

G I G A

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Mexico between Globalization and Poverty

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Comparison Germany - Mexico



Feature	Germany	Mexico
Population	80,722,792	123,166,749
Territory	357,022 sq km	1,964,375 sq km
GDP	\$3.979 trillion	\$2.307 trillion
World Economy	4	15
GDP per capita	\$48,200	\$18,900

Mexico is not in South-America!



**North
America**



**Latin
America**

Mexico is not a Desert!



Rainforest



Mexico between Globalization and Poverty



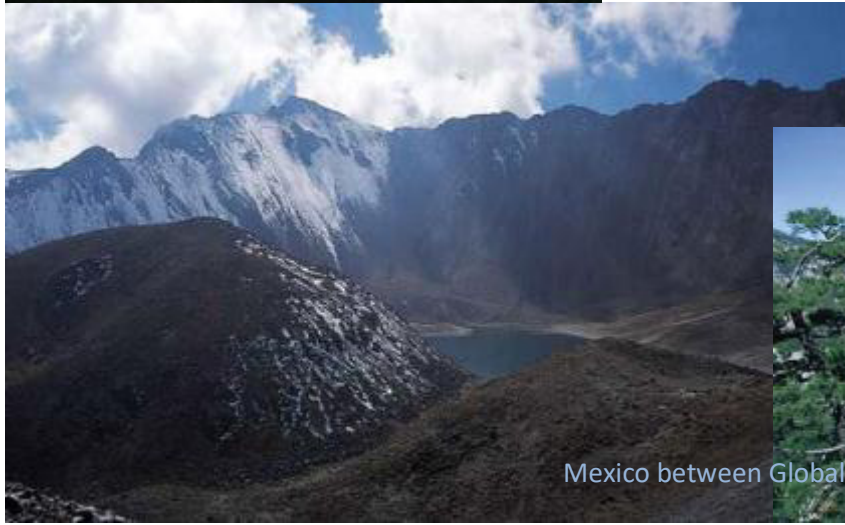
Beaches







Mountains



Mexico between Globalization and Poverty

Coral-Reefs

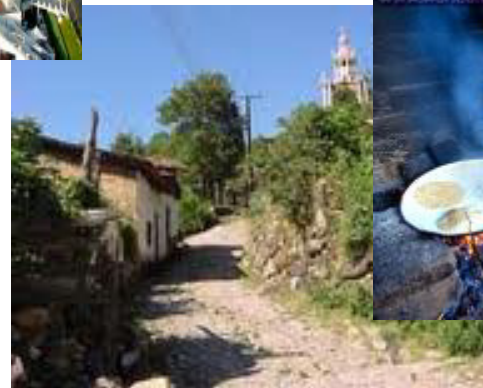




Forest



Mexico between Globalization and Poverty



123 Mill. Mexicans
Food Poverty: 18.2%
Poverty (asset based): 47%

Mexico between Globalization and Poverty

65 indigenous languages;



Náhuatl, Maya,
Otomí,
Mixteca
and Purépecha



Genetic Diversity

Mestizo: 60%

Indigenous: 30%

White: 9%

Others: 1%



Drug-war (10 years)

Historically Peaceful

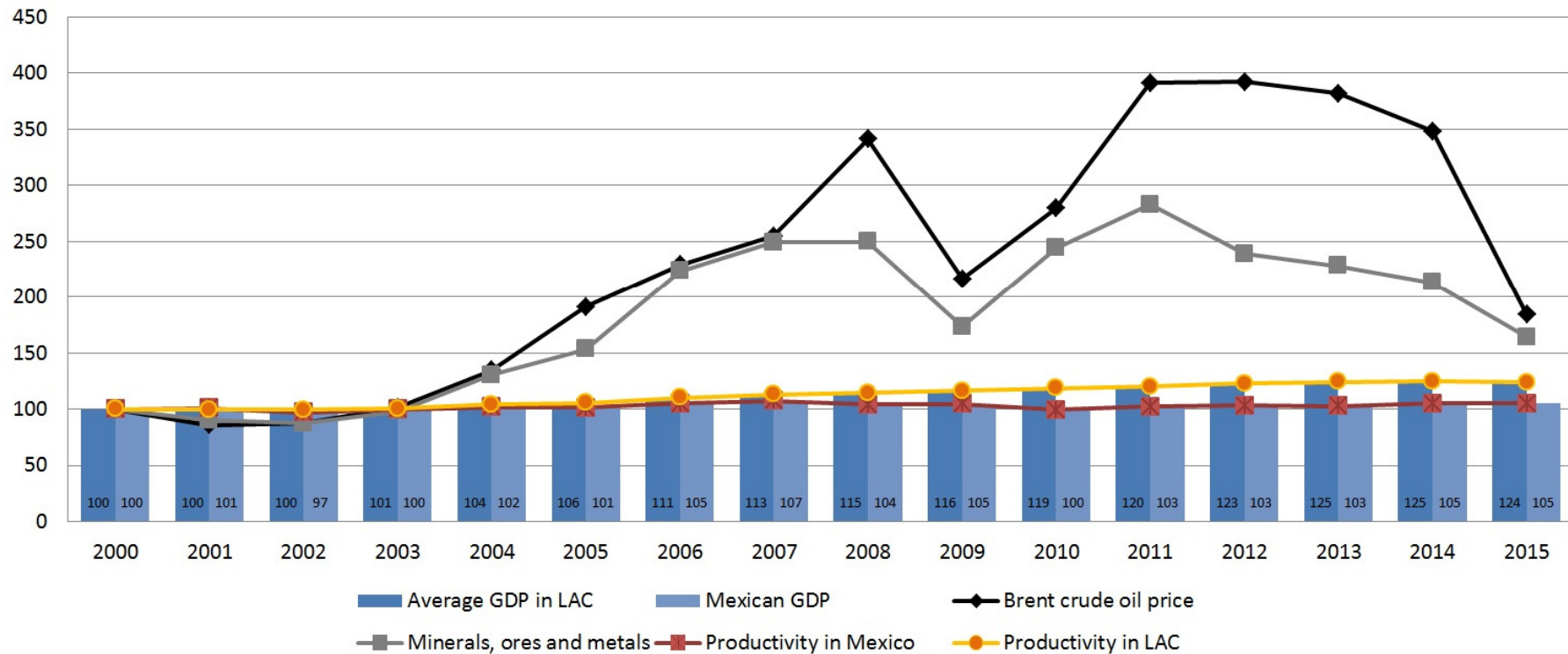
Mexico between Globalization and Poverty

