Università degli Studi di Ferrara

DIPARTIMENTO DI ECONOMIA, ISTITUZIONI, TERRITORIO

Corso Ercole I D'Este n.44, 44100 Ferrara

Quaderni del Dipartimento

n. 26/2002

October 2002

SMALL AND MEDIUM-SIZED ENTERPRISES: A COMPARATIVE APPROACH TO LATIN AMERICA AND THE EUROPEAN UNION

Patrizio Bianchi and Mario Davide Parrilli

October 2002

Small and Medium-Sized Enterprises: A Comparative Approach to Latin America and the European Union*

Patrizio Bianchi-Mario Davide Parrilli ^

ABSTRACT

This paper presents a comparative analysis of the role played by the Small and Medium-sized Enterprises (SMEs) in the process of restructuring in Latin America and Europe over the last few decades. This paper focuses on the divergent competitiveness of the SMEs among the two regions, and hypothesises that it is due to the different process of liberalisation and productive restructuring that have taken place there. In Europe, small and medium firms have been the dynamic response of the socio-economic system to the crisis of the Fordist giants of the 1960s and 1970s. In Latin America, the small firms have rather been a survival solution to the recession produced by the debt crisis of the 1980s and the inefficiency of larger companies. Going through four case studies taken from South and Central America (i.e. Argentina, Chile, Nicaragua and Costa Rica), this work elucidates what mechanisms operated from the 1980s onwards and produced the present socio-economic outcome. The document does not aim at comparing the too different situations of Europe and Latin America, but - for its policy purposes - tries to compare the learning process that has taken place in their own policy-making and its effects on the productive system. This learning process led Europe to choose a "commonly regulated opening"; in contrast, the Latin American economies have opted for a type of "unilateral opening". This analysis shows the solid outcomes generated by the European type of reaction to the globalisation of markets. This response has been organised around a set of structural policies oriented to create economies of scale by incentivising processes of agglomeration and networking, which strengthen the competitive position of SMEs.

KEY-WORDS: SMEs, structural policies, agglomeration economies, networking, unilateral opening, regulated opening, Latin America, Europe.

J.E.L.: L0, L1, L5, O1, O2, P5

---

* This paper has been presented at the Latin American Economic Association Conference (LACEA) in Madrid on the 11-13 of October 2002.

^ Address for Correspondence: Mario Davide Parrilli, parrilli@economia.unife.it, Institute for Industrial Development Policy, University of Ferrara, Birmingham, Wisconsin, Facoltá di Economia, Universitá di Ferrara, v. del Gregorio 13, 44100 Ferrara, Italy

Introduction

This paper presents an analysis of the role played by the Small and Medium-sized Enterprises (SMEs) in the process of restructuring in Latin America. At this aim, we use the debate developed in Europe in the last 25 years as a benchmarking tool, well aware that the concept of SMEs does not refer to a uniform universe, but involves a rather wide heterogeneity of firms.

The hypothesis of this paper focuses on the divergence among the processes of liberalisation and productive restructuring that have taken place in Europe and Latin America over the last fifty years. This process produced different performances by generating, on the whole, a multitude of dynamic SMEs in Europe and a number of weaker SMEs in Latin America. More precisely, the dynamism of the European SMEs was the response of the socio-economic system to the crisis of the Fordist system in the 1960s and 1970s. These firms attracted the labourers that were dismissed by the large factories and organised them in a flexible system of very competitive SMEs, capable to benefit from the European agreements (i.e. the European Common Market) of those years and export a lot of their production.

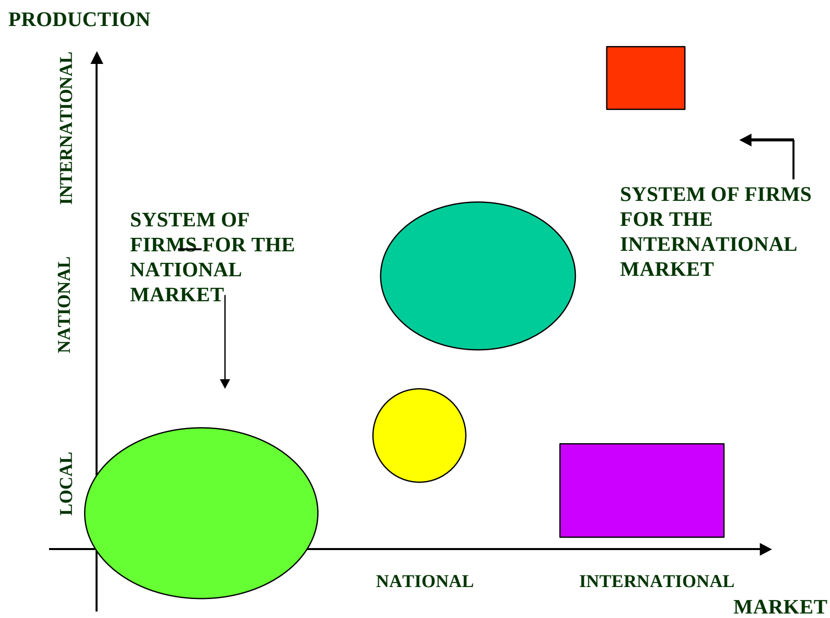
In contrast, the industrial boom of the Post-war period in Latin America was not fully used to generate a competitive system, but contributed to create – on the basis of the import substitution paradigm - a rather closed and protected economic system, which ended up being quite inefficient. The opening of the 1980s, which started with the default declared by Mexico in 1982 and the following debt crisis, found a system in which most large firms were inefficient companies, while small firms were a solution to recession, closing down of firms and the consequent employment reduction, which had to be experimented during that "Lost Decade".

Going through four case studies taken from South and Central America (i.e. Argentina, Chile, Nicaragua and Costa Rica), this paper elucidates what mechanisms operated from that historic stage (1980s) onwards and produced the present socio-economic outcome and its differences from the European context. The paper does not want to compare the too different situations of Europe and Latin America, but for its policy purposes, tries to compare the learning process that has taken place in their own policy-making sphere and its effects on the productive system. This learning process led Europe to choose a "commonly regulated opening"; in contrast, the Latin American experience has been of a more "individual unilateral opening". This analysis shows the solid kind of reaction that the European system had in front of the globalisation of markets. This response has been organised around a set of structural policies oriented to create economies of scale by incentivising processes of agglomeration and networking, which strengthen the competitive position of the wider sector of small and medium enterprises.

Industrial restructuring and small firms in Europe

Small firms are a very heterogeneous world. They can include firms that go from small rural firms to medium subcontracting firms, from small and micro high-tech firms to academic spin-offs, from economy subcontractors to medium exporting firms and up to the small and medium networked firms of the well-known industrial districts. These firms are localised within local, national and international contexts of production and market relations (Figure 1). For instance, the industrial districts are systems of firms that produce at the local level and sell at the international level, while the small rural firms are firms that produce and sell both at the local level. The academic spin-offs are firms capable to keep relations of production and market both at the international level (Bianchi and Di Tommaso, 1998).

