
ARTICLES

ECONOMIC RELATIONS BETWEEN SPAIN AND MEXICO: THE ROLE OF INDUSTRIAL SMES¹

José Luis Alonso Santos

David Ramos Pérez

Department of Geography
University of Salamanca

In this article we approach the economic relations between Spain and Mexico, specifically the flows from Spain to Mexico in two specific contexts, trade and direct investment, with special attention to the role of small and medium-sized enterprises in these relations. Although in recent years Mexico has been an extremely important partner for Spain in Latin America, direct investment has been acquiring growing prominence, giving a new dimension to the bilateral relationship. The free trade agreement between Mexico and the European Union and the growing economic integration of Mexico into NAFTA are events that have stimulated the reassessment of the Mexican market for Spanish industrial capital. The overt prominence of a handful of large Spanish firms in key activity sectors of the Latin American economy (telecommunications, finance, energy, physical infrastructures of services, tourism) has inflated the real place of the Spanish economy and overshadowed the growing presence in the region of a good number of medium-sized and even small industrial and service enterprises. SMEs today play a leading role of growing importance in Spanish foreign investment in Latin American markets and specifically in Mexico. Another dimension we focus on is the regional origin of Spanish industrial capital in Mexico, identifying the most dynamic industrial sectors in trade and investment. The final section will centre on an assessment of the institutional network support forged recently to foster the internationalisation of Spanish business.

The first section documents the special prominence of Latin America in Spain's economic internationalisation process and Mexico as its outstanding partner in the region. From 1993 to 2004, Latin America received 34.5% of Spanish foreign investment, making it the main

1 The article is the result of an open research line concerning the growing prominence of small and medium-sized Spanish industrial firms in the internationalisation process of the Spanish economy, and specifically its orientation towards Mexico. It is the result of a project in collaboration with the Department of Economic Geography of the Institute of Geography of the Autonomous National University of Mexico (UNAM) which received financing from the Spanish Agency for International Cooperation during 2004.

area of interest after the European Union, which even moved to second place behind it between 1996 and 2000. It must be kept in mind that to conceive of Latin America as a region of solid economic relations with Spain is an oversimplification, since it is 4 countries that attract the bulk of Spanish direct investment. Mexico, Argentina, Brazil and Chile together represent 85.1% of total investment and Mexico in particular represents 15.6%. As regards commercial trading, although limited to a modest 5.8% of Spanish exports and 2.5% of our imports, Mexico stands above the other countries, representing 34.6% of the regional total of Spanish exports.

Section 2 studies the nature and intensity of the bilateral economic relations between Spain and Mexico. After a brief reference to regulatory changes in both countries orientated towards favouring the liberalisation of the local market and stimulating economic internationalisation, we analyse trade on the one hand and direct investment on the other.

When assessing the amount of commercial trading between the two countries in relation to that done with the rest of the world, we see that Spain and Mexico, despite the modest figures, are important partners to each other. For Spain, besides being its first trading partner in Latin America, Mexico is, after the U.S., its second trading partner outside the EU (2001). In turn, for Mexico, Spain was partner number 10 in terms of the value of its sales in 2003, far from the seventh place it held in en 2000 (Romero, 2002) owing to the rise in imports from countries such as Brazil, (which raised its share from 0.8 to 2.2% between 1999 and 2004), South Korea, Taiwan, Malaysia and China (together their market share rose from 4.6% in 1999 to 13.5% in 2004). In terms of the total foreign trade of each country, bilateral trade is more important for Spain (1.8% in 2002) than for Mexico (0.9% in 2002).

The nature of the trading is a very important facet to bear in mind and in this sense our sales to Mexico have always been more varied in composition than our purchases, which tend to be marked by the oil factor. Based on data from the ALADI (Latin American Integration Association), in 2003 our export structure was characterised by the importance of motor vehicles, their parts and accessories, the machines, tools and products of locksmiths, plus a wide range of raw materials and intermediate goods of the metal industry as well as publishing and books. Other segments with a solid base in the Mexican market are ceramic products and electric and electronic goods. Products that are less important but which are on the rise are medicines and pharmaceutical products, perfumery and certain electrical components. On the other hand, goods from production sectors such as agro-industry, with a broad base in our country, only have a solid presence in the Mexican market in terms of brandies and wines.