Mexico as a Development Puzzle

- 
- **Structural reforms (1980s):** Achieve export led growth.
 - **Liberalization:**
 1. *Private sector:* Agent that promotes growth.
 2. *Exports:* Means to achieve growth.
 - *Current stand:* Despite being an open economy, Mexico exhibits a sluggish performance.

The challenge: Low average productivity

Index, year 2000=100



Notes: The productivity variables refer to labor productivity per hour worked.

Source: Self elaboration based on data from TCB, OECD and IEA.

Labor productivity is low relative to LAC, USA and OECD.

Overview of firm categories

Economic Census & ENAMIN 2009

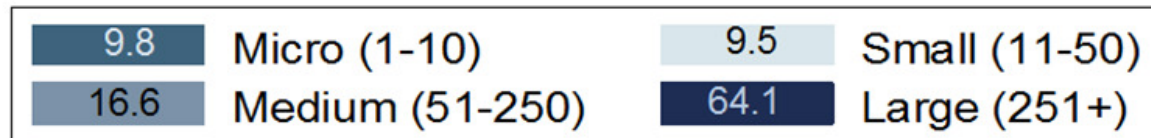
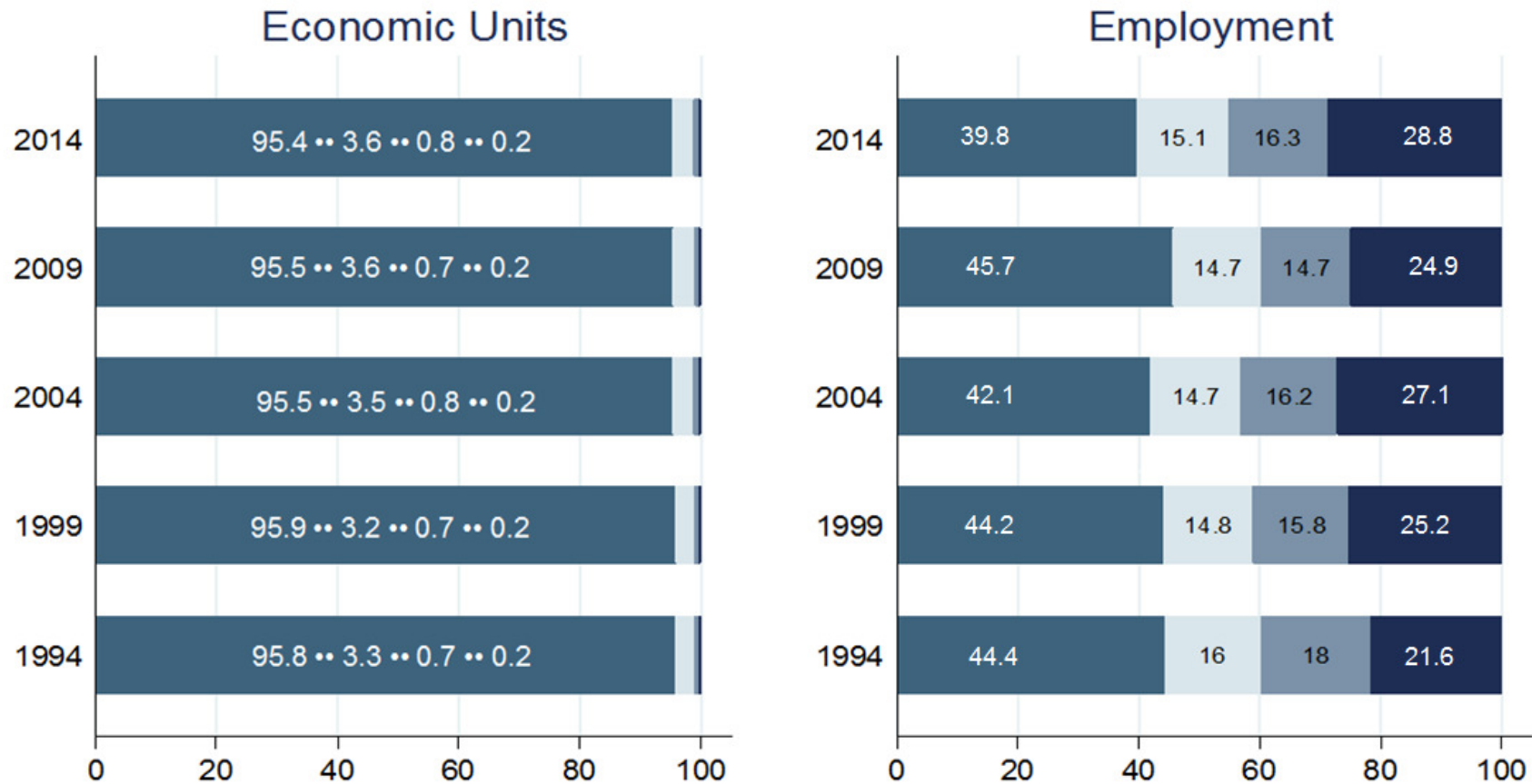
Category	Workforce	No. Economic Units	Percentage	Employment	Percentage	Mean Size
Micro	1	4,831,163	68.0	4,831,163	21.8	1
	2-4	1,921,742	27.1	4,702,377	21.2	2.5
	5-7	133,332	1.9	734,192	3.3	5.5
	8-10	25,832	0.4	221,965	1.0	8.6
Small	11-50	149,968	2.1	3,078,665	13.9	20.5
Medium	51-250	30,697	0.4	3,199,650	14.4	104.2
Large	> 250	7,176	0.1	5,424,075	24.4	755.9
		7,099,910	100.0	22,192,087	100.0	3.1