FIGURE 1



This heterogeneous universe of enterprises can work in a more or less structured and networked way. In presence of economies of scale, as it is the case of the new globalised market in which all European and Latin American economies are inserted in, if the firms act as separated atoms, they remain weak in respect of larger competitors. When an external shock hits the system, this tends to react in a particular way: on the one hand, the sector of large modern firms tends to shrink and reduce its employment level; on the other, this sharp reduction increases the number of people absorbed by the sector of traditional micro, small and medium enterprises. But this latter sector cannot work as a buffer to incorporate actively this effect and reacts by destructuring itself and increasing the informal sector of the economy.

The lack of linkages within firms and among firms and institutions, which is often a collateral effect of unrestricted market liberalisation, together with the lack of more structural policies to make these firms and institutions work jointly to increase their capacity to produce with appropriate economies of scale, increases the risk of splitting the national productive system into a two-speed economy. It means having, on the one hand, a modern sector of a few isolated large national and foreign firms, which produce with advanced technologies large series of standardised and innovative goods for the national and international market; and on the other, a traditional sector of plenty of small and microfirms, that work as craftshops, with second-hand machinery and low-skilled workers, producing functional goods for the local market. The overall effect is the loss of competitiveness of the national productive system and a growing fracture within it, with a parallel increase in the social conflictuality within countries and across regions.

The history of the European Union' SMEs illustrates a different process, which has been able to avoid the risks of the socio-economic fracture. From the 1960s onwards, the individual states and the European Community tried to overcome a development perspective focused on the small individual enterprise and promoted dynamics of aggregation of small firms, which helped them to restructure and overcome the constraints of their small size of operations (Bianchi, 2000; Bianchi and Parrilli, 2002b).

After fourty years with this type of policy-making, the support structure organised by the Community has changed a lot, by assuming a profile that stresses the advantages of agglomeration and networking. Joint to this aspect, the European Union has been stressing more and more the innovation aspect, by promoting activities oriented to spur a network of innovators. It represents the high-road profile of competition, that is considered as the new and only way to face the new competition that takes place within the international markets.

In the following table, we can observe the set of policies that are actually at work within the European Union to help small firms develop in the globalised market (Bianchi, 2000: 328).

Policies in favour of Small and Medium-sized Enterprises in Europe

	Financial Subsidies	Tax breaks	Information & consultancy	Training	Other
Start-up of new firms	All	B, F, L, N	All	B, Dk ,D,Gr,Ir, I, L, N, P,UK	B, F, D, UK
Subcontracting development	I, EC	None	Gr, Ir, I, N, P, S, UK, EC	None	F, L
Export support	All EC	Ir, P	All EC	Dk, D, Gr, L, S, UK	None EC
Development of financial activities	All EC	Dk, F, D, L, I	F, D, P, S	None	None
Employment support	B, Dk, D, Gr,Ir,I, L, N, P, S, UK, EC	B, F, P	Dk, F, D, Gr, I, L, P, S, EC	F, D, Gr, L, N, P, S, EC	Gr, Ir, UK
Development of education & profes. training	B, D, Gr, Ir, L, N, S, UK, EC	None	F, D, S, EC	B, Dk, D, F, Gr, Ir, L, N, P, S, UK, EC	None

Key: B-Belgium, Dk-Denmark, F-France, D-Germany, Gr-Greece, Ir-Ireland, I-Italy, L-Luxembourg, N-Netherlands, P-Portugal, S-Spain, UK-United Kingdom, EC-European Commission.
Source: Bianchi, 2000: 328.

All these programs highlight the thorough support that the European Union has recently been giving to small and medium-sized enterprises. But, more importantly, the European countries have stressed the importance to insert each of these policies and instruments within a wider framework of "structural policies", which define a type of intervention oriented to increase the productivity of the traditional sector of micro, small and medium enterprises as a whole. The idea was not to create incentives for the subsistence of inefficient firms (as it was occurring in the 1950s), but to promote a higher competitiveness of the system by spurring new "economies of agglomeration", that have been driven by processes of territorial and sectoral networking among firms and institutions. This has been the main development path followed by the European Union, which distinguishes its approach from that of the United States, that has mostly been focused on the creation of economies of scale via "mergers".

These structural policies have been accompanied by simultaneous "innovation policies", that are oriented to increase the competitive capacity of the national and regional productive systems to participate in the new market niches and the high-technology sectors, but also to connect the modern sector of large firms to the wide traditional sector of micro, small and medium enterprises. These and other policies are seen as the basis to create linkages among the two sectors of modern and traditional firms in order to promote the growth of the system as a whole, instead of breaking it apart and let just grow some specific parts of it.

The entire process has taken place along the almost fifty years of harmonisation of the European Union and has benefited a lot from the parallel process of "commonly regulated opening", that the European countries chose to follow and that permit(ted) the national productive systems to adjust gradually to the new context of the international and globalised markets.

Observing the statistics about the European SMEs helps to highlight their competitive strength. During the period 1988-2001, the turnover growth rates achieved a total 2.2% and 2.3% in microfirms and SMEs respectively, while this rate was 2.6% for large firms. This growth was led by the export market, in which the growth rates have been 5.8%, 6.3% and 6.2% respectively (Observatory of European SMEs, 2002/2: 22). The years from 1990/1993 were a period of crisis and economic adjustment. The overall employment level suffered a general reduction of 1.2% among micro, small and medium firms, while the value was positive and ranked at 0.5% in the following 1993/1998 period. In the same period, from 1988 to 2001, the large firms ranked a bit worse than the SMEs, since they showed an employment reduction of 0.1%, while microfirms and SMEs achieved a growth of 0.3% (Observatory of European SMEs, 2002/2: 26-28).

Analysing productivity, the results are quite interesting too. Indeed, in the period from 1988 to 2001 small and medium firms have shown a labour productivity growth of 2.1% per annum (considering labour productivity as the real value added per employee), compared to 2.8% of large-sized enterprises. At the same time, the average annual profitability growth – as taken on the basis of the difference between real value added and labour costs – of the SMEs has been higher than that of large firms, being the first 0.5% and the second 0.3% (Observatory of European SMEs, 2002/2: 25; 2000: 6).

These data and considerations highlight that the SMEs are not a weak actor within the continental economy, but an actor that participates actively in the process of growth. This outcome is the produce of an approach of gradual, “commonly regulated opening”, which is well far away from from the type of “individual unilateral opening” which has been implemented in Latin America over the last decade. This moderation permitted the weakest actors of the economic community to survive the hardest times and restructure, and thus joining the globalised market in a more competitive position.

