International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 10 Issue 1, Jan-Feb 2026 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

Entrepreneurship in Mexico: Structural Diagnosis, Systemic Challenges, and Public Policy Proposals for Productive Scaling

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ABSTRACT

Entrepreneurship plays a strategic role in Mexico's economic development through employment generation, innovation, and social inclusion. Despite high business creation rates, the Mexican economy suffers from a "missing middle" phenomenon, where ventures remain small, informal, and exhibit low productivity. This paper presents a comprehensive diagnosis of the Mexican entrepreneurial ecosystem (2019–2025), integrating the impact of the COVID-19 recovery and the historic opportunity presented by Nearshoring. Using a mixed-methods approach based on official INEGI statistics, OECD benchmarks, and institutional theory, the study identifies structural barriers such as the "informality trap," lack of scalable financing, and regional asymmetries. This expanded version proposes a robust public policy framework focused on productive scaling, digital transformation, and integration into global value chains (GVCs) under the USMCA (T-MEC) framework. The findings emphasize a shift from "subsistence-based" support to "high-impact" scaling to ensure sustainable macroeconomic growth.

KEYWORDS: *Entrepreneurship, MSMEs, Public Policy, Productive Scaling, Nearshoring, Mexico, USMCA.*

How to cite this paper: Dr. J. Emilio Mendez-Gonzalez | Dr. Carlos Espino-Enriquez | Marh Enrique Guzman-Nieves | Ma Enrique Guzman-Lozano "Entrepreneurship in Mexico: Structural Diagnosis, Systemic Challenges, and Public Policy Proposals for Productive Scaling" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-10 | Issue-1, February 2026, pp.1-4, URL: www.ijtsrd.com/papers/ijtsrd99989.pdf

IJTSRD99989

I. INTRODUCTION

Entrepreneurship has become a central element in development strategies worldwide due to its potential to generate employment, foster innovation, and promote inclusive economic growth (OECD, 2023; World Bank, 2024). In Mexico, micro, small, and medium-sized enterprises (MSMEs) constitute the backbone of the productive structure, representing more than 98% of economic units and employing over 70% of the formal workforce (INEGI, 2024).

However, Mexico's entrepreneurial landscape is characterized by a deep-seated **productivity paradox**. While the country boasts high rates of new business entry-driven largely by necessity and the lack of formal employment-these firms often fail to scale. Only a negligible fraction of Mexican startups transition from micro-entities to medium-sized corporations. This structural stagnation prevents the economy from fully capitalizing on its demographic dividend and geographic advantages.

The current global context, marked by the relocation of supply chains from Asia to North America-widely known as **Nearshoring**-presents a once-in-a-generation opportunity for Mexican entrepreneurs. Nevertheless, without a systemic diagnosis and targeted public policies, the benefits of this phenomenon risk being captured solely by large multinational corporations, further widening the gap between the export-oriented north and the subsistence-oriented south. This paper aims to provide an evidence-based assessment of entrepreneurship in Mexico during the 2019–2025 period and to propose a strategic roadmap for productive scaling.

II. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

A. Conceptualizing Entrepreneurial Ecosystems

The traditional view of entrepreneurship as an individual act has evolved into the "Entrepreneurial

Ecosystem" (EE) approach. According to Isenberg (2011), an ecosystem consists of six domains: a conducive culture, enabling policies and leadership, availability of appropriate finance, quality human capital, venture-friendly markets, and a range of institutional and infrastructural supports. In Mexico, the EE is highly fragmented. While hubs like Mexico City, Monterrey, and Guadalajara exhibit mature ecosystems, the rest of the country operates under "market failure" conditions where essential pillars, such as venture capital or R&D linkages, are virtually non-existent.

B. Necessity vs. Opportunity Entrepreneurship

The literature (GEM, 2024; OECD, 2023) distinguishes between necessity-based entrepreneurship (subsistence) and opportunity-driven entrepreneurship (high-impact). In Mexico, approximately 25% to 30% of new ventures arise from the absence of other work options. These firms typically operate in the informal sector, utilize low-technology processes, and have a survival rate of less than two years. In contrast, high-impact entrepreneurship is associated with the "Scale-Up" phase, where firms grow at 20% or more annually. Public policy in Mexico has historically over-subsidized the former while neglecting the latter.

C. Institutional Theory and the Informality Trap

North (1990) argues that "institutions are the rules of the game." In Mexico, the high "cost of being formal"-including complex tax compliance, rigid labor regulations, and corruption-acts as a deterrent to scaling. Small firms prefer to remain small and informal to stay "under the radar" of regulatory scrutiny, creating a low-productivity equilibrium that hinders national competitiveness (Levy, 2018).

III. METHODOLOGY

This research adopts an analytical and synthetic mixed-methods approach based on primary and secondary data.

1. **Quantitative Analysis:** Systematic review of the *Censos Económicos 2024* (INEGI), the *Encuesta Nacional de Financiamiento de las Empresas* (ENAFIN), and the *Global Entrepreneurship Monitor* (GEM) 2023-2024 reports.
2. **Qualitative Analysis:** Identification of structural barriers through a comparative study of successful "Scale-Up" policies in OECD peer countries (Chile, South Korea, and Israel).
3. **Timeframe:** The study focuses on the 2019–2024 cycle, covering the pre-pandemic baseline, the COVID-19 disruption, and the 2024-2025 Nearshoring recovery phase.