"Missing Middle" (Ayyagari et al. 2007; Tybout, 2000) &

"Missing Large" (Olken, 2014)

→ Firm growth is being discouraged by ongoing policies and market conditions (Tybout, 2014).

Relative share of firm categories over time



GDP contribution by firm size during 2014

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Scientific Debate

* **Dichotomy:**

ME are residual units that prevail due to a lack of employment opportunities (Hart 1972; Harris and Todaro 1970; Lewis 1954).

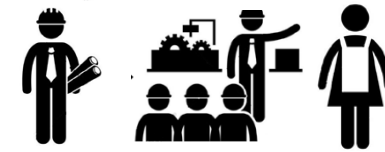
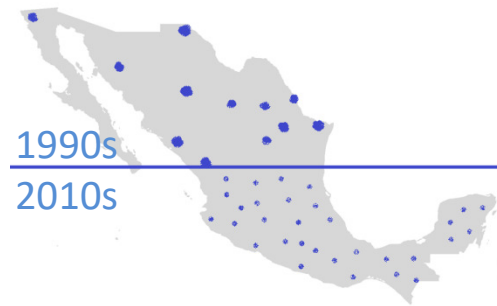
* **Heterogeneity:**

- ME are highly **diverse** (Mead and Morrisson 1996).
 - Productive and survival activities **coexist** (Grimm et al. 2012; Cunningham and Maloney 1999; Liedholm and Mead 1998).
 - ME exhibit **high marginal returns to capital** even at very low levels of capital (Siba 2015; Grimm et al. 2011; Kremer et al. 2010; De Mel et al. 2008; Mckenzie and Woodruff 2006).
- * **Current view:** (-) Insist on dualistic view (Puyana and Romero 2012).
(+) Microenterprises may be key promoters of development (Li and Rama 2013; Grimm et al. 2012).

Economic census



Multi-layer survey



ENEU•ENOE
(labour)



ENAMIN
(microenterprises)