An overview on Latin American opening and industrial restructuring

This section introduces the Latin American context. From 1982, the crisis of the foreign debt exploded throughout the whole continent. The structural adjustment demanded by the multilateral financial organisations implied abandoning the previous interventionist and protectionist state practices, and undertaking the (unilateral) liberalisation of the internal market, the privatisation of state properties and enterprises, the reduction of public institutions and employment, the control of inflation through restrictive monetary and policies and the control of the deficit and the foreign debt through restrictive fiscal policies (Singh, 1992).

After a decade, many countries in Latin America and outside remained far away from a real path to development (UNDP, 2000). The debate – promoted by the United Nations through its new UND Program and its Human Development Concept and Index - arose about new necessary practices for development, and pushed the same World Bank to partially modify its approach by incorporating project lines on institutional aspects, that had to create an appropriate institutionality for development as a means to generate a more efficient working of the market (Stiglitz, 2001).

This perspective does not take into account the experience of the European Union. The gradual and “commonly regulated opening” and the parallel “structural policies” that have been put in action in the "old continent" from the 1960s onwards permitted the traditional sector of micro, small and medium enterprises to join the market in a stronger position, thanks to the creation of agglomeration economies that helped them compete successfully. In the case of Latin America, it is supposed to happen in more or less five years, which represents the type of graduality that the multilateral international organisations tolerate in their new agreements with these countries.

Now, in order to prove our hypothesis on the contrasting trajectories of development of the two continental areas, we analyse the weight of small and large firms within these economies, the effective policies that have been implemented in those contexts, with special reference to market liberalisation, and the response of the firms in terms of competitive restructuring.

Case-Study 1: Argentina

Many observers identify the mismanagement of the national finances as the main root of the Argentinian crisis; in contrast, other observers consider this aspect just as the top of a problem that founds its roots in the type of policy decisions that have been taken over the last few decades and the productive structure that has parallelly been shaped.

In the 1970s, the Argentinian process of growth was supported by the "ongoing alliance between the agricultural oligarchy and the military. These sectors attributed the crisis of that time to the development of a protected national industry that had generated accelerated urbanisation, popular pressure and, thus, social confusion, which were considered endemic expressions of the industrial development. They proposed a different and moderated view, oriented to focus on agricultural specialisation and the proto-liberalism directed by a natural order" (Bianchi, 2002: 11). In 1978, the authoritarian regime decided to counteract the inefficiency of the restrictive policies of a recessionary economy, through a sudden opening of the economy. The military government decided to abolish all custom protections, announce currency devaluation and liberalise the capital market. The immediate effect was a loss of capital, of both multinationals established in Argentina and national capital (Ibidem: 12).

The opening of the internal market exposed the national firms to international competition. Conversely, the internal growth of interest rates, which was induced to control inflation, generated debt levels that quickly exceeded the companies'. This brought about the worst crisis for the industrial sector in Argentinian history (Kosakoff, 2000: 46). In this context, a reorganisation process started and lasted for the entire mega-inflation period (from the 1980s up to 1991). The system was strictly polarised between a small minority of companies that were able to renew their installations either independently or using external credit, and the majority of companies that reduced their activities to a minimum, or simply became importers or intermediaries. Consequently, the multinationals left the country. Overall, a suspension of the entry of foreign capital, a loss of capital overseas and the beginning of intensive financial speculation were undertaken, pushing what has been called "the economy of sacking" (O'Donnell, 1982).

In order to manage the crisis, the democratic government had to devaluate continuously. In this way, it could boost the exports in order to generate enough profits and compensate the increasing costs of foreign debt servicing. Inflation converted into "mega-inflation", with further internal effects that led to destructure the productive organisation (Heymann and Leijonhufvud, 1992), with special reference to some sectors that had expanded in the phase of import substitution. At the same time, the informal economy increased and a new industrial specialisation consolidated, which was based on the production of intermediate goods, such as petrochemicals, iron and steel (Kosakoff, 1993; Chudnovsky, Kosakoff and Lopez, 1999).

One key-effect of mega-inflation and institutional instability was the process of deindustrialisation, which can be measured in terms of the importance of the value of manufactured products related to total GDP. In the 1980s, GDP plummeted, leading the share of manufacturing production to its 1940s values. The effects of uncertainty on the mechanical sectors and machine tools, but also on textiles, furniture and non-metallic led to the decline of both production and its quota on total industrial production, with a general regression towards informal or mere trade activities. These sectors, that in 1977 had reached 31.6% of industrial production, declined to less than 20% in 1990. Deindustrialisation was accompanied by a dramatic deterioration of the macroeconomic context. Between 1980 and 1990, GDP decreased by 9.4%, industrial production by 24%, consumer goods by 15.8%, imports and investments decreased respectively by 58.9% and 70.1%, per capita GDP reduced by 25% and only exports grew by 78% (Bianchi, 2000: 15-16).

On the whole, these data indicate the comparative advantage theory that was presented by the World Bank and IMF to Argentina and all indebted countries in the 1980s as the solution to their growth and debt problems. It led to increase the public and private policies and investments in agricultural production and natural resource-based industries, often dedicated to a first processing of raw materials and their export, without adding further value, employment and knowledge. In the end, it was the easiest way to promote the payment of the outstanding foreign debt.

The process above presented has been accompanied by a parallel decrease in the total number of firms and employees, which can be especially identified in the period going from the 1980s to the 1990s, but that has been reproduced up to now.

Firms, Employment and Production in Argentina among 1984 and 1993

	Micro Firms		SMEs		Large Firms	
	1984	1993	1984	1993	1984	1993
No. of firms (,000)	74.3	64.3	33.2	24.9	2.0	1.5
No. employees (,000)	176.9	139.6	593.7	448.9	611.3	417.9
Production (%)	3.7	5.1	28.9	35.9	67.4	59.0

Source: Moori-Koenig et al., 2002 : 38.

In 1984, the number of microindustries, SMEs and large industries was higher than in 1993; the same occurs with the number of employees. The reduction of large firms has been even stronger in terms of employment, which is in line with their new form of flexibility and restructuring based upon technology-intensive production techniques. Due to this significant shrinking in the employment level of large firms, the percentage of industrial production realised by microindustries and small and medium firms increases on the whole. Nevertheless, all sectors suffered a dramatic reduction in their activities. In particular, all types of firms have been strongly affected in the traditional sectors of metal-mechanics, automotive, shoes and leather, furniture, toys.

The policies applied by the government over the last ten years have been directed to organise an efficient program of privatisation, thus, dismantling the direct state intervention in the economy. By the end of 1992, privatisation accounted for more than 16 billion dollars of assets, some of which were paid in real outlays, but most through debt transfers from public to private firms. Moreover, the foreign firms were allowed to transform the foreign debt of the country in capitalisation of national firms for more than 600 million dollars (Kosakoff, 1993: 260). This process continued all along the 1990s and supported the participation of large national economic groups in the privatisation process, often through alliances with international groups. It is the case of Techint, Perez Companc, Soldati, Astra, Macri. One effect of this program was the consolidation of large groups, producers of industrial commodities, such as oil, steel, chemicals, but also public services, such as telecommunication, transport, water, gas and electricity (Bisang, Burachik and Katz, 1995).

