Journal of Competitiveness Studies

ISSN 2330-4103
Vol. 22 (3&4), 2014

JOURNAL OF COMPETITIVENESS STUDIES

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**JOURNAL OF
COMPETITIVENESS STUDIES
(JCS)**

Vol. 22, No. (3&4), 2014 **ISSN 2330-4103**

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COMPETITIVE STRATEGIES IN JALISCO'S TEXTILE INDUSTRY IN THE FACE OF TRADE LIBERALIZATION IN CHINA

Jose Sánchez-Gutierrez, Elsa Georgina Gonzalez-Uribe and Juan Mejia-Trejo

ABSTRACT

Mexico and China have used trade liberalization as a growing strategy. Trade liberalization has forced companies to prepare themselves for international competition, which does not always mean just and equitable trade. The textile industry – one of the most important economic branches worldwide – has been strongly impacted in terms of production, employment and sales. In Mexico, this industry ranked as the fourth most important manufacturing activity in 2011. It ranked first in employment generation and second in export activity. This work presents a situational analysis of both countries, with an emphasis on the state of Jalisco, and proposes a model for companies to develop competitive strategies that take into consideration every area of the organization in order to successfully compete with China's textile product industry in the current context as a member of the World Trading Organization (WTO).

Keywords: Textile industry, Mexico – China's relationship, Competitive strategies.

INTRODUCTION

The textile industry is one of the main economic activities worldwide. In terms of trading, it represents 4% of worldwide exports. In Mexico, it represented the fourth most important manufacturing activity during 2011, was one of the most important employment generators, and the second most important industrial branch to export according to INEGI (2011) The state of Jalisco is in fourth national place, with a total of 331,000 companies in the textile and dressmaking industry (INEGI, 2011).

This sector is seriously falling behind in its productive, technological and infrastructural capacities. The lack of planning, of business vision, of awareness of their competitive advantages has resulted in a level of consolidation barely located in the 25% to 35% range. The results of the first analysis for the strategic development of small and medium-sized enterprises (SMEs, known in Spanish as PYMES) in Mexico, carried out by the Instituto Tecnológico de Monterrey (Technological Institute of Monterrey), shows that only 44% of medium-sized enterprises apply a formal process of strategic planning and out of those only 87% plans at least a year ahead in terms of technological aspects. Out of those companies, only 14% have a quality certificate.

This situation becomes even more serious in the face of trade liberalization in China since the country has shown major economic growth, which has been achieved based on connection strategies and on support provided by the government. China's trade liberalization came into force in December 2011 and, taking such a development into consideration, companies in the textile industry in Jalisco face a greater risk of losing their share of the market because, in spite of having some natural competitive advantages, such as their geographical location, the creativity of their design and the range of materials they use, such advantages are not enough.

Contrasting SMEs in Mexico and in China make for an interesting study and can help us detect where the efforts of SMEs and of the Mexican government should be focused in order to reverse the aforementioned tendencies. First, a diagnostic of the current situation must be carried out in order to identify the companies' strengths, including working on areas of opportunity and identifying threats with the goal of aiming for continuity. This should, in time, lead to growth as well as firm consolidation in the market.

In this research, the elements that have allowed China to become one of the most solid economies in the world are studied, as well as the strategies that China has implemented to achieve such a goal. A study of China, its culture, its politics, its investment, how it has managed to push its economic growth forward based on its connection with Hong Kong and Taiwan and how its four special economic areas were created is included as well. China is a market that has great business opportunities to offer to Mexico. It can be an opportunity for many Mexican companies that have many high quality design products.

Some background on SMEs in Mexico follows, including how they were created, their evolution, their current situation, what are the factors that are keeping them from evolving and from becoming competitive, as well as an analysis of the strategies that they must implement in order to overcome their current stagnation. As a part of the analysis, a SWOT matrix is included for SMEs in the textile industry in Mexico and another SWOT matrix is included for China. A current diagnostic of SMEs is presented, as well, and some competitiveness models are analyzed. Based on the results, a new model that could help the consolidation of SMEs is proposed.

This research had some restrictions regarding access to the information kept by the National Chamber of the Textile Industry and the National Chamber of the Clothing Industry. Some of the information is kept exclusively for its members; therefore, accessing such information is restricted and not available to the public. The subject of this research is being reviewed by the authorities and by the government; therefore, the information has been attained in an informal and limited way.