Dataset

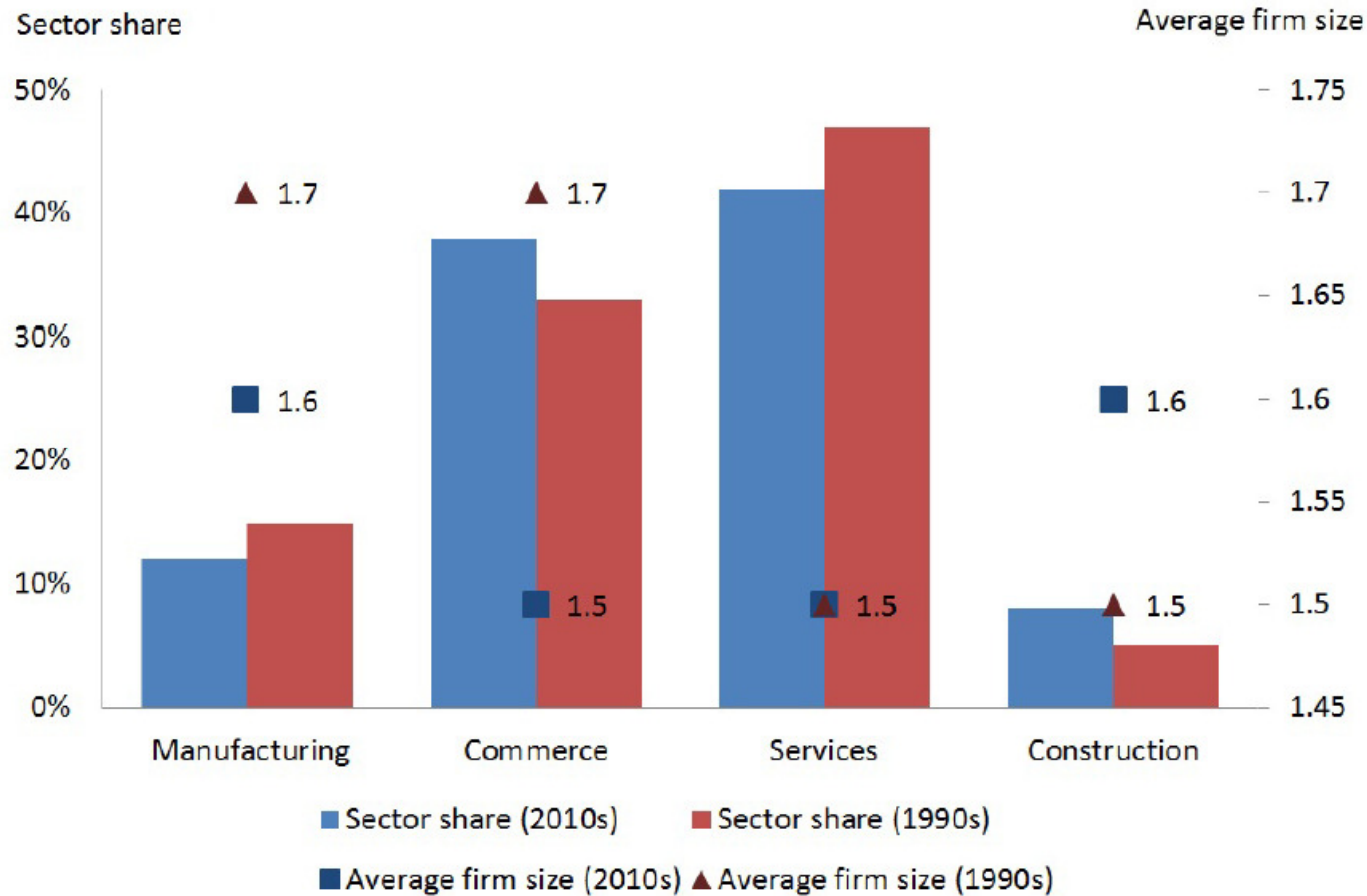
- Repeated cross-section.
- Pooled into two time spells (1994, 1996, 1998 & 2008, 2010, 2012).
- Men and women between 15 and 65 years old.
- Sample size: 1990s: 29,528 & 2010s: 36,528.
- 2016 USD.

The representative Mexican ME



- 46 year old man (hh).
- Primary school.
- Retail trade, no premises.
- Serves the internal market.
- ME: 11 years.
- Capital stock: 4,458 USD.
- Monthly profits: 352 USD.
- No workers (family).
- No institutions.

Trade activities are becoming more common



Socioeconomic advances without firm growth

Positive transitions	2010s	1990s	Apparent stagnation	2010s	1990s
Microenterprises owned by women	45%	32%	One person microenterprises	68%	65%
Education			Mean working hours per week	60 hrs.	66 hrs.
Less than primary school	4%	30%	Monthly profits	(m) 352 USD	422 USD
Primary school	32%	32%	(p50) 220 USD	216 USD	
Secondary school	27%	20%	Capital stock	(m) 4,458 USD	4,287 USD
High school	16%	10%	(p50) 739 USD	619 USD	
At least undergraduate education	20%	9%			
Mean firm age	11 yrs.	7 yrs.			
Mean years of experience	29 yrs.	27 yrs.			

→ Are ME on a poverty trap?

Mean monthly marginal returns by levels of capital (percent)

Sector	Very low <i>(0,250]</i>		Low <i>(250,1250]</i>		Intermediate <i>(1250,6200]</i>	
	1990s	2010s	1990s	2010s	1990s	2010s
	Manufactures	44	62	6	10	3
Commerce	62	45	7	9	3	3
Services	48	56	7	9	3	3
Construction	49	55	6	8	4	4
All sectors (m)	57	59	8	10	3	3
All sectors (p50)	18	24	5	8	2	2

Note: The reported values by sector correspond to the mean.

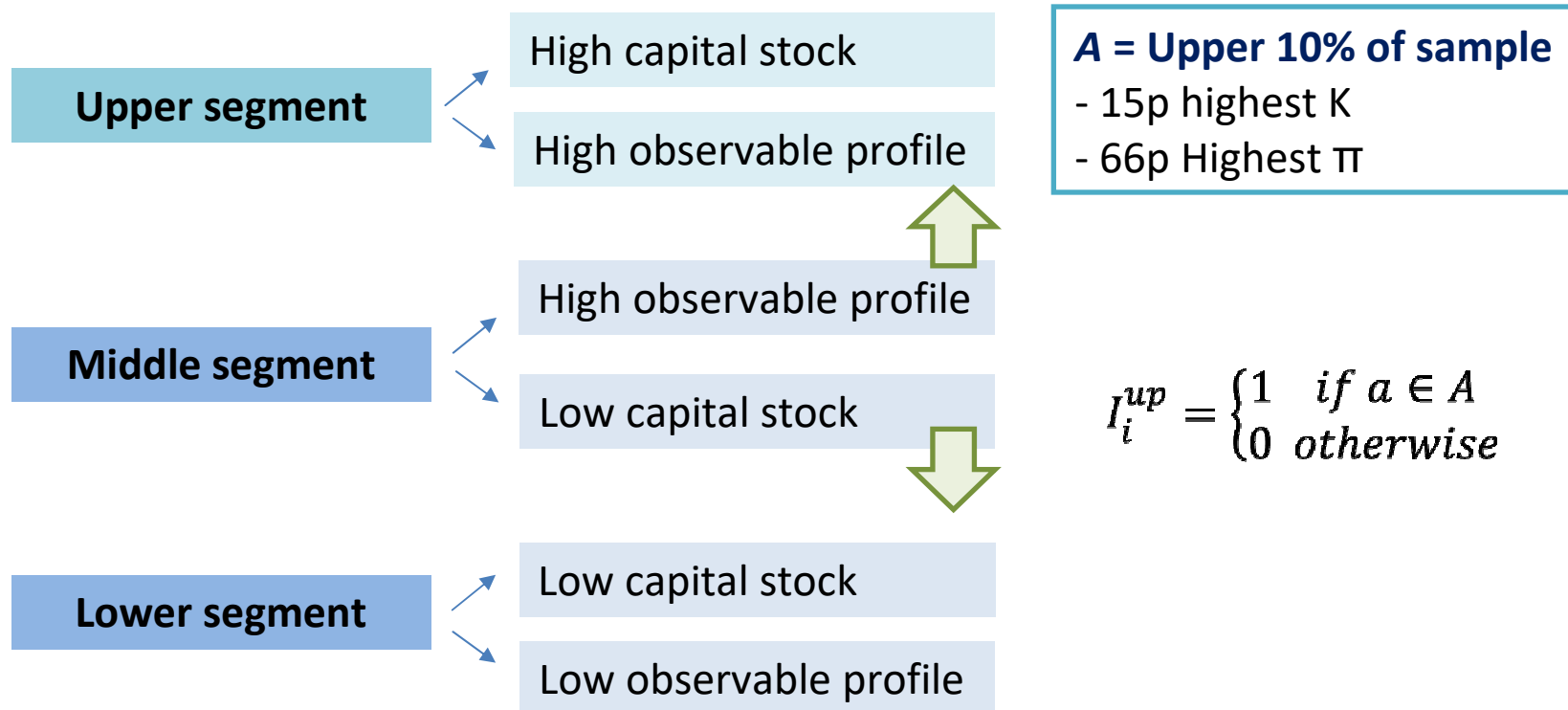
Chapter 2: Constrained potential

- *How to unleash ME growth potential if they are so heterogeneous? ...*
- Classify ME into firm segments based on their empirical probability of becoming successful.
 - Understand better their features and constraints.
 - Better suited interventions.

Methodology

Mckenzie and Woodruff (2006) → Grimm et al. (2012)

Identify a segment of microenterprises that have a high empirical probability of being a ‘top-performer’ given their observable characteristics (*‘middle segment’*).



Main findings

Binary response model

Parametric Estimation

Segment	Share		MRK	
	1990s	2010s	1990s	2010s
Upper	10%	10%	1%	1%
Middle	22%	16%	15%	14%
Lower	74%	67%	43%	30%

Implications

Segment	Constraints	Policy
Upper	Mainly external	Labor
Middle	Mainly external but also lack skills (coefficient effect).	Cost effective (Business environment)
Lower	Internal and external highly profitable (endowment effect).	Skills and lack of premises.

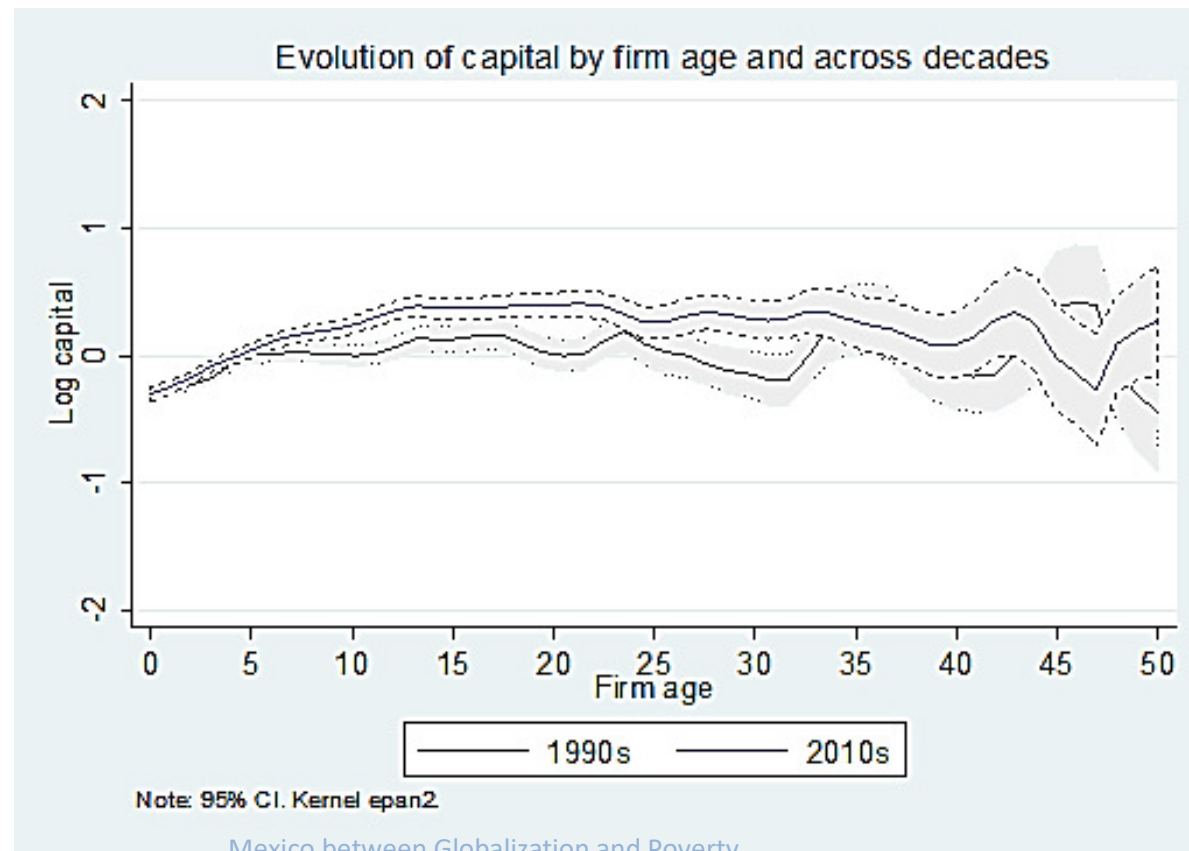


Decomposition Method

Are ME bootstrapping their way up?

Horizontal growth? No (i) 0.4% own another ME.

Vertical growth? Likely (i) Higher mean and p50, and (ii) local polynomial smooth plots.



Do firms with high MRK have incentives to accumulate capital?

Returns to capital by segments & premise usage

2010s		
Segments	Have premises	Lack premises
Upper	1	1
Middle	10	20
Lower	10	38

1990s		
Segments	Have premises	Lack premises
Upper	1	1
Middle	7	32
Lower	27	54

The **prevalence of ME operation without premises** may be introducing distortions in the economy.

- The cost structure is not sufficient to explain different MRK.
- Increased mobility (business opportunities: geographic and temporal dimensions).
- Avoid being detected (Leal-Ordóñez, 2014).

Conclusions Chapter 2

- The observed heterogeneity among ME reflects the different constraints that ME face.
- To unleash constrained productivity, diminish capital misallocation in the country and overall promote ME growth, policies should **contemplate the differentiated needs** of each firm segment.

Chapter 3: Energy prices and ME performance

Long term goals

- (1) Higher productivity.
- (2) Efficient consumption and production of energy.
- (3) Lower pollution.

(2) Energy sector's reform (2013).

- PEMEX and CFE.

(3) Environmental compromises.

-General Law on Climate Change of 2012.