In an economy such as the Spanish one (which has moved from centralization to the autonomy of its different regions —Autonomous Communities— as regards economic decision-making, at the same time as it has ceded responsibility to the regulating authority of the EU), it is of great use to know the origin of the goods involved in foreign trade since the greater or lesser degree of internationalisation of local and regional economies measured through the value of their products sold abroad is an indicator of the competitiveness and degree of maturity of its productive system. The amount and nature of the exports helps us to weigh to what extent the inherited productive structures are still determinant in explaining the greater or lesser export capability of each region at the present time and to what extent the management of the local economic agents, i.e. those pertaining to the public

administration, business and trade unions contributes to improving the competitiveness and internationalisation of the region's production system. Thus, the analysis of the distribution by autonomous regions of exports to Mexico in 2002 allows us to know the position of the different regions in the bilateral commercial ranking and, although its significance is partial, it allows us to weigh the degree of internationalisation reached. Regions such as Aragon, Catalonia, La Rioja and the Basque Country have a higher market index in Mexico than that achieved nationally.

The behaviour of Spanish direct investment in Mexico completes the study of bilateral relations. During the 1990s, the Spanish economy, which since 1986 had been orientated to participating in the construction of the European Single Market, decidedly progressed towards its internationalisation, a process in which the export of capital to Latin America, especially in the context of services, played a very important role. The privatisation of many state enterprises and the implementation of policies of economic liberalisation at the beginning of the 1990s, following the dictates of the *Washington Consensus*, opened the door to the «American adventure» of Spanish business, which, besides the cultural affinities between them, had already accumulated a certain amount of experience in the region. Recall that in the mid-1970s Spanish capital made its first incursions abroad, albeit modestly, and Latin America, together with the then EEC and the U.S., was one of its main destinations (CEPAL, 2000).

In 1994, Latin America became the first destination of Spanish investment, surpassing even the EU. However, since 2001 these positions have reversed, as Spanish investment in Latin America has returned to levels similar to those of 1997, at the same time that flows to the EU have been reactivated. The culmination of the privatisation processes and the extent of debt of the Spanish multinational companies present in the Latin American region, especially those offering public services, partly explain the strong decrease in investment since 1999. Despite its large internal market, Mexico was not a destination for massive Spanish investment in the 1990s. During the period between 1993 and 2002 it was the third receiving country of Spanish FDI in the region, well behind Argentina and Brazil, which at that time cornered almost 65% of Spanish FDI as opposed to Mexico's 12%. Among the causes for this trajectory which could be considered anomalous is the prominent role played by SMEs, which lack the high capacity for investment per project; also, as Becker pointed out, it was due to the lower degree of internationalisation in sectors on which Spain based its business internationalisation (Becker: 2002, p.96) Above all, however, it was due to the specificity of the internationalisation process of the Mexican economy, highly determined by its strong integration with the United States even before the Free Trade Agreement.

A distinctive trait with respect to the rest of the region is the strong prominence of medium sized and even small firms and, among them, the outstanding presence of investment in the Mexican manufacturing sector —especially in the automotive industry— which between 1999 and 2003 surpassed 13.3% of the total investment, only behind financial services and communications enterprises. In the case of Mexico, as opposed to what happened in the rest of Latin America, the SMEs were the first to set up business, the large multinational companies arriving later (Zaballa, 2000). As regards the internationalisation process of SMEs, the work done by the Spanish Company for the Financing of Development (Compañía Española de Financiación del Desarrollo - COFIDES) must be highlighted. This is a mixed capital

company created in 1988 to foster productive Spanish investment in developing countries, and 75% of the firms resorting to it for foreign investment are SMEs, although they only make up 40% of the investment. Geographically, the strong concentration of Spanish investment in the country's capital and the surrounding area is striking, with the Federal District and the State of Mexico absorbing more than 89% of it for the period between 1999 and 2003. After this come Nuevo León and Jalisco, the states where Monterrey and Guadalajara, two of Mexico's main cities, are located and Quintana Roo, where Cancun, the largest tourist complex in the country, has attracted numerous Spanish hotel chains.

Finally, the article focuses on the process of the creation and development of instruments for promoting and aiding the internationalisation of Spanish business on the part of the autonomous communities, which complements the institutions existing on a national level. This is because public mediation is still indispensable in economies such as the Spanish one, with a business sector highly marked by SMEs and a scarce culture of internationalisation.