Research questions

This research aims to answer several questions. Some of those questions that stand out are as follows:

1. Which strategies are being carried out in order to achieve competitiveness in the textile industry of Jalisco?
2. Which are the strengths, weaknesses, opportunities and threats faced by China and the textile industry in Mexico?
3. Which are the endogenous and exogenous factors that affect or restrict its development and consolidation?
4. Are there any strategic models of competitiveness that could be used by the national industry in order to raise its current level?

General goal

The goal of this work is, first, to offer, as part of a broader study of several different industrial areas in the state, a methodology that companies in the textile industry of Jalisco can use to analyze their situation and, second, to propose a model that will help the industry develop competitive strategies that take into consideration every area of the organization, thus, being able to compete with textile and dressmaking products manufactured originally in China.

Hypothesis

Having an open market with competitive countries, such as China, has placed textile industries in Jalisco in a risky position – some of them will lose their share of the market because of their lack of strategic planning and development, lack of a corporate culture and lack of awareness of existing promotion programs. Other companies will disappear because they ignore what their strengths or their levels of participation in the market are and because they do not have a short, medium or long term vision. This has come about as a consequence of their spontaneous growth in which neither planning or strategy was involved.

METHODOLOGY

This research is part of a descriptive study that uses Porter's competitiveness theories and the Blue Ocean Model as a basic reference. The method is deductive-inductive, since it was carried out through a synthetic analytical process, reviewing general aspects of the economies of both

Mexico and China, all the way to particular aspects that affect the competitiveness of SMEs in the textile industry.

The analysis of information allowed the creation of a SWOT matrix for SMEs in Mexico and another SWOT matrix for China. Using such material, a comparison was prepared and the results provided enough information to reach a conclusion: SMEs in Mexico lack competitiveness as a consequence of factors such as a lack of support and promotion programs that are adequate, considering the current situation, and also as a consequence of tax policies that affect competitiveness, since there are several different kinds of taxes that keep resources from being used in their re-investment and infrastructure.
This information was grouped in a diagram that shows the exogenous and endogenous factors, thus, allowing a clearer comprehension of the differences between Mexico and China.

Based on the aforementioned information, the proposal for a competitiveness model of our own was formulated. Such a proposal could be useful for SMEs that implement it.

LITERATURE REVIEW

The textile industry in Mexico and Jalisco.

By the mid-1800s, Mexico had the largest and most modern textile industry in Latin America. It was so important that it could even be compared to the textile industries of some European markets. However, by the 1930s, a progressive deterioration commenced. By the 1960s, there were only four large companies that supplied 34% of Mexico's domestic production. According to Berneker (1992), the delay in the development of the Mexican textile industry was due to Mexico's complicated topography, since it meant higher transportation expenses, and also on bad policies that sometimes were even contradictory and that created a risky investment environment. Moreover, rules established by Mexico's government favored entrepreneurs did not contribute to the general wellbeing of the industry.

While Mexico was taking care of its productive sector with importations under a protectionist scheme, it was losing competitiveness in the face of the economic globalization that was being experienced by other countries, according to Bernecker (1992). As well, as a consequence of having a policy of substitution of importations, international trading was discouraged, which contributed to Mexico's loss of competitiveness.

Aguilar (2002) mentions in his thesis on competitiveness in the textile sector that there are several factors that restrict competitiveness. Some of the factors that stand out are: support programs are not completely adapted to the real needs of entrepreneurs. In Mexico, 69% of SMEs have used some of the government's support programs (Ministry of Economy), such as Pyme Exporta y Alianza por las PYMES (SMEs export and Alliance for SMEs), which are focused on providing training, counseling, promotion in international markets, information about the markets and legal dispositions, counseling on customs and supporting the management and logistic tasks. Only 13% of the SMEs have requested some sort of credit and, out of that percentage, 76% have received it.

In 1994, when the North American Free Trade Agreement between Mexico, the United States and Canada came into force (NAFTA), an important dynamism was created in the external sector, thus, transforming some industries such as textiles. In Mexico, by the end of the 1980s, the industry focused on manufacturing to satisfy the demands of the domestic market.
In 2002, the position of Deputy Secretariat of Small and Medium-Size Enterprises was created (Diario bPyme, 2008). The Deputy Secretariat depends on the Ministry of Economy and the position was created with the main objective of offering promotion, encouragement, development and consolidation programs to SMEs.