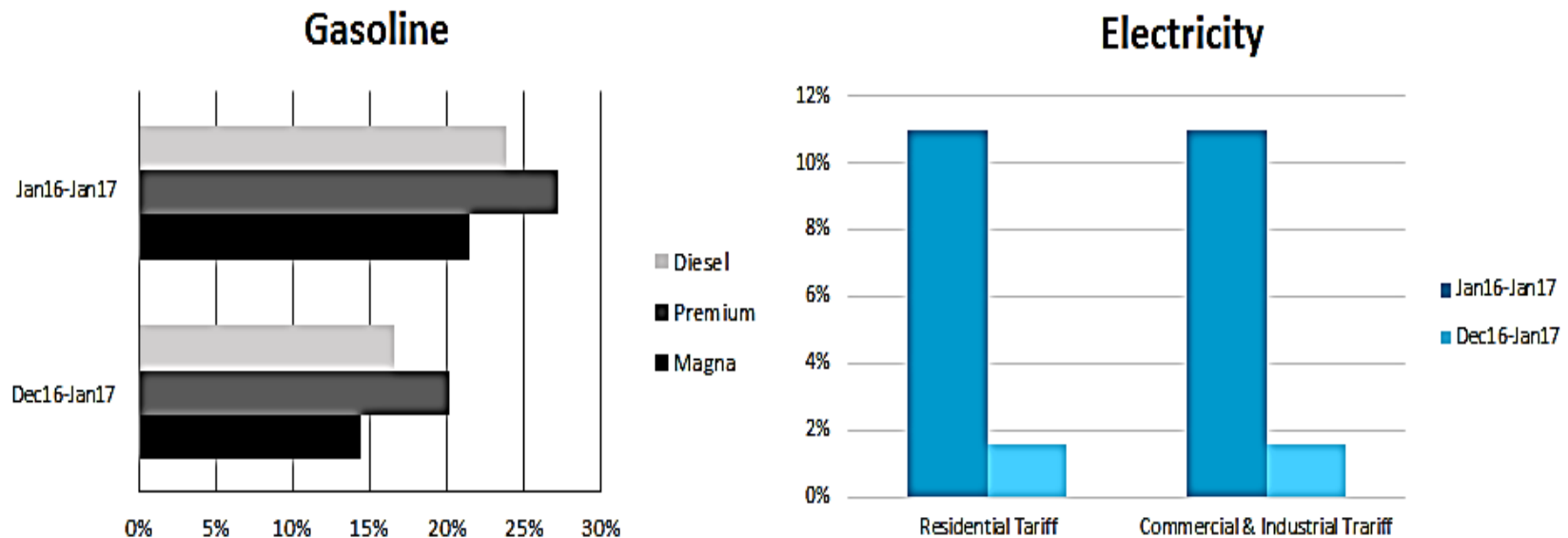
-Carbon Tax (2014, 2017).

Short term: Energy price increases

Tool for **long term goals** achievement:

→ **Energy prices** = reliance on market forces.

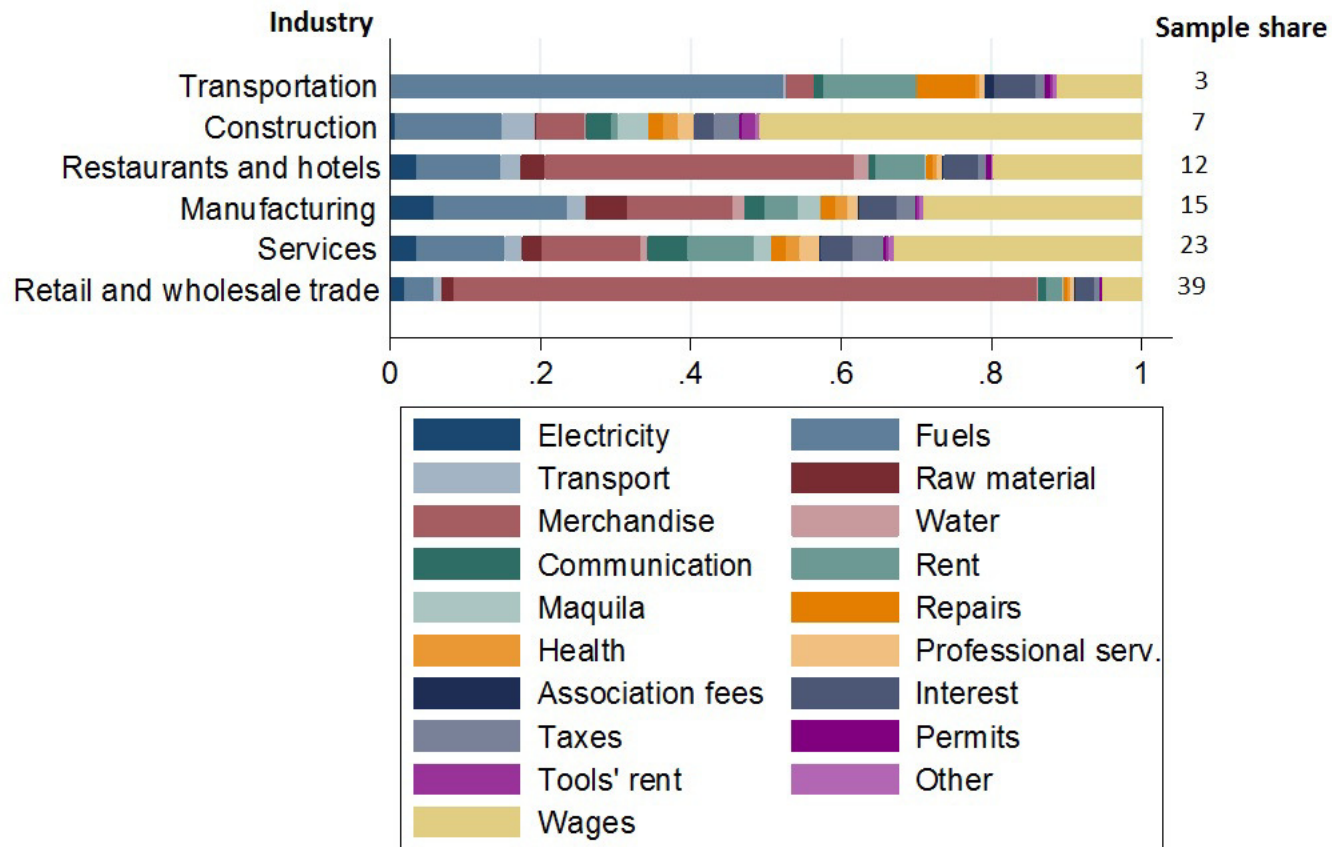
Short term costs: production costs and firm performance.



