CHAPTER V

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Since México's political independence in the early nineteenth century, its economy was predominantly influenced and even shaped by the influx of private foreign capital. It was US foreign investment which played a decisive role in steering the destiny of modern, industrial Mexico. However, it was not as if the Mexican State as well as the national bourgeoisie were mere puppets tied to foreign interests.

In tracing United States' investments in Mexico through a socio-historical survey, Chapter I identified the Porfiriato as an important conjuncture which provided a very favourable political climate for direct foreign investments (DFI). It argued that the Mexican ruling elite willy nilly embraced an ideology of Comtian positivism which justified and indeed eulogized the laissez faire policy of the developed northern neighbour. Bereft of an indigenous entrepreneurial class that could build industrial capitalism and devoid of capital and technology within the confines of its domestic economy, Mexico turned to foreign sources. It was argued that the nature of its partnership with foreign capital, confined it to a status of a subordinate ally and a subservient host. This was testified
in the creation of the *Sociedad Anónima* (joint stock company) which was spearheaded by the interests of foreign investment and the creation of large scale banking and financial institutions, along with a commercial sector, backed by strong foreign monopoly groups.

The Chapter explained the historical consequences of the cumulative forces of foreign investment during the Porfiriato when DFI carved out crucial spheres of influence in the critical sectors of the Mexican economy. As a consequence, the resulting institutions consolidated the structure of the organized sector in Mexico. But Mexican indigenous capital *per se* and its entrepreneurial class remained in a somewhat secondary position within that structure. And this historical configuration continued to perpetuate itself for a long period in Mexican history.

The Porfiriato curiously coincided with the rapid expansion of US political (military interventions and territorial annexations) and economic forces abroad. Such an expansion was spurred by the economic boom within the US and its domestic capital concentration. With its geographic proximity, resource potential and political prerogatives, Mexico provided the 'great American push' a virgin venue. US expansionist interests thus percolated down the Rio Grande establishing a historic hegemony which was to manifest in political,
military and most importantly, economic spheres. Such a hegemony could be seen as indeed unparalleled in the recent history of Third World countries. US economic domination effectively jettisoned European powers from Mexico. This was undoubtedly an overdetermined case of neocolonialism. It was demonstrated that the condition of its possibilities lay in the political and economic philosophy of the Porfiriato. It was from the Porfiriato that the American investors derive their credibility and compatibility. Having secured an entry during this period, US capital was entrenched in Mexico's development with a near monopoly position.

In evaluating the Mexican response to US foreign investment and its consequences, Chapter II emphasized that the strong foothold of American capital on Mexican soil could not be shaken off even during the turbulent years of the Mexican Revolution. American interests were indeed very deeply entrenched. As of course, US government deftly dealt with the revolutionary ideology by its aggressive military and diplomatic policies. The Mexican Revolution recoiled as a political force but not without fall-outs. It had given birth to radical, political and nationalist forces which relentlessly resisted and questioned the veracity of previous policies towards foreign investment. It was agreed that the promulgation of the new Constitution in 1917 ironically marked a renewed period of American en-
trenchment. This clearly reflected the enterprising character of US investment despite constitutional stipulations. And indeed, the Mexican Revolution could be seen as a major force which compelled investments to camouflage themselves by shifting from the primary to the manufacturing sector, thus avoiding the legal impediments.

The forces of foreign capital were decidedly geared up to face new challenges and conditions posed by the post-revolutionary State. Jolted by the revolution, American investors vigorously rallied around organizational forums. Economic interests were now explicitly expressed both ideologically and institutionally. The American Chamber of Commerce of Mexico, the National Association of the Protection of American Rights, International Bankers' Committee and such other organizations began to consolidate and generate a public opinion favouring industrial and commercial activities of foreign capital. At the same time, these institutions functioned as powerful pressure groups in order to counterbalance Mexican nationalist measures and constitutional controls. Such pressure tactics provided the possibility for the continued intervention of US government in Mexican internal economic affairs, grossly undermining the sovereignty of an independent neighbouring country. External interventions, backed by these powerful groups within Mexico, campaigned for
the much-needed diplomatic protection to American business people. This was a necessary prerequisite, it was argued, for the subsequent ascendancy of US DFI in the most formative and formidable period of Mexican economic reconstruction.