In general terms, banks do not grant credit to SMEs because they do not meet the guarantee demands required by banks and because of lack of information regarding requirements to get credit. Lack of liquidity is another factor that affects SME's ability to obtain bank credit. According to a survey carried out by the Colegio de Contadores (2008) (Association of Accountants), 89% of persons considered that the tax system is not adequate to promote credit for SMEs. Most of them ignore their existence or ignore the way they work and their benefits.

SMEs have a low level of consolidation: out of every 100 newly incorporated companies only 25% and 30% manage to keep on working. However, the worldwide average is around 40%. Jiménez (2008) states that some of the main problems faced by companies are a lack of productive structure, a nearly nonexistent access to credit and scarce innovation. Jiménez (2008) also mentions that lack of investment in technology is a factor that also has a negative impact on the development and consolidation of SMEs. Only 70% of SMEs have access to the Internet and 40% pretend to have an electronic domain.

Another exogenous factor that affects the development, consolidation and competitiveness of SMEs is the instability of economic policies, high levels of bureaucracy, corruption and a low level of confidence in the business environment. 83% of SMEs do not carry out any kind of activity in any foreign country (Ministry of Economy, 2009).

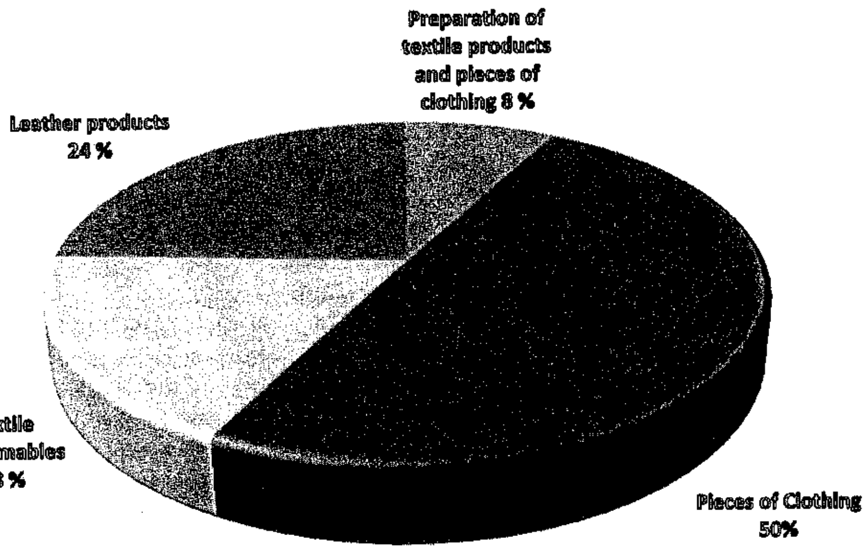
The trading companies that distribute and trade textile products are currently being supplied, on the one hand, by the national sector, while, on the other hand, they are purchasing imported merchandise. These levels are variable, but they range around 60% domestic goods and 40% imported goods. Therefore, we can deduce that the economic impact on the domestic sector could be devastating if such a percentage were transferred to China – it would leave many persons out of a job and could end in possible bankruptcy of SMEs.

The textile industry has made important advances over the last few decades of the twentieth century, especially with the surge of the use of computers and information technology tools.

Those aspects in which companies have evolved are: design, diversification, finishing, machinery and equipment purchases.

The manufacturing of clothing and the manufacturing of leather products were the two most important activities in the structure of value of the textile industry in 2010. See Graphic 1.

GRAPHIC 1
STRUCTURE OF THE BASIC VALUE OF THE TEXTILE AND DRESSMAKING INDUSTRY BY SUB-SECTOR 2009



Source: Created by the authors using data provided by National Accountancy of Mexico, 2010.
States with the largest number of companies, according to information of INEGI (2011):

- Estado de México with 585,000
- Distrito Federal with 414,000
- Veracruz with 364,000
- **Jalisco with 331,000**
- Puebla with 309,000
- Distribution of entrepreneurial lines:
- Services Sector: 47.1%
- Trading Sector: 26%
- Manufacturing Sector: 18%
- Others: 18%

Another important point to take into consideration is the production cycle of a piece of clothing, since it is composed in several different stages (see Table 1). All of those stages are important – some of them have a greater impact on the cost, however, each one of them is essential in the process of forming the final product.