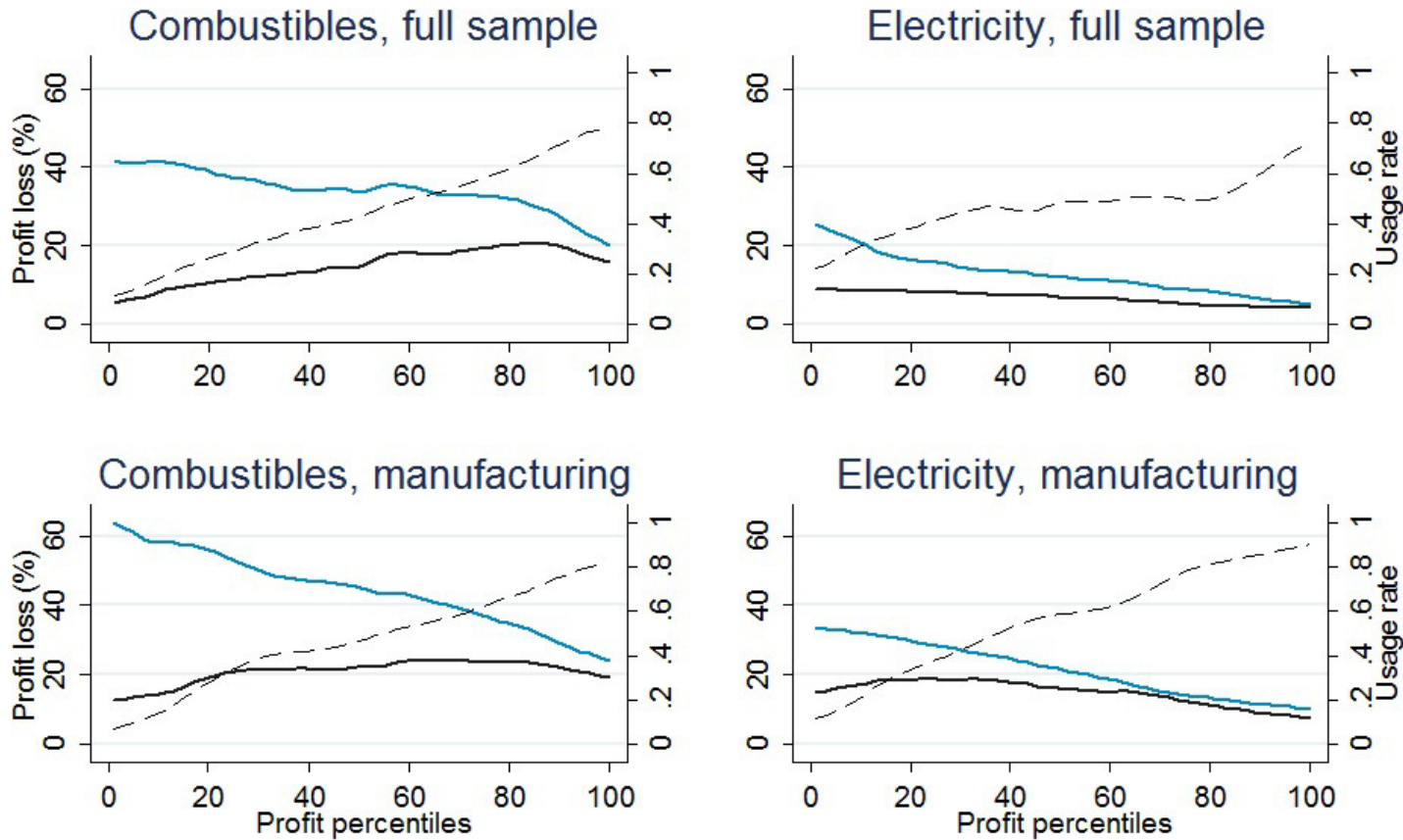
Source: Self elaboration based on data from PEMEX and CFE.

Energy expenditures are substantial

Average expenditure structure by industry



First order effects by profits percentiles



Conclusions

- ME are not in a poverty trap and they exhibit constrained productivity.
- The number of constrained ME increased during the past two decades.
- The characterization of ME heterogeneity makes it possible to tackle better internal and external constraints.
- ME are vulnerable to energy price shocks.

Key policy implication: Economic policies need to better account for and cater to heterogeneous ME.



Thank you!

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