IV. EMPIRICAL EVIDENCE ON ENTREPRENEURSHIP IN MEXICO

A. Business Demography and Survival Rates

According to INEGI's Business Demography Study (EDN), approximately 1.7 million establishments were created in Mexico between 2019 and 2023, while 1.4 million ceased operations. This "churn rate" indicates high dynamism but also high fragility. The average life expectancy of a new firm in Mexico is merely 7.8 years. In states like Chiapas or Oaxaca, this number drops to less than 5 years, highlighting a stark regional divide.

B. The Nearshoring Opportunity: A New Variable

The 2024 economic landscape is dominated by the relocation of manufacturing. While Mexico received record levels of Foreign Direct Investment (FDI) in 2023-2024, the "integration rate" of local MSMEs into these new supply chains remains below 5%. Most Mexican entrepreneurs face a **"Technical Barrier"**: they lack the international certifications (ISO, IATF) and the digital infrastructure required to become Tier 2 or Tier 3 suppliers for global industries.

C. Access to Financing: The "Missing Middle"

Traditional bank credit remains limited, with only 12% of MSMEs having access to formal commercial loans (Banxico, 2024). Venture Capital (VC) in Mexico is highly concentrated: 90% of VC investment flows into "Fintech" and "E-commerce" in Mexico City. This leaves "traditional" industrial and service entrepreneurs in a financing vacuum, unable to purchase the machinery or technology needed for scaling.

V. STRUCTURAL BARRIERS TO HIGH-IMPACT ENTREPRENEURSHIP

Through our analysis, we have identified five systemic bottlenecks:

1. **Regulatory Complexity and Compliance Costs:** On average, a Mexican entrepreneur spends 240 hours per year on tax-related tasks. The "Cost of Compliance" represents a higher percentage of revenue for a small firm than for a large one, discouraging formal growth.
2. **Managerial Gap:** Many founders possess technical skills but lack "Scale-Up" competencies, such as financial planning, HR management, and internationalization strategies.
3. **Low Digital Adoption:** While 80% of firms use WhatsApp for sales, only 15% utilize ERP (Enterprise Resource Planning) or CRM systems to optimize their operations (AMVO, 2024).

4. **Regional Concentration:** 60% of high-impact ventures are located in only three states, leaving the southern region in a perpetual state of subsistence entrepreneurship.
5. **Insecurity and Rule of Law:** Extortion and theft increase the operating costs of MSMEs by an average of 1.2% of their total revenue, disproportionately affecting logistics-heavy startups.

VI. INTERNATIONAL BEST PRACTICES FOR SCALING

- **Chile (CORFO):** The use of "Equity-Free" grants combined with rigorous acceleration programs has positioned Chile as a hub for regional scaling.
- **Israel (Yozma Program):** A successful model of public-private venture capital where the government "de-risks" private investment in high-tech startups.
- **South Korea (K-Startup):** Massive investment in "Digital Twin" technology to help MSMEs simulate manufacturing processes before going to market.

VII. PUBLIC POLICY PROPOSALS FOR MEXICO

We propose a **Five-Pillar Strategic Framework** to transform the Mexican entrepreneurial ecosystem:

1. The National "Scale-Up" Fund (Matching Funds Model)

The government should shift from "micro-grants" to a co-investment model. For every dollar a private investor puts into a growth-stage MSME, the state should provide a low-interest loan or a minority equity stake, specifically earmarked for technology acquisition.

2. Digital Transformation Vouchers

Implementing a "Digital Credit" system where MSMEs can redeem government vouchers for cybersecurity services, cloud computing, and AI-driven analytics. This reduces the upfront cost of modernization.

3. USMCA Integration Centers (Tiering-Up)

Establishment of regional technical centers that provide subsidized certification training (ISO 9001, AS9100) to allow Mexican entrepreneurs to enter the aerospace and automotive supply chains created by Nearshoring.

4. The "Single Window" Regulatory Reform

Transitioning to a 100% digital, "once-only" registration process where a new firm can be incorporated and tax-registered in under 24 hours at zero cost for the first year of operation.

5. Gender-Focused Venture Capital

Since female-led firms in Mexico receive less than 2% of VC funding despite having higher repayment rates, specific "Gender-Lens" investment vehicles are needed to bridge the capital gap.

VIII. DISCUSSION

The implementation of these policies requires a paradigm shift. For decades, Mexican public policy focused on "poverty alleviation" through entrepreneurship. While socially necessary, this approach did not generate economic growth. The transition to a **Productivity-First** policy is politically difficult but economically essential.

The discussion must also address the role of universities. The "Triple Helix" model (University-Industry-Government) is currently broken in Mexico; academic research rarely translates into commercial patents. Encouraging university-led "Spin-offs" through intellectual property reform is a critical missing link in the ecosystem.

IX. CONCLUSIONS

Mexico stands at a historic crossroads. The combination of its geographic position, the USMCA trade framework, and a burgeoning digital economy provides the necessary ingredients for an entrepreneurial boom. However, "business as usual" will lead to a missed opportunity.

To achieve sustainable growth, the focus must shift from **firm creation to firm scaling**. Public policy must act as a catalyst that reduces the risks of formalization and provides the technological "lift" required for MSMEs to compete globally. Integrated, evidence-based policies can transform Mexican entrepreneurial activity from a survival mechanism into a global engine of sustainable economic development.

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