Some characteristics of the products, such as quality, price, availability and variety (textures, colors) are fundamental factors in the selection process of the customer – or the final consumer.

TABLE 1
PRODUCTION CYCLE OF A PIECE OF CLOTHING

1. Product development	Product creation	Funding system Sample development Breakdown of operations and samples
2. Supply	Suppliers	Affordable supply sources
3. Production	Pre-production Production Post-production	Making of patterns, lines Technical specifications Cut Pre-making Finishing and packaging Quality audit Shipping, collections, quality inspection
4. Commercialization	Marketing	Advertising efficiency Price, image, brand
	Physical distribution	Warehouse costs
	Post-sale services	Guarantee Service quality

Source: Created by the authors using data from CANIEVE (2010).

The variety of products offered by the Chinese market, as well as the great range of prices and quality, make it a very appealing market. All kinds of pieces of clothing are produced, with all kinds of compositions of textile fibers, such as cotton, synthetics and artificial materials.

On the other hand, the low competitiveness of the textile sector in Mexico forces companies to propose initiatives that could allow them to evolve in order to achieve a change in an effective and efficient way, since liberalization is only a few months away from happening. The main industries of the textile sector in Mexico are located in Coahuila, Durango, Chihuahua, Aguascalientes, México, Puebla, Guanajuato, Yucatán and the Distrito Federal (D.F.). The states of Puebla and Tlaxcala would be the most affected ones, because the final price of a Chinese product barely equals the production cost for the companies in such states.

The technological developments and advantages, such as the 12% utility subsidy on wages per each dollar of income offered by China to their investors, are some of the factors that will involve the Mexican textile sector, taking into consideration that as of December 11, 2011 all of the transition measurements that had been applied to the Asian dragon were eliminated.

With the elimination of such transition measurements applied to dressmaking products, the prices of the national industry will have to deal with a competitiveness problem. Therefore, the industry must bet on aspects such as technological innovation, logistics and brand awareness,and engage – even if it seems like a paradox – in trading alliances with China. Branding licensing is another one of the strategies that some national producers are using in order to enter into other markets, such as the United States, England, Taiwan, Australia and very soon Brazil.

In the face of the upcoming competition, the dressmaking sector will try to offer clothing cut out for the consumers; therefore, it has carried out an anthropometric study that has provided over 400 body measurements of the Mexican people. Wal-Mart of Mexico was the company that covered a higher percentage of the cost of the study, so the resulting information will be exclusive for at least a year (CANAIVE[1], 2010).

China's textile industry

China has one of the fastest growing economies. In the textile and dressmaking areas it offers a wide variety of products that range from very cheap, low-quality products to products that are high fashion and design.

It is the most populated country in the world, with over 1.3 billion inhabitants. It commenced a gradual liberalization process in 1979. Only four determined zones in the country were open to foreign capital. Those zones are known as Special Economic Zones (SEZ) and they granted financial and tax benefits, especially to foreign investors.

The success achieved in these first SEZ in terms of foreign investment, increase of exports and productive diversification, helped this activity to become consolidated (Reyes, 2003). Nowadays, China is considered the great factory of the world (Reyes, 2007).

China is currently divided into seven regions:
South of China: Guangzhou, Fujian, Hainan, Hong Kong.
East of China: Shangai, Zhejiang, Jangsu.

[1] CANAIVE = Cámara Nacional de la Industria del Vestido *(National Chamber of the Clothing Industry)*

North of China: Beijing, Tianjin, Hebei, Sandong.
Central China: Heann, Anhui.
Southeast China: Sicuani, Guanxi, Guizhou, Yunan.
Northeast China: Inner Mongolia, Shanxhi, Gansu, Ningxia, Xinjiang, Quinghai and Tibet.

The main differences between the Chinese market and the Mexican market are, among others, that in China the population is thirteen times the size of Mexico's population, their work force is 18 times larger than the Mexican work force, they have a lower rate of population growth and China's middle class is made up of 300 million Chinese, in comparison to 50 million Mexicans.

China, as wel,l is divided into three large markets: the coastal region, which is the richest of them all and represents 58% of the economy; the inner region, which is the most popular and generates 38% of the total production and; the western region which is the poorest one, since it generates only 4% of total production (Sánchez & Méndez, 2007).