Sketching the concentration index for sales and employees within the large firms in the national economy helps to understand the way the process of restructuring has been taking place in Argentina. In particular, a high concentration of industrial production among the large economic groups can be observed insofar as a low concentration of labour:

Concentration Index among the major economic groups in Argentina in 1997

	Sales (,000 pesos)	Employees
Total main 18 groups	26,275	111,924
Total main 100 firms	27,188	93,535
Total main 500 firms	31,629	125,476
Total main 1,000 firms	32,110	129,353

Source : Chudnovsky et al., 1999: 97.

These data indicate the relative strength acquired by these groups within the productive sector of the country. In 1997, the 18 major groups accounted for 96% of total sales of the first 100 firms, 83% of the first 500 firms and 81% of the main 1,000 firms. In terms of employment, they accounted for 89% of the total employment generated by the first 500 firms and 86% of the main 1,000 firms. Nonetheless, considering the absolute number gives a different outcome. Indeed, if for the case of production, the value generated by the 18 main groups seems to be quite high, the employment level does not. The 111,000 workers involved by these 18 groups and also the 129,000 involved by the main 1,000 firms represent a low value. In fact, the Economically Active Population in Argentina exceeds 10 million people, a good part of which are working within the industrial sector. These concentration indexes give the measure of the productive structure of the country and the risk of a growing dualism among the competitive, modern, technology-intensive and internationalised sector versus the traditional, scarcely productive, labour-intensive and national market-oriented sector.

Case study 2: Chile

In Chile, as elsewhere, micro, small and medium firms are the most numerous enterprises, and represent a very important part of the economy in terms of employment and gross domestic product.

The Enterprises in Chile in 1997 and 2000

	Number		Employment (%)		Sales (million UF)		Sales / Enterprise (thousands UF)	
	1997	2000	1997	2000/01 (growth)	1997	2000	1997	2000
Micro Firms	432,400	521,820	40	-5.8	201	135	465	258
SMEs	89,700	61,337	50	-1.2	1,085	786	12,095	12,822
Large Firms	4,800	4,200	10	n.d.	3,287	3,599	684,700	857,000

Legend: 1 UF is about US$ 25. Source : for 1997 CORFO, in Comité Público-Privado Pymes, December 1999. For 2000, INE-BancoEstado and CORFO, First half-yearly Survey of the microenterprises and third Survey of the SMEs, 2001.

These data indicate quite clearly the importance of these kinds of firms within the national production system. As elsewhere, the microenterprises are the most numerous, but as everywhere they produce a very tiny proportion of the national sales, even though they participate very importantly in the generation of employment at the national level.

Looking at the data, it is evident that the national population of firms is passing through a phase of crisis and structural adjustment. In particular, the micro, small and medium firms are suffering, while the large companies decrease in number and increase their sales. This situation is part of a national stagnation that has taken place in the last few years within the international market and that seems to require a new policy approach as a way to restructure and start a new development process.

FIGURE 2

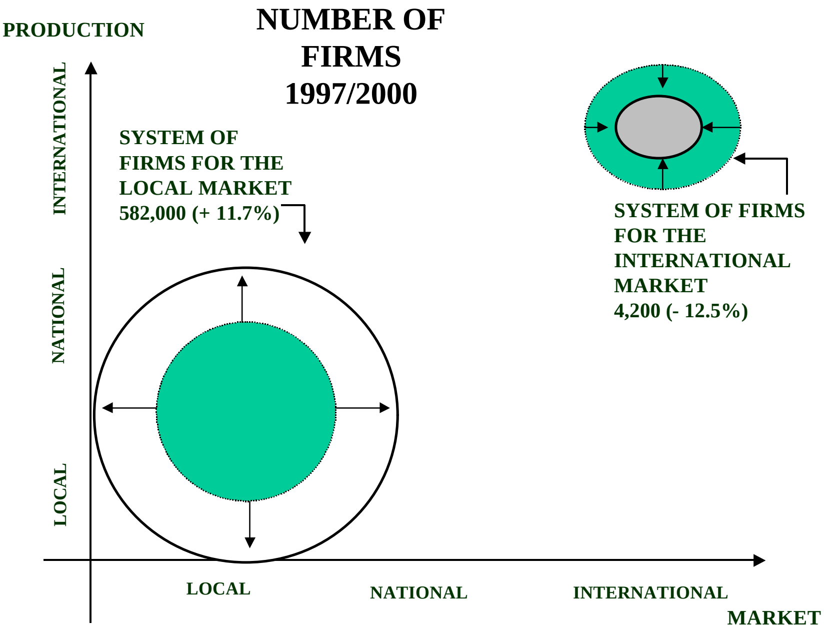
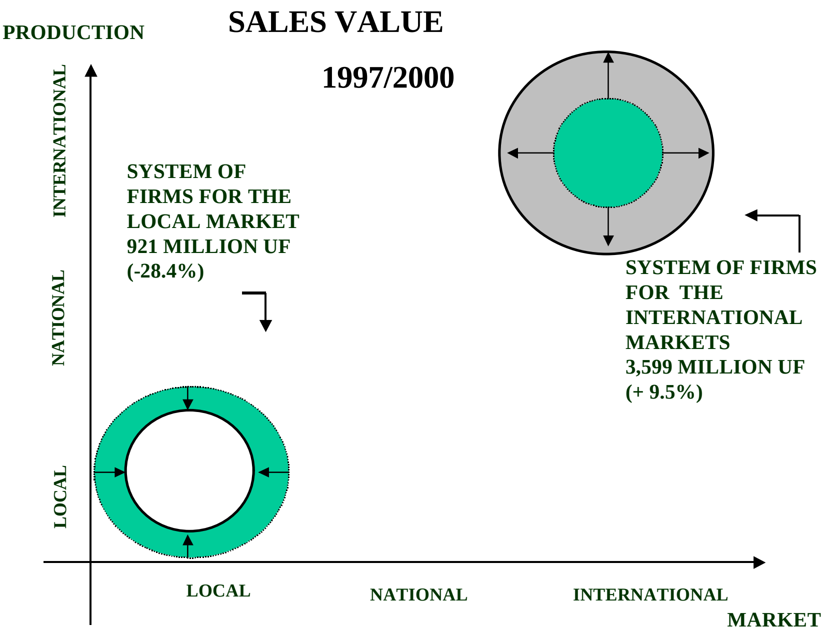


FIGURE 3



For more than twenty years, the policy framework applied by the state worked very well, making of Chile the most open, efficient and transparent Latin American economy. Even in terms of Human Development, the United Nations recognise the success of Chile, which ranks among the first Latin American countries and around the thirtieth place in the world, only a few places behind Italy and Spain (UNDP, 2000).

