

## Chapter 55

# Institutional and Cultural Implications of Mexican SMEs Internalization

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### ABSTRACT

*The aim of this chapter is to analyze from the perspective of institutionalism if the European Union market is a potential market for the internationalization of Mexican SMEs. This chapter identifies a framework of the current situation of Mexican SMEs, encompassing as the political-economic aspects that govern the cooperative relationship as the normative and cultural factors that impact directly businesses, concluding that the complexity of the European Union resulting from the uniqueness of each of its members is reflected in a set of formal and informal rules that negatively impact on the internationalization of Mexican SMEs to that market.*

### INTRODUCTION

The phenomenon of globalization has revolutionized the business world. Falling trade barriers has generated the need to implement new and better strategies to enter the world economic space to improve the competitiveness of enterprises. Internationalization is a growth and development strategy that has been implemented by a large number of countries and Mexico is no exception. Given the openness of the Mexican economy with a wide variety of agreements and treaties beneficial for the country in more than 43 countries, Mexico strongly promotes the internationalization of operation of both large and small businesses. Mexico began a race to sign trade agreements with other countries, with the sole aim to diversify exports and build tariff preferences with other countries. Currently, Mexico has a network of 10FTAs with 45 countries (TLC's), according to the Ministry of Economy (2014). In these trade agreements, is now including the new TLC Mexico-Central America, which entered into effect on July

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1, 2013. In the Mexico-Central America FTA are included Mexico, Costa Rica, Nicaragua, El Salvador, Guatemala and Honduras. This treaty, replaced the three existing trade agreements that Mexico had with Central America (FTA Mexico-Costa Rica 1995, Mexico-Nicaragua in 1998 and TLC's Triangle Northern Mexico in 2001), resulting with this, a total of 10 FTAs with 45 countries. It will be pending to attach to this trade agreements list the recent Free Trade Agreement Mexico-Panama, as in April 2014 was signed by the presidents of both countries.

The European Union has a number of qualities that make it a highly attractive market for the Mexican country. Among these qualities is the power to reduce tariff and non-tariff barriers in international trade, standardizing requirements among member countries of the block, etc. However, the positive political-economic relations between these markets do not ensure that Mexican companies adequately fit the demand.

The SMEs are the key players of Mexican international trade. Given their importance in the development of Mexico, the SMEs currently receive more attention and support to achieve increase their competitiveness and to be able to compete with foreign companies both in local and foreign markets. Speaking of a binomial Mexican SMEs-European Union is still much to be desired of the relationship strategy, and there is allow turn out and a large number of institutional and cultural constraints that although at first glance are not observed, were key variables in limiting expansion of operations to the European market as evidenced by the empirical results.

## **BACKGROUND OF THE PROBLEM**

Globalization is a dynamic and interdependence process that has erased national borders and has challenged the economic, political, social, technological and cultural development. The International Monetary Fund (IMF) (FMI, 1997) defines globalization as the accelerating global integration of economies through trade, production, financial flows, technology diffusion, information networks and cultural flows. It is obvious that the globalization process has transformed the world, and it has impacted heavily on the field of business changing the rules and generating the tone for the creation of new strategies. Faced with the opening of international markets, countries have developed international trade agreements that allow them to appear in the global economic game. Mexico in 1986 entered the GATT (General Agreement on Tariffs and Trade) and later held the North America Free Trade agreement (NAFTA), with the governments of the United States of America and Canada, which came into force in January 1994, with the purpose to promote trade and to achieve economic growth, and thereafter Mexico has increased and strengthened trade relations.

Currently the Ministry of Economy said that Mexico participates in 12 free trade agreements with 44 countries (FTAs), 28 Agreements for the Promotion and Reciprocal Protection of Investments (BITs) and 9 trade agreements (Economic Complementation Agreements and Partial Scope Agreements) in the framework of the Latin American Integration Association (LAIA). Despite numerous trade agreements Mexico, the United States remains the main Mexican partner with whom Mexico performs about 80% of international operations. This can be explained because for the proximity, Mexicans business have

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