Bilateral Mexico – China relationship

Worldwide, China is Mexico's second commercial partner -the second one as a supplier and the seventh as a purchaser. The commercial exchange between Mexico and China grew from 2001 to 2009 from 4,309 million dollars to 34,744 million dollars. This represents an average yearly rate of growth of 30%. By the end of 2009, exports registered a growth along that period – from 282 million dollars in 2001 to 2,215 million dollars in 2009. This represents an average yearly rate of growth of 29%. However, the amounts published by each country are shown to be different.

An examination of the textile and dressmaking sector offers the possibility of analyzing the characteristics of China's economic growth and, at the same time, observing the opportunities and threats that it could represent to first world countries. In 1995, with the help of the WTO, the progressive dismantling of the protectionist system was agreed upon, so in regards to the agreement on textiles and dressmaking it anticipated that there would be a decrease of fees during a ten-year period until in Mexico they stopped altogether by December 2011.

The competitive advantage that Mexico may have, due to its proximity with the American market, is reduced as a consequence of the productive capacity of some countries. Even if these countries are a distance from the U.S., as in the case of China, they have managed to develop first world logistic infrastructures that allow them to access markets that are the farthest from them in a quick and efficient way, thus, being able to get to Europe and America within a short period of time and with very large production amounts.

The development of the textile sector in China can be explained by paying attention to a broader geographic space – we refer specifically to Hong Kong, which has played an important role. In 1979, the textile sector kicked off the free trading policy and, thanks to that, companies in Hong Kong saw the possibility of outsourcing to an intensive working force in China and leaving only labor of a highest added value to be performed in Hong Kong. However, as time has gone by, such a tendency has changed and it is now China that carries out those productive processes in an integrated and complete manner.

China's main problems are focused in the design area and in the utilization of outdated machinery, and at present it is focusing its efforts on the importation of developed machinery. Hong Kong is changing its labor in order to become the center where dressmaking products can be hired, where quality control services are offered, where materials are supplied and where products, logistics, transportation and distribution are developed.

In spite of the protectionist measures imposed by some countries, China has achieved the position of being the world's number one exporter of dressmaking products and the second most important exporter of textile products. According to the Chinese government, those two aspects ensure the employment of 19 million persons, mostly young women. Thus, we can see how low labor costs are associated with China and its main competitive advantage in the dressmaking and textile sector.

Facing this situation, Mexican enterprises must work hard to reduce their costs and to make their production processes more efficient. Most SMEs work with obsolete technology and as a consequence their production is limited and they are not able to satisfy the requirements of national and international markets. Significant raises are still expected in the next few years for China and India, both in their production and in their employment levels and also in their textile and dressmaking exportations (Ferrari, Biage, & Da Silva, 2011).

Frenkel and Romer (1999) state that the first approach in the relationship between trade liberalization and economic growth can be tracked back 200 years to the trading current of the seventeenth and eighteenth centuries. Although there is not much literature regarding economic growth and trade liberalization, the controversy remains because economic globalization causes economies to be more connected and this process seems to have a tendency towards trade liberalization. Some countries that have liberalized their economies during the last few years have had a substantially greater economic growth in comparison to those countries that did not do so. China, the Czech Republic, Holland, Belgium, Vietnam and India experienced the fastest growth and a greater relief of poverty.

The permanent decrease of custom taxes in order to encourage foreign trading, far from affecting those countries that have it as a practice, allows them to encourage their trading practices, competitiveness and access to new products. However, in China, a series of supports has been provided – these are subsidies that keep the prices below the level of the rest of other countries (Panagariya & Arvind, 2000).

RESULTS

TABLE 2
COMPETITIVENESS MATRIX FOR SMES IN MEXICO AND IN CHINA

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1	Customer service	5%	4%	5%
2	Price	20%	20%	10%
3	Quality of the product	25%	15%	20%
4	Technological superiority	10%	10%	2%
5	Financial strength	10%	10%	2%
6	Advertising effectiveness	10%	5%	2%
7	On-time deliveries	5%	2%	2%
8	Design and innovation	10%	2%	10%
9	Safe supply chain	5%	5%	0%

Source: Created by the authors using data from INEGI and the World Bank

Strengths of SMEs in China:

- It has had four decades of protectionism in the textile sector. This period has allowed it to achieve an important growth and share in the international market.
- The Chinese growth rate has been at levels of 9% over the rest of the first world countries.
- Planning and organization in their liberalization policy since 1979.
- Creation of special economic zones that benefit from financial help in order to encourage the participation of foreign investment.
- An increase in the level of exportations related to the creation of the SEZ.
- A working force that is 18 times larger than the one in Mexico.
- China has been looking to balance the development of the SEZ by implementing political measures called GO WEST in order to invest in infrastructure in these regions.
- First-world logistics infrastructure that allows them to supply any market in an efficient and timely manner.
- Large scaled production capacity
- The American companies are strengthening their businesses with China day after day.

Strengths of SMEs in Mexico:

- Manufacturing of differentiated products based on their design and quality, even in their handcrafted nature.
- Creative mixture of elements, textures and colors.
- Policy focused on liberalization and on trading globalization.

Opportunities in the Chinese market:

- It is a market focused on copying and replicating products, which are created and developed in other places – the creation of fashion tendencies takes place in Europe and the United States. In China there are no designers developing tendencies and proposals.
- Serious violations of human rights.
- A scarce or inexistent respect for patents, copyrights, brands and logos.
- Forgery, fraud, counterfeit of products.
- A scarce respect for legal agreements.
- Accountancy principles that are not widely accepted.
- A market with a poor reputation – in some countries Chinese products are considered to be low-quality products – even when China is capable of producing articles of the greatest quality and of the most advanced technology.

Opportunities of the Mexican market:

- A privileged geographic location, very close to one of the main consuming markets in the world.
- Encouraging of the exportation of products to international markets. Mexico has trading agreements with over 90 countries; such agreements have benefited more our trading partners than Mexico, because we end up importing more than what we should be exporting.
- Mexico does not have strategic alliances to increase its productive capacity.

Weaknesses of SMEs in Mexico:

- SMEs in Mexico do not have sufficient support in order to promote their development.
- There is no connection with the government or with schools in order to offer counseling that eases development and the implementation of strategies and connections between production units to satisfy large-scale orders.
- A lack of entrepreneurial culture and vision.
- The SMEs grow without a plan.
- There are no tax programs to encourage competitiveness.

Weaknesses of the Chinese products:

- It has no reputation in the Mexican market. Mexican consumers believe Chinese products lack quality.
- There is no development of fashion products with a tendency and a proposal of their own.
- They are perceived as counterfeit or forged products.
- The location: in spite of having a first-world logistic infrastructure, the time it takes them to satisfy the market's requirements can't be shorter than 3 weeks by sea or than 1 week by plane.

Threats to the SMEs:

- The constant imposition of new requirements by the government, increases in tax rates, notifications of state and federal permits, increases in the costs of fuel and electricity. All of these factors keep them from becoming more competitive.
- Trading liberalization with first world countries that could offer balanced conditions.

Threats to the Chinese products:

- There are greater quality requirements in the global market.

- Markets demand more variety and features in the products of the textile sector.
- There are markets that are getting into the textile industry in a strong way, with quality and fashion proposals, such as the Colombian industry, which specializes in the "lingerie" category of products, and the Peruvian industry, which is nowadays entering into trading alliances with Mexico by offering cotton products of great quality.

In Table 3 we present a diagram that includes the exogenous and endogenous factors that affect the competitiveness level of the SMEs. As a derivative of such analysis, we propose a strategic model to encourage the competitiveness of the SMEs in Mexico (Figure 1)