But recently, this policy approach of progressive unilateral opening has had to face a new element. World competitors such as China and Korea have used the Chilean market as the entry door to Latin America. This situation created significant problems to the national productive system. The traditional sectors – textiles, clothing and shoes - have been the most affected and plenty of firms have lost their capitalisation margins and/or are going to close down their operations soon. The modern sector (e.g. software, pharmaceutical) seem to be the most dynamic sector, joint to some traditional natural resource-based sectors, such as copper, wine and fruits in general.

These considerations do not mean that the Chilean government has not intervened in the economic process to push the competitiveness of its firms. Indeed, recent studies made clear the importance of the CORFO (Development Corporation) of the Ministry of Economy, Energy and Mining to promote the development of the national productive system. Its budget is higher that that of many Ministries and government enterprises. But its intervention has been of a punctual type, responding to the specific demands of some relevant economic groups, rather than being part of a strategic approach to policy-making and industrial development. Nowadays, this kind of policy focus presents some weaknesses and prevents the national productive system from responding to the new international competition challenges (Bianchi and Parrilli, 2002a).

On the whole, statistics and figures indicate interesting data, that refer to the effects of the crisis that has been affecting the country and the all continent in the last few years. On the one hand, the numbers of large firms and SMEs have been shrinking, due to the crisis of competitiveness of the Chilean system faced to the growing imports of Asian products.

At the same time, the large remaining firms have increased their volume of operations. On the other hand, the number of microenterprises has been increasing, for the need of the population to create some niche solution, often survival, solution, to raise their income and employment. Simultaneously, their volume of operations has been shrinking.

These indications mark the tendency of an increasing splitting within the national productive system (Figure 2 and 3)[1]. Indeed, the few modern firms are more and more competitive and inserted in the international markets and alliances; at the same time, they increase their separation from the wider national system composed by micro, small and medium firms that tend to continue producing in a traditional way for the local and national market and that suffer the importation of foreign goods at cheaper prices.

The reasons for such a tough competition are several and are, at present, the focus of several efforts of the government that try to identify and solve the main competitive problems. The Chilean policy-makers have started to realise the risks of splitting the national economy and losing the contribution of part of the country to the process of development and started to think about policies for the consolidation of this traditional sector of micro, small and medium firms.

That is why, at the end of 2001, they began to promote a detailed analysis of the normative fields that affect the insertion of small firms in the market, as well as the market failures to be filled in order to permit them work in a more competitive way (Bianchi and Parrilli, 2002a). At the same time, they created a "Statute for the Small Firm" (Ministry of Economy, 2001) to structure the legal basis that promote more significant and coherent actions for the growth of this more traditional sector of the economy.

[1] In Figures 2 and 3, we make an arbitrary assumption, which refers to considering the large firms as the modern sector (working for the international market) and the micro, small and medium firms as the traditional sector, that works for the local market. In conceptual terms, this assumption is obviously too strong; but, in terms of relations of sizes and numbers, it is quite likely to respond to the real proportions that exist among the two sphere/systems of firms.

This policy approach is eminently supply-driven, since it is oriented to upgrade the competitive capacities of the productive system. Somehow, the government neglects the demand-side of the process, which is taken for granted in terms of “unilateral opening” of the market and a few bilateral free trade agreements. Nonetheless, this process of general upgrading of the system faces a very difficult objective, which is the attempt to overcome the ordinary contradictions that exist among the various sectors of the economy, such as the large companies, more interested in maintaining a deregulated market, and the small firms, more oriented to demand protection from abroad.

Case study 3: Nicaragua

In 1995, the most recent statistics on industrial production presented 1,800 small and medium industries at the national level, and 17,500 microenterprises (firms that have less than four workers). These numbers are just a part of the bigger enterprise universe, that among all sectors accounts for more than 158,000 firms, 99% of which are micro, small and medium enterprises (BCN-GTZ-MEDE, 1998).

The representativity of SMEs in the national industry in 1995

	Number of enterprises	Number of workers
Large Industries	260	65,133
SMEs Industries	1,805	12,159
Microindustries	17,509	26,577
Total Industries	19,574	103,869

Source: Parrilli, 2002: 360; the data are taken from the manufacturing survey 1994/5 of BCN (1998).

The observation of various indicators emphasises that SMEs and microenterprises constitute an important sector within the national industrial activity, which includes - among the two - more than 37% of total industrial employment. This proportion represents a significant percentage with respect to other (even industrialised) countries.

Theory indicates that SMEs have advantages in the enterprises that work with "discrete" productions. It is what happened in the famous industrial districts of the Third Italy and it seems to be confirmed in Nicaragua, where sectors such as furniture, shoes, tiles, clothes, etc. show a good relative development. Small and medium firms elaborate mainly bakery products, metallic products (e.g. railings, zinc roofs, window frames, etc.), furniture, chemical products (e.g. soaps, etc.), leather and shoes and non-metallic mineral products (e.g. cinder blocks). Of these, wood and furniture, bakery, leather and shoes are particularly relevant, since they produce the biggest part of the sectoral value added and employment generated by all firms (BCN, 1998).

In terms of value added, these sectors do not generate high absolute values. In 1995, the most relevant was bakery with about 10 million dollars, while furniture and metallic products generated more than 6 million dollars each. But the number of firms in each of these sectors was quite high (e.g. 1,500 in the furniture production), which means that the value added per firm was extremely low. Also in terms of exports, the SMEs seem to produce really low values: 8.8 million dollars in 1995, slightly higher nowadays. Despite the large industries do not produce large values either (195 million dollars: BCN, 1998), the SMEs' exports are very tiny.

The reasons for these weaknesses are quite evident. In Nicaragua, the SMEs are generally craft firms, which means small workshops with scarce and often obsolete machinery that produce reduced volumes of goods with poor style and qualitative evolution that are generally sold in the small local and/or national market. They have never participated in high value transactions neither inside nor outside the local market.

Power relation among National Exporters and Foreign Direct Investors in the 1990s

	1996	1997	1998	1999
Exports	669.0	625.9	573.2	543.8
FDI	97.0	173.1	183.7	300.0
Ratio Export/FDI	6.9	3.7	3.1	1.8

Source: Personal elaboration on the basis of BCN, 1998-1999-2000.

The above table shows a changing trend that is taking place over the last few years of the 1990s. The weight of the foreign direct investments has been increasing steadily, while the opposite has been occuring with the exports. Of course, it has effects on the lobbying activity that these two groups of actors have in front of the government and its policies. The “unilateral” lowering of trade barriers that Nicaragua developed over the last decade is an example of an anti-productive bias, which can benefit the national and foreign importers, but that is very likely to impact negatively on national producers.

Overall, in Nicaragua there is a problem of lack of industrial policies and strategies. The past governments have emphasised the role of agricultural production in order to improve the national economy, but have not paid enough attention to the industrial sector and to its capacity to transform the primary products, generate value added, employment and knowledge. In this way, in the last twenty years the weight of industry within the GDP has progressively shrinked, in contrast with the trend of the advanced and the newly industrialising countries (Chenery and Syrquin, 1986; Parrilli, 1999a).

The long failure of Nicaraguan governments to address these objectives reflects in the rupture of various productive chains. For example, in the production chain of leather and shoes there is the rupture at the level of the tanning industry. Very little leather is produced, much less remains within the country, which explains why the SMEs prefer renouncing to produce leather shoes and shift their production to the segment of synthetic shoes, which requires the importation of raw materials. In the case of the wood and furniture chain, there is a bottleneck at the woodworking level; that is why factories prefer exporting the lumber rather than selling it to the furniture makers. Similar situations occur in other productive chains , such as coffee, dairy products, fruits (Parrilli, 1999b).

The public institutions (CONAPI in the 1980s and PAMIC/INPYME in the 1990s) and the private organisations (mainly NGOs) that work for the development of SMEs have focused their attention on microfirms mainly, since these are numerous and weak and, therefore, show a more visible need for support. This practical approach did not take into account the lessons coming from the successful experiences of industrial districts, clusters and networks of innovative SMEs, which indicate how development came out of small and medium enterprises, rather than from microenterprises. In fact, the strength of these enterprises does point to a significant level of division and specialisation of labour, that permits them dedicate specialised personnel to activities nowadays fundamental, such as marketing, design and innovation, etc. that microenterprises can hardly develop.

In this way, the division/dualism among a very tiny sector of large modern firms (often commercial and importing companies) and the vast majority of micro and small traditional firms has been maintained over time and has created a gap that does not help the country to create a common development strategy and move forward as a whole.

Case study 4: Costa Rica

The Costa Rican case represents an exception in respect of the previous cases and the Latin American trend. This is a particular economy that has passed through an expansionary phase over the last twenty years. A strong support of the US government helped to organise a serious economic policy oriented to the opening of the economy and the investment in strategic sectors that, nowadays, are producing very interesting results.

Primarily, since 1985 the national policy-making has been promoting the export orientation of the economy, and leading plenty of Costa Rican firms to the international market, independently from their size or sector. No doubt that this process was supported by the Central American situation. Indeed, during the 1980s Nicaragua, Guatemala and El Salvador were in the middle of serious civil conflicts, which prevented Costa Rica from concentrating their export effort in these smaller markets. Thus, the country had to target directly bigger and more demanding markets, such as the United States and Canada. This effort promoted the standardisation and restructuring process of the country's firms (Aguilar et al., 1998: 34).

At the same time, an effort to promote the foreign investment within the country complemented the public investment in strategic sectors, such as software for example, from which now Costa Rica benefits quite a lot, thanks to the creation of a cluster around the transnational company INTEL, in the San Jose airport area. In this sense, small firms have never been a target of the development policy of the country[2].

Number of SMEs in the Industrial Structure of Costa Rica

	1986	1990	1997
Microfirms	2,556	2,361	2,177
Small firms	1,851	1,524	1,996
Medium firms	376	412	402
Large firms	212	271	308

Source: Aguilar et al., 1998: 5.

Curiously, even in the case of employment the trend is different from that of the other Latin American countries. Between 1986 and 1997 industrial microfirms decreased their employment by about 10%, small firms by about 4%, medium firms by about 7% and large firms by about 60% (Aguilar et al., 1998: 6).

All these data appear to be quite different from the previous case studies. Costa Rica did not present signals of crisis until two years ago, when the worldwide economy stagnation began. The above data do not present signals of an economy split among a modern competitive sector and a traditional local sector. Indeed, apart from the microenterprises, that have had a negative trend from 1986 onwards, the small, medium and large firms have grown all. The policy target of promoting the "Export" capacity of the national productive system impeded the creation of a frontline among these two worlds and

[2] Conference given by Dr. Justo Aguilar, Director of the Instituto de Investigaciones en Ciencias Economicas of the Costa Rican University (UCR) at the Central American School for Industrial Development Policy, Managua, 4th July 2002.

facilitated a process of integration and homogeneisation among these different types of firms and sectors.

This process has led all types of firms to increase their insertion in the international market. For instance, from 1990 to1997 the relationship among the exports versus the internal sales of the small and medium enterprises changed, passing from14.98% and 85.02% to 25.54% and 74.46% (Wong Chacon, 2002: 248). Another interesting factor is represented by the type of sectors that have been more and more involved with the international market. These are heavy machinery, (from 26% to 31%), general machinery (from 23% to 39%), plastics (from 27% to 34%), metallic products (from 14% to 22%), chemicals (from 13% to 41%), wood (from 11% to 30%).

Another very interesting element of this country case study refers to the productivity gap among large firms and SMEs. In the other countries (e.g. Chile and Nicaragua) there is a widening gap among them and huge differences, which are not visible in the case of Costa Rica. In this case, from 1990 to 1997 these two typologies of firms have been increasing their productivity. It shows an interesting pattern of development, which seems much more similar to the European Union's (Wong Chacon, 2002: 246).

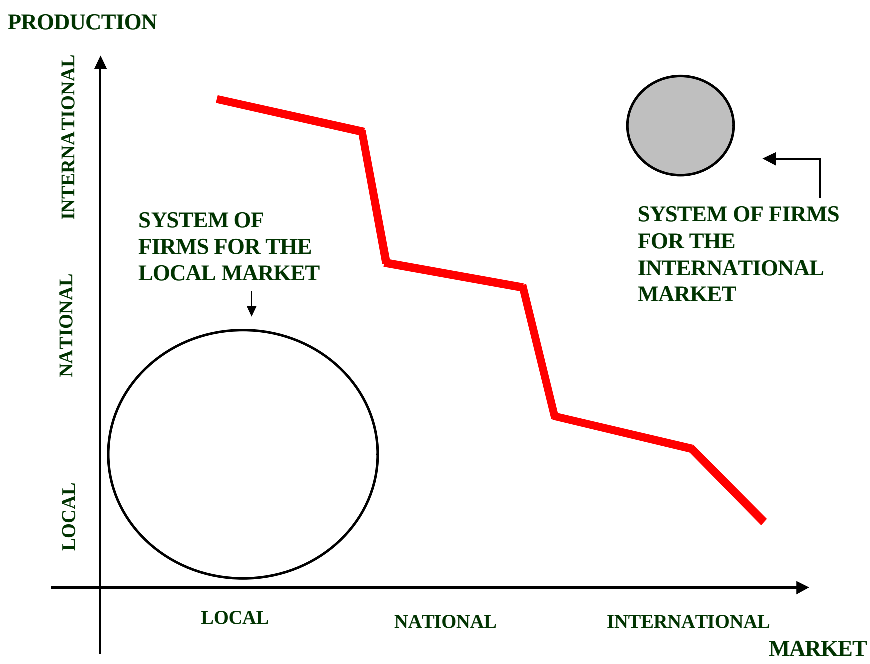
In particular, the large firms have increased regularly from an average of 19,760 dollars (in 1991 terms) to an average of 23,434 dollars per worker; the small and medium firms have increased from 12,409 dollars in 1990 to 17,099 dollars in 1997. In percentage terms, it means that the first have increased by 18.5%, while the second increased by 37.8%. These data make even clearer the counter-tendency of this country in the Latin American context (Ibidem).