It was pointed out that the Mexican response to the ascendancy of American DFI was locked up in ambiguity. Even the more ambitious, radical and pragmatic efforts to restrict American influence and loosen the grip of foreign capital were, for the most part, inconsequential. The Mexican Revolution of 1910 had discarded the definition of everything foreign as superior. The revolutionary fervour manifested in constitutional declarations. Ownership of surface and sub-surface mineral deposits were taken over by the State, abolishing in particular, private rights in petroleum deposits. These constitutional expressions were, as indicated, the Mexican version of Calvo Clause, the Argentinean diplomatic deterrent. Inspite of Articles 27 and 33 which epitomized the nationalist drive against foreign interests, American DFI was undeterred. This was so even after the promulgation of the Constitution of 1917, enunciation of legislations following the 1938 expropriation of petroleum industry, declaration of the emergency decree of 1944; and above all the formation of the Camara Nacional de la Industria de la Transformación (CNIT), the new national chamber of manufactures.
There was, on the one hand, what one may call, State fatigue in dealing with aggressive American capital. On the other, there was a genuine dilemma of Mexico's development, typified by the so-called strategy of Mexicanization. An entire volley of nationalist voices, however articulate, could not devise pragmatic procedures to realize their goals of indigenization. Neither could the State implement measures adopted to restrict and regulate foreign investment. The Mexicanization policy was a conscious attempt of the State to encourage local investors to participate in the activities of the MNCs forging at the same time, joint ventures.

This dilemma of Mexican development resided in the fact that direct foreign investment, especially US DFI was indispensable for rapid industrialization for reasons that were part historical and part political. Yet Mexico could not realize its goal of industrialization without political and economic autonomy that often clashed with foreign corporate interests. Mexican investment regulations and responses were precisely geared towards reconciling the two contradictory tendencies that were at work for the growth-oriented industrialization of the economy. The choice to follow the path of a 'mixed economy' was not entirely without problems.
In order to negotiate the intermittent phases of recession and recovery, Mexico was wittingly or unwittingly compelled to change its economic priorities. Import substitution, export promotion, border industrialization, discriminatory promotion of Mexican investments and such other attempts only resulted in a deeper entrenchment of US MNCs. Much to the chagrin of policy makers, MNCs had consolidated themselves on the Mexican soil carving out near permanent bases for their operations. This was true even at a time when the Mexican economy experienced a temporary boom for instance, in the seventies. Given the socio-historical circumstances, it is difficult to conceive of any viable alternative open to Mexican policy makers. Such was the power of US DFI and its resilience that the most radical national rhetorics could not reverse the course of Mexican economic destiny.

Ironically, Mexico remained ever more attractive to US investors. They were prepared to face periodic political hostility from reformist, nationalist and revolutionary forces. From the vantage point of American capital, the geographical proximity, steadily growing market, unrestricted currency exchange, a cheap source of labour/raw material and, above all, a somewhat stable economic and political climate more than compensated for rhetorical, revolutionary fervours.
By the eighties however, foreign capital had begun to bask in liberal government patronage. Marked as "priority cases", joint ventures in agribusiness, fisheries, petrochemicals and tourism were received with favourable conditions. Even where Japanese and European investments eagerly awaited joint ventures on liberal terms with Mexicans, the economic boom of the seventies was entirely reaped by the US companies; and such companies were primarily concentrated in chemicals, automotive, electronics, machinery and food processing.

Chapter III discussed the historic shift of US direct investment from extractive to manufacturing sector which remained a decisive factor in camouflaging foreign capital and concealing its objective economic interests. Extractive enterprises required physical command of large tracts of territory rendering foreign capital highly visible. US investment in manufacturing however, enjoyed a certain degree of economic invisibility, in that foreign participation was not very prominent by way of size and physical concentration.

Yet the differential responses were results of a complex set of historical causes as both the World Wars and international forces inevitably impinged upon Mexican perceptions. American capital in manufacturing succeeded in projecting an image that was positive,
strengthening thereby the negotiating position of the investors. Soon after the Second World War the Mexicans did exert pressure upon the foreign investors using a kind of carrot and stick approach, sometimes compromising, at others pressurizing with added protection. The resulting industrial integration in Mexico was not without its problems of quality control and production costs.

The US multinational corporations (MNCs) were appropriately placed to handle the various problems arising out of the marