focus for future improvement.

1. According to Chiquiar & Ramos-Francia (2009) Mexico has lost recently its comparative advantage to its major competitors (China, Taiwan, Thailand, South Korea, Malaysia, Hong Kong, Singapore, Turkey, Philippines, Indonesia, Hungary, Poland and Portugal) in a group of manufactured products accounting approximately for 40% of the total manufacturing exports of Mexico. This group consists of machinery and electrical equipment, telecommunication equipment, office machinery and automatic data processing, furniture parts and non metallic mineral manufacturers. These products accounted for at least 10% (2008) of the total exported products to the U.S. (U.S. Census Bureau, 2010). Mexico still maintains a solid comparative advantage in the automobile industry, machinery and power generators, general machinery and industrial equipment, professional, scientific and control instruments, and beverages. Automobile parts and passenger cars with 19% in 2008 (U.S. Census Bureau, 2010), belonged to one of the most important imported goods by the U.S. but nevertheless experienced a tremendous decline of more than 40% in the first quarter of 2009 compared to the same period the previous year (WTO, 2009). Also exports in telecom equipment declined by 11% in early 2009 (WTO, 2009). This shows us that the competitiveness of the automobile industry has come into a crisis indicating that Mexico needs to introduce new developments in this sector through renewed investments or establish other income possibilities. Due to the high relocation costs of these industry branches, Mexico can still maintain a comparative advantage until China or India will enter the export market with respect to the automobile industry (Chiquiar & Ramos-Francia, 2009).

   With the entry of China into the WTO, Mexico has been constantly losing market share in the U.S. market, whereas China was quickly gaining force.
   Indeed, Mexico moved from position 47 in 2003 to position 60 in 2009 in the Global Competitive Index, proving the loss of comparative advantage in some sectors compared to its major competitors (World Economic Forum, 2009).

This casts a doubt on the accuracy of Fox's declaration about Chinese competitive position compared to Mexico in the world market that we quoted at the beginning of this chapter.

2. Although Mexico belongs to the countries with the largest number of Free Trade Agreements with 44 countries (Colín, 2010), more than 80% of its total foreign trade takes place within the NAFTA region which indicates that Mexico suffers from a highly one-sided economy orientation.

   Besides, intraregional trade with the Latin American and the Caribbean region only reached 7% in 2008 of total exports which is one the lowest numbers only to be beaten by the Bahamas and Jamaica with 4,2% and 3,9% (CEPAL, 2009).

3. Mexico compared to its above mentioned identified competitors has not risen as fast in the value chain of production due to the increasing level of education in the competitors' countries' populations (Amoroso, Chiquiar, Quella, & Ramos-Francia, 2008). Especially in the case of China, the rising productivity due to the upgrading in world value chains will probably not have a significant impact on the wage level. Due to its territorial vastness, China has been able to establish two parallel economies with two parallel wage levels – the rural inland areas specialized in low-value added manufactured goods and the urban coastal areas specialized in high-value added manufactured goods – in such a way that China has been able to maintain longer its competitive position in international markets (The Economist, 2010).

   However, AlixPartners (2009) stated that Mexico has overtaken China's favorable cost position with respect to the relocation of manufacturing plants and production costs, indicating that China's profitable position might come from a different source than low production costs. Although Chinese export subsidies were radically reduced in 2007, new measures of export subsidies concentrating on higher value-added goods have probably been introduced (n-tv, 2007).

High-value added manufactured goods are less volatile on the world market and have a multiplier effect on employment, so that the recent developments in Latin American countries, especially Mexico, Argentina and Brazil – the decline in specialization of high-value added manufactured products and the remaining specialization on primary, semi-processed or low –value added goods – stand as another worrying phenomenon for changes in foreign trade structures of Latin American countries (Ernst, 2005).

The Latin American Economic Outlook 2008 argued that boosting commodity exports can easily revalue a country’s exchange rate causing a constant decline in manufacturing exports which were the main driving factors of economic development (OECD, 2008). Jenkins, Dussel Peters & Mesquita Moreira (2007) pointed out that the specialization of the economy on the agricultural sector and commodity has had an unfavorable effect on poverty in Latin-American countries. This occurs because the one-sided orientation to commodities impedes the focus on technology as a driving force of an economy.

4. Despite the devaluation of the Mexican Peso in 2008 and the partial simplification of tariffs, Mexico has been suffering from a decline in its exporting activity which indicates the existence of structural factors which impeded better export performance. Although Mexico offers a wide range of exportable products, the main products of major value added exported are televisions, telephone equipment and automobiles (Colín, 2010), proving a second time the one-sided orientation of the Mexican foreign trade economy.

However, Ledermann, Olarreaga, & Perry (2006) emphasized that the “growing presence of intra-industry trade, production networks, and the production opportunities facilitated by cheaper imports, lower cost of capital and innovation, are some channels through which trade, FDI and innovation externalities” from the new entrants may have a positive effect on Latin-American economies.

Chiquiar & Ramos-Francia (2009) summarized and emphasized that the poor long-rung growth performance of the Mexican economy, even before the financial crisis, originated from low productivity growth rates combined with a low level in human capital and an institutional framework which provoked short-run and unproductive rent seeking behaviors. These rigid market structures suppressed investments, an adequate diffusion of technologies and a correct allocation of resources. Those structural difficulties contributed to the slowing of growth before the financial crisis and the relative fall of the Mexican economy during the financial crisis.

Although Mexico has already entered a phase of slow recuperation (Secretaría de Economía, 2010), this does not mean that those structural problems should not be addressed. Mexico needs a deep restructuration of incentives of its economy. The authors Chiquiar & Ramos-Francia (2009) proposed to focus on institutional changes and the application of renewed public policies. A third important factor - infrastructure investment – was strongly suggested by the OECD (2008) as a major source for future improvement.

What are the main dimensions to be changed in order to boost Mexican foreign trade performance for the long-term?

Ernst (2005) supposes that Mexico would certainly keep its strong specialization in primary goods or technology goods with limited domestic value added in the future. Nevertheless, Mexico should think about a specialization driven industrial policy in addition to a diversification of its export structure with respect to products and countries. However, the degree of diversification of the Mexican foreign trade structure highly depends on the ability of Mexican firms to penetrate new markets in terms of diversified products and international markets, thus increasing their international presence through higher intensity of export operations. With the entry of foreign markets, Mexican firms will be more apt to benefit from knowledge spillovers that might contribute to a possible upgrading in selected world value chains.

Instead of increasing their international presence, Mexican exporting firms decreased in numbers from 35,775 by 2,300 to 35,445 from the year 2000 to 2008.

The Secretaría de Economía (2010) found out that only 19% of 35.445 exporting firms in Mexico had been exporting permanently from the year 2000 to 2008 and 50% from 2006 to 2008. Furthermore, the analysis showed that 1% of total exporting firms (represented by the biggest 399 companies) accounted for approximately 70.8% of the total exported value in 2008, in such a way that SMEs just represented 29% of total exporting firms with an exported value of 28.8%.

These numbers indicate the importance of strengthening Mexican exporting firms, especially those which could not maintain permanent exporting activities. This may be achieved in particular by the application of special export promotion policies providing Mexican companies an impetus to establish internal measures to boost the international operations of those companies, especially those, which already benefit from an exportable offer. The improvement of such companies' internal key factors will certainly be a strong support to develop future overseas operations. This export activity may stimulate further development within value chains.

The detection of companies' internal success factors for export stimulation is the major purpose of this work. The focus is on the identification of major characteristics differentiating sporadic and regular exporters.

There exist various possibilities to strengthen export presence by stimulating the detected factors; in the following section, we will detail further the findings of the literature regarding the possible public export promotion to boost those factors, in the present context of Mexico´s economic crisis.

2.2. Public export promotion policies in times of crisis

Seringhaus & Rosson (1991) defined export promotion programs as public policy measures which enhance exporting activity at the company, industry, or national levels. Promoting SMEs appears in the literature as one of the best strategies for achieving national development goals such as economic and industrial growth (Kazem & van der Heijden, 2006). The objective of such public export promotion is to make the business community in general aware of the high profit potential represented by export markets (Seringhaus & Rosson, 1991).

Naidu & Rao (1993) proposed to take following steps in order to elaborate a successful public policy program:

Table 1: Steps to follow for a successful public policy program

Define objectives clearly	Where do we want to help?
Targeting the market	Whom do we want to help?
Assessment of needs by different segments	What do they need?
Eliminate duplication of efforts	Does this program exist already?
Specialization and cross-selling	Can we make an association with other organizations in order to complement the program?
Export – related educational programs	How can we help them?
Promote the awareness and utilization of existing services	Do they know about us?
Develop measures of performance	
Elaborate export marketing consulting services	

Source: Own elaboration on the base of Naidu & Rao (1993)

Later on, we will see that point 7 "promote the awareness and utilization of existing services" especially represents a major challenge among sporadic exporters.

Shamsuddoha & Yunus Ali (2006) suggested that export promotion programs had a direct effect and an indirect effect on firms´ export knowledge and managers perception; this might influence export commitment to export strategy and hence export performance. Those authors demonstrated that export promotion programs increased firms´ informational and experimental knowledge, stimulated managers´ positive attitudes and perceptions towards exporting and the export environment and increased export commitment. Due to the acquisition of export knowledge about the export market environment and the exporting process, decision makers gradually gain more confidence in order to overcome perceived export barriers.

However, Crick (2004) revealed that export promotion programs with the objective of knowledge transfer would not meet success until information had not been filtered according to the special needs of the companies. Instead of providing “how-to-export” information, data about possible contacts in the foreign market as well as proposed market entry strategies would be needed.

Ang & Teo (1995) suggested that export promotion policies should be supported by an adequate political and economic philosophy of the government guaranteeing a strong collaboration between government and private players for a common goal.

Although public export promotion programs are seen as a necessity for the international economic development of individual nations, there exists an opposing view considering public export promotion programs as another form of economic protectionism and subsidization of the domestic economy. Although this kind of policy does not directly affect the internationalization level of the national economy in world´s market, it would distort competition between countries applying public export promotion programs and countries that do not (Ang & Teo, 1995).

One major challenge of the elaboration of public export promotion programs during times of crisis is to ensure a sustainable progress in relation to the type of support provided. Public export promotion programs implemented on the base of short-term objectives might boost companies’ international presence in markets. However, they do not represent a very strong help to spur growth over the long-term and help in the establishment of a competitive position in the future in a real way. Thus, the clear identification of the target group and the application of custom made solutions[4] for the long-term are the two major obstacles hindering the success of public export promotion programs.

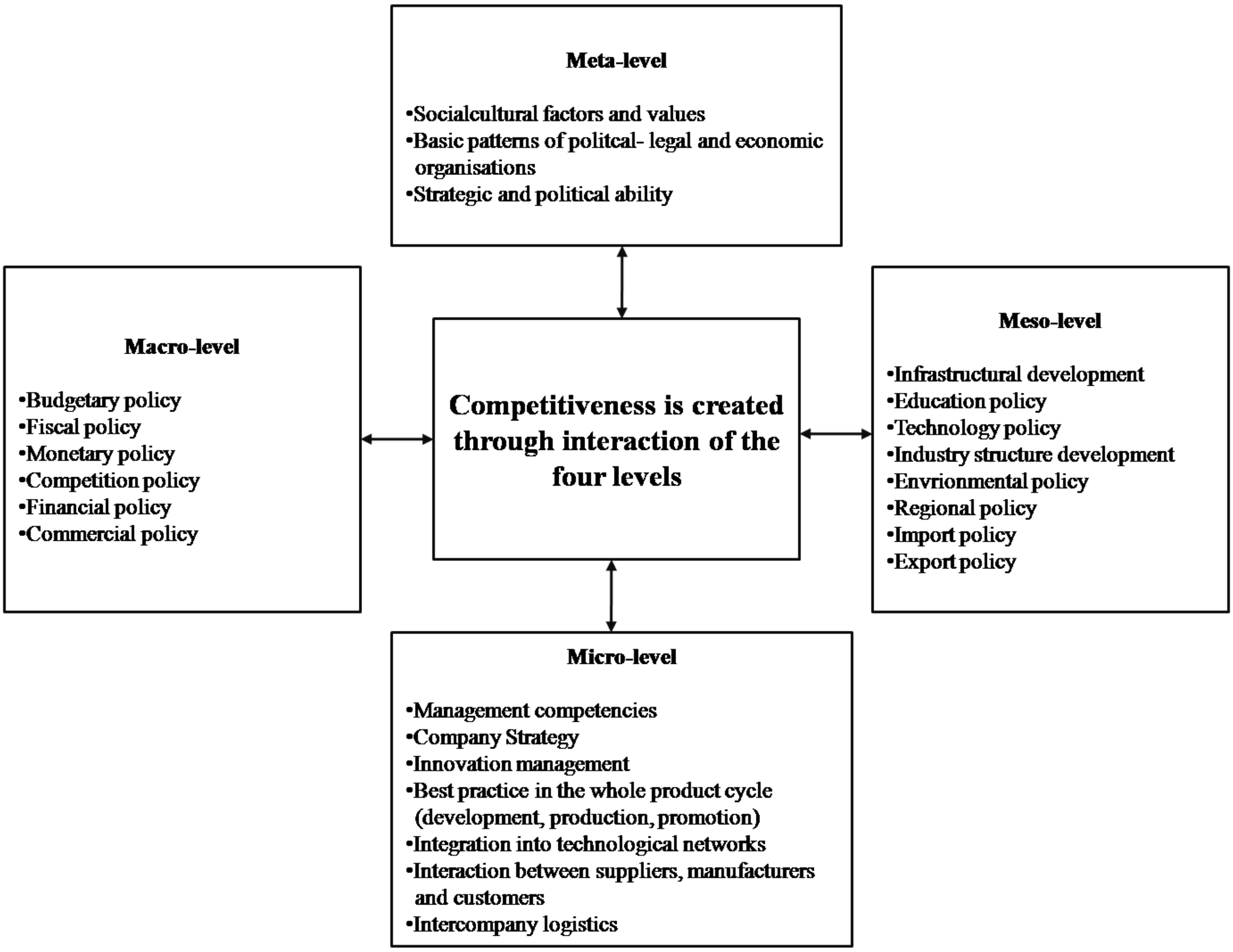
[4] See table 1

2.3. Possible target of public export promotion policies in Mexico

Chiquiar & Ramos-Francia (2009) provided a definition of competitiveness, which is the following: “To give economic content to this concept, we link it to the factors that may lead an open economy to allocate efficiently its available resources, so as to achieve the highest possible level of income for its citizens. (…) we therefore associate the concept of competitiveness with an open economy´s ability to exploit fully its comparative advantages and with the extent to which its system incentives lead it to attain high productivity levels in the sectors where it allocates most of its resources.” (p.7)

Due to the loss of comparative advantage of Mexico in certain industry sectors in comparison to China, its main competitor, as well as the strong impact of the present financial crisis on Mexico, Mexico will need to reestablish its competitive position in international markets. The specialization on primary goods, commodities or the manufacturing of low value-added goods does not represent a feasible alternative for Mexico, indicating that Mexico’s future might lie in the reestablishment of competitiveness in the manufacturing sector of medium to high value-added products and increasing diversification of foreign trade structures. Eßer, Hillebrand, Messner, & Meyer-Stamer (2001) proposed a systemic competitiveness model consisting of 4 interacting levels which create an efficient environment which boosts competitiveness in the global market. The four levels consist of a macro-level, meta-level, meso-level and the micro level. According to the authors the government has the main responsibility to establish a highly efficient environment boosting overall national competitiveness.

Table 2: The 4-level model of systemic competitiveness



Source: Eßer et al. (2001)

Although the 4 different levels must interact among themselves, and be consistent with respect to future goals, the micro-level represents the most important level consisting of companies and entrepreneurs which is the base for each national economy (Secretaría de Economía, 2010).

The authors Eßer et al. (2001) proposed several companies´ characteristics: management competencies, company strategy, innovation management and so forth, which boost companies´ overall performance and export performance for the interaction between all four levels to be successful. If Mexico has the intention to restore its competitive advantage, it will need to work on all 4 mentioned levels.

Primarily, Mexico needs to establish a country’s strategy with respect to future goals, harmonize the interaction between those four levels and boost especially the micro-level by applying the relevant public export promotion programs. The definition of companies´ variables which influence their performance, especially export performance, is a major task to implement.

Public export promotion programs will need to focus on domestic companies which still do not have a permanent presence in international markets. The support of sporadic exporters in Mexico therefore represents – in accordance with an overall national strategy – a possibility to regain competitiveness in international markets.