On the whole, Costa Rica represents a different trend in respect of the rest of the continent. The country structure presents a number of competitive small, medium and large firms inserted in both traditional and modern sectors. Their success is linked to a country policy-orientation defined around a unique and clear target, which refers to "accessing in a more competitive way to the international market". The clear target se up by the government in 1985 eased the process of restructuring of firms by indicating them a feasible objective and the appropriate instruments to achieve it in a relatively short period of time.

SMEs and industrial restructuring in Latin America

The process that we can observe in three of these four countries represents the Latin American trend of the last 20 years of economic adjustment. Their productive structure has gone through a process of de-industrialisation and de-structuring, which left them weaker and scarcely competitive. It is synthesised in the following diagram:

FIGURE 4



In this figure, it is evident that a bigger group of (micro, small and medium) traditional firms remains isolated from the smaller group of usually large (but also micro, small and medium) modern firms. The first group remains confined to local-to-local productive and market dynamics. At the same time, the smallest group maintains a different approach, opening its relations of production and market to the international collaboration and competition. This situation can lead to a stiff dualism, that hides the problems of a phenomenon of de-industrialisation and de-structuring of the national production system (Di Tommaso et al., 2000: 189).

In terms of the observed case studies a few considerations can be made. Argentina shows an intense process of de-industrialisation, which affects all kinds of firms: micro, small, medium and even large firms. All of them decrease in numbers, employment and sales, even though a very tiny group of large firms in resource-based industries and public services keep going on and concentrates the production activity of the country. Implicitly, a large part of the economically active population is pushed out of the formal market, and ends up increasing the informal economy.

Chile is the clearest example of a country in which the productive system tends to split. The large firms' sector decreases in number, employment, while increases in sales; the opposite trend refers to microindustries and small and medium enterprises, since they shrink in sales and increase in number (especially the microenterprises). The punctual and demand-driven approach of the government for the support of the private sector has been helpful over the last twenty years, but starts shaking nowadays, in front of the new globalised market and its new requirements in terms of economies of scale and specialisation.

In Nicaragua, the various governments have promoted policies for the attraction of foreign direct investment and export processing zones, independently from the linkages that these foreign sectors establish with the national productive system and the traditional micro, small and medium enterprises. Some support activity has been realised with rather inefficient microenterprises, which has not helped creating a more productive and competitive industrial sector. The split among the modern sector of large firms and the traditional sector of micro, small and medium firms remains wide open.

Costa Rica presents a lower risk of a split within the productive system. All firms have been able to grow in recent years or, at least, have maintained their positions. From 1985 onwards, the different governments have been able to concentrate the resources on one specific target (i.e. exporting), which eased the process of policy-making and the creation of specific and coherent development instruments. In their case, it is particularly interesting that they have been able to push all existing firms to focus on one common target, independently from their size, which permitted creating more homogeneity of views among the enterprise system and more collaboration within firms.

A consequent reading of these tendencies highlights the different trends of these two sectors (i.e. modern and traditional sectors) and the growing risks of splitting the social and economic structure of the production system of many Latin American countries.

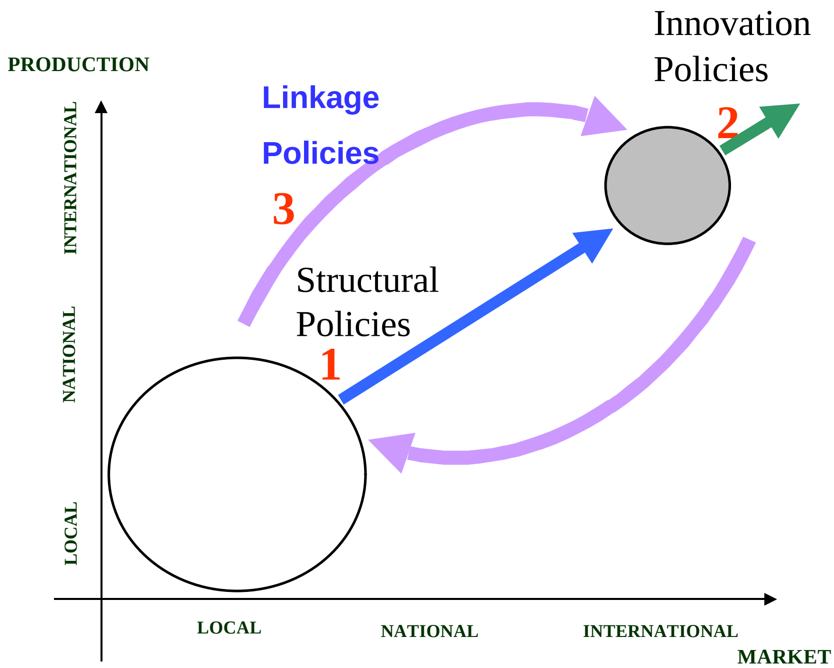
This paper stresses the European approach to SMEs development. This is devoted to set up an institutional and policy framework that supports the integration of small firms inside territorial aggregations and dynamic networks, which are capable to compete in the international market (Commission, 1995; 1996). This framework uses and blends wisely different kinds of policy sets, which are represented in Figure 5 (Di Tommaso et al., 2000: 191). They aim at:

1) acting on the traditional sector through structural policies, that generate agglomeration advantages and accelerate the territorial dynamism;

2) acting on the modern sector by innovation policies, especially devoted to diffuse innovation and spread out its effects throughout the entire economy;

3) linking together the different parts of the system through macro-policies that are due to integrate and open the economy by guaranteeing market dynamics through a common competition policy.

FIGURE 5



Within this perspective, SMEs policies are not punctual actions focused on subsidising the survival of inefficient actors. In contrast, they are parts of a complex institutional framework that points to stimulate the competitiveness of the system and, therefore, its market dynamics. Looking at the Latin American experiences, SMEs policies are still thought of as "punctual actions" that try to cope with the effects of the economic crisis by supporting the weaker companies. They have not become yet the "structural instruments" that can develop new market opportunities and promote a higher integration of the productive system.