TABLE 3
DIAGRAM FOR THE DIAGNOSTIC OF COMPETITIVENESS OF SMES AND COMPARISON WITH CHINESE SMES

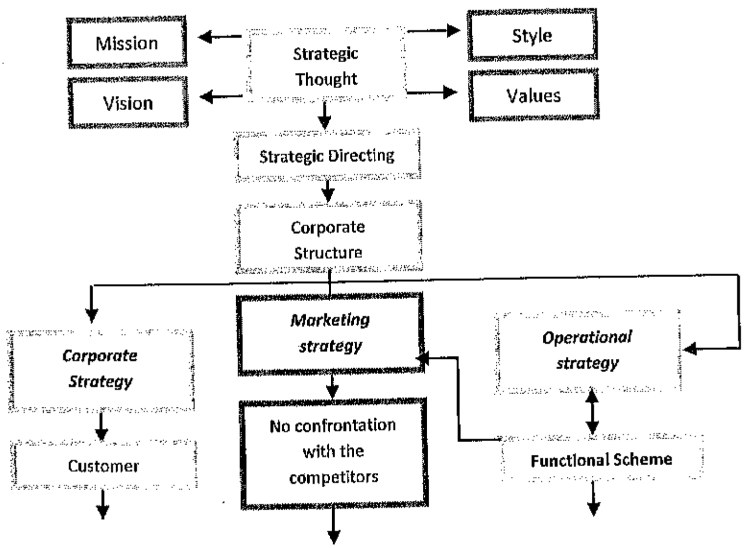
Kind of Factor	Classification	Area	Jalisco	Mexico	China
Exogenous	Financial Policy	Access to credits	No	No	Yes
		Interest rates	High	High	Preferential
	Tax Policy	Income Tax (ISR)	Yes	Yes	Tax free for five years from the date of incorporation
		Flat Rate Business Tax (IETU)	Yes	Yes	Tax free for five years from the date of incorporation
		VAT	Yes	Yes	Tax free for five years from the date of incorporation
	Commercial or Trading Policy	Monetary	Regulated by the Government	Regulated by the Government	Regulated by the Government
		TC Currency	Regulated by the Government	Regulated by the Government	Regulated by the Government

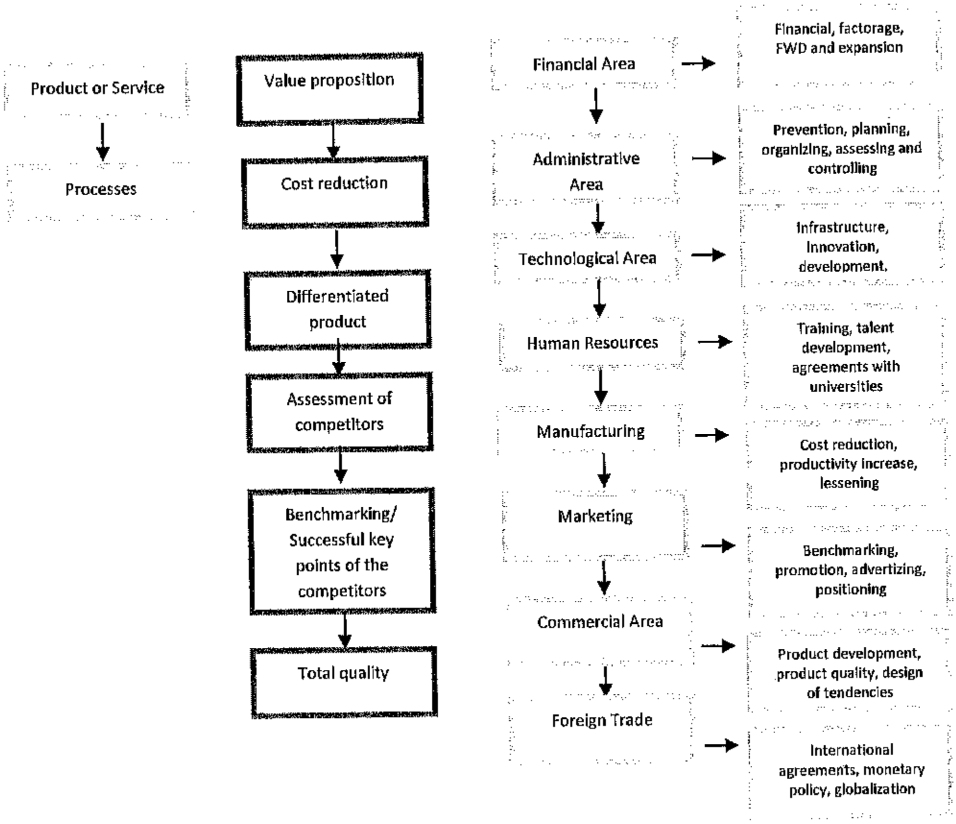
		Customs Tax	Regulated by the Government	Regulated by the Government	Regulated by the Government
		Trading Agreements	Regulated by the Government	Regulated by the Government	Regulated by the Government
		GDP	1039	1039	6898
		Inflation	4.4	4.4	5
	Economic Policy	Monthly Base Salary 2012	1869	1869	2502
		Country Risk	143	182	
		Promotion Programs	Few	Few	Many
		Unemployment rate	5.1	5.1	4.3
		Health index	0.59	0.78	0.84
	Social Factors	Income index	0.451	0.45	0.68
		Education index	0.53	0.73	0.916
		Entrepreneurial policy	No	No	Yes
		Planning	Little	Little	Yes
		Entrepreneurial culture	No	No	Yes
		Business vision	No	No	Yes
	Inner Factors of each Organization	Short-, medium- and long-term goals	No	No	Yes
Endogenous		Strategic connections	No	No	Yes
		Positioning	Yes	Yes	Yes
		Productivity	Low	Medium	Yes
		Corporate Social Responsibility	Little	Little	No
		Connection	No	No	Yes

with the Government			
Connection with Universities	No	No	Yes
Innovation	Yes	Yes	No
Development	No	No	Yes
Patent, Brand and Licensing Registration	Low	Low	No
Marketing	Low	Low	Yes
Infrastructure	No	No	Yes
Technology	No	No	Yes
Logistic strategies	No	No	Yes
Trading strategies	No	Few	Yes
Expansion Planning	No	Little	Yes
Study of the competition	Little	Little	Yes

Source: Created by the authors, using data from INEGI (2011)

FIGURE 1
STRATEGIC COMPETITIVENESS MODEL FOR SMES





Source: Created by the authors based on the model by Michael Porter and Blue Ocean.

CONCLUSIONS

As a consequence of endogenous and exogenous factors, SMEs in Mexico are experiencing some problems achieving their consolidation in the market. Each company has specific and different factors that determine their situation, since the endogenous factors of each company are different. Some enterprises do have strategies and development plans, but they do not invest in technology; some may invest in technology, but they do not have the strategies. Therefore, an assessment of the factors that affect each company and the SMEs in a particular way is suggested. Then they will be able to prepare a strategic plan according to the needs of each company.

China's trade liberalization is a factor that affects the SMEs because it represents receiving merchandise in Mexico that doesn't pay any additional customs tax, in addition to the

endogenous factors that are affecting its competitiveness, thus allowing the consolidation of only 25-30% of the companies.
The promotion programs of the public sector, launched in the year 2002, have not been modified or adapted to the current needs of the SMEs. 65% of the companies ignore the promotion programs and therefore they are not using them. There is a very low percentage of companies that protect their brands, patents and licenses by registering them, in comparison to the very high level of creativity and innovation in the sector.

The means used by the SMEs to protect themselves from threats posed by abuses protected by the trading liberalization with other countries are very expensive and many companies are unable to dedicate resources to defending themselves. The chambers must hire groups of lawyers with expertise on foreign trade for such a defense in order to avoid using the services of firms that charge sky-high fees for those kinds of services.

Another measure that is being carried out by the Ministry of Economy is a strict revision and control of the prices of merchandise imported from China through an operation that has been working in the Mexican Custom offices as of December 1, 2011. Any imported merchandise – from any country at all, including China – that are registered at prices below their reference price, so long as their undervaluation is proved, are being prosecuted administratively in customary matters (this process is known as PAMA, in Spanish) and such products are being removed from the lists of importers in case they are in fact underpriced.

Attention should be on national products with a focus on developing their strengths, including such aspects as quality and design. They will then succeed in creating a differentiated product that will not be in direct competition with a Chinese product, because they will be targeted to different segments of the market. It is not viable to attempt to compete with China in terms of costs and prices, since they have been working for several decades on their productive processes by increasing their productivity and decreasing their costs, so they have an ample advantage in that aspect. Mexico has a great potential for a certain group of products – the producer of denim and jeans, specifically. They have a product of an excellent quality with competitive prices. Keeping focused, investing in infrastructure and training their personnel are key points needed in order to succeed in having the presence of Mexican jeans in the Chinese market.

There are a few segments in which Mexico can compete, however, the success model of some Mexican companies must be followed by others with a high potential. The support of the government through plans that encourage competitiveness is essential, because while in Mexico there is talent, there is no support. The existing programs are directed to micro enterprises, but they do not offer the kinds of support that will allow them to achieve solid growth plans in the short-term, to become SMEs in the medium-term. SMEs are the ones that represent 70% of all of our exportations.

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