Conclusions

The Latin American economies reacted to the shock of liberalisation and opening by de-structuring. In fact, a restricted number of large firms have been able to compete in the global economy, while the small resisting firms and those that are born from the re-structuring of the large firms tend to survive at the local level, widening the area of the informal economy, which presents lower productivity performances. The risk for the productive system is clear. On the one hand, there are the large firms, that try to increase their own productivity and competitiveness without substantial product innovations, which are made more difficult from the uncertainty and the cut in research expenditure. In this way, the large enterprises end up reducing their capacity to lead the process of economic growth. On the other hand, the small firms maintain a reduced productivity and lose the capacity to stabilise the social basis, which would push them to start the needed bottom-up process of industrialisation.

In the European experience, the large transformation of the 1960s and 1970s led to processes of competitive restructuring of large firms. In order to overcome the rigidities of the Fordist processes, these companies started to gain flexibility through massive employment reductions, compensated by the rise of small and medium firms and the expansion of the informal economy. Notwithstanding, that phase had been overcome through a progressive restructuring of the productive cycle and the growth of networking forms that spur the process of individual specialisation and functional complementarity among firms. This process permitted the growth of new leaders in the condition to manage growth and innovate products, thanks to a substantial flexibility, that came also through a process of outsourcing to enterprises that were capable to produce within the required productive standards.

This has been possible also thanks to the macroeconomic policies of each country that, progressively, started to harmonise within the framework of the European agreements, which led to the definition of the Stability Pact, that made possible the creation of the common currency. This stage appears quite far away in Latin America, where the effects of industrial restructuring summed up to those of the monetary instability, which followed the crisis of the unilateral opening models. It is required a careful consideration of the policies that can lead to the productive consolidation of the system and the productive linkages among small and large firms. This effort would have important effects on the stabilisation of the industrial core and the reactivation of the mechanisms of endogenous development, even though within an open and globalised economy.

References

Aguilar J., Cordero J., Trejos S. (1998), *Estrategia tecnologica y desempeño exportador de la pequeña y mediana empresa: el caso de Costa Rica*, Serie Divulgacion Economica no. 31, Instituto de Investigaciones en Ciencias Economicas,Universidad de Costa Rica, San Jose.

Banco Central de Nicaragua (1998), *Estadisticas industriales*, Direccion de Contabilidad, Managua.

Bianchi P. (2000), *Policies for small and medium-sized enterprises*, in Elsner W. and Groenewegen J., Industrial Policies after 2000, Kluwer Academic Publishers, Boston-Dordrecht-London.

Bianchi P. and Parrilli M.D. (2002a), *Integrating the national industrial system: the new challenge for Chile in the twentyfirst century*, Quaderni del Dipartimento Economia Istituzioni Territorio, no. 20, University of Ferrara, Ferrara.

Bianchi P. and Parrilli M.D. (2002b), *Obstaculos y oportunidades de inversion para el desarrollo de las pequeñas empresas en Chile*, BID-Ministerio de Economia, Santiago.

Bianchi P. (2002), *Che cosa impariamo dalla crisi argentina*, L'Industria, Vol.1, Il Mulino, Bologna.

Bianchi P. (1998), *Construir el mercado*, Universidad de Quilmes, Buenos Aires.

Bianchi P. and Di Tommaso M. (1998), *The Role of SMEs in a changing global scenario: towards a new policy approach*, ASEM Seminar, Napoli.

Bisang R., Burachik G. and Katz J. (1995), *Hacia un nuevo modelo de organizacion industrial. El sector manufacturero argentino en los años 90*, CEPAL/Alianza Editorial, Buenos Aires.

Chudnovsky D., Kosakoff B. Lopez A. (1999), *Las multinacionales latinoamericanas: sus estrategias en un mundo globalizado*, Fundo de Cultura Economica, Buenos Aires.

Commission of the European Communities (1995), *Report on the coordination of activitites in favour of SMEs and the craft sector*, COM(95) 368 final, Ellis Publications, Mastricht.

Commission of the European Communities (1996), *Maximising European SMEs' full potential for employment, growth and competitiveness*, COM(96) 98 final, Ellis Publication, Mastricht.

Di Tommaso M., Bianchi P. and Rubini L. (2000), *Le api audaci*, FrancoAngeli, Milano.

Heymann D. and Leijonhufvud A. (1992), *High Inflation*, Oxford University press, New York.

Kosakoff B. (1993), *El desafio de la competitividad: la industria argentina en la transformacion*, CEPAL/Alianza Editorial, Buenos Aires.

Kosakoff B. (2000), *Corporate strategies under structural adjustment in Argentina*, Macmillan, London.

Ministerio de Economia (2001), *Estatuto de la pequeña empresa*, Santiago de Chile.

Moori-Koenig V., Ferraro C.A.and Yoguel G. (2002), *Situacion y politica para las pequeñas y medianas empresas industriales en Argentina*, in Peres W. and Stumpo G., Las pequeñas y medianas industrias en America Latina, CEPAL-Chile, Siglo XXI, Mexico.

Observatory of European SMEs (2002) , *SMEs in Europe, including a glance at EU candidate countries*, Bruxelles, No. 2.

Observatory of European Small (2002), *Highlights from the 2001 Survey*, European Commission, No. 1, Bruxelles.

Observatoire europeen des PME (2000), *Sixieme rapport. Rapport de synthese*, Commission Europeenne.

O'Donnell G. (1982), *El estado burocratico autoritario*, Editorial Belgrano, Buenos Aires.

Parrilli M.D. (2002), *Las pequeñas y medianas industrias en Nicaragua*, in Peres W. and Stumpo G., Las pequeñas y medianas industrias en America Latina, CEPAL-Chile, Siglo XXI, Mexico.

Parrilli M.D: (1999a), *A necessary turnaround: betting on cities and towns*, Revista Envio, Universidad Centroamericana, Managua, March.

Parrilli M.D. (1999b), *Apostando a un nuevo actor del desarrollo: las Pymes industriales en Nicaragua*, in Di Tommaso M. and Parrilli M.D. (eds.), El desarrollo industrial y las pequeñas y medianas empresas, Revista Encuentro, Vol. 50, December.

Singh A. (1992), *Industrial policy in the Third World in the 1990s: alternative perspectives*, in Cowling K. And Sugden R., Current issues in industrial economic strategy, Manchester University Press, 1992, Manchester University Press.

Stiglitz J. (2001), *In un mondo imperfetto*, Donzelli Editori, Roma.

Chenery H. and Syrquin R. (1980), *A comparative analysis of industrial growth*, in Matthews R.C., Economic growth and resources, Vol.2 (Trend and Factors), San Martin Press, New York.

UNDP (2000), *Human Development Report*, New York.

Wong Chacon M. (2002), *Situacion actual y politica de apoyo a las pequeñas y medianas empresas industriales en Costa Rica*, in Peres W. and Stumpo G., Las pequeñas y medianas industrias en America Latina, CEPAL-Chile, Siglo XXI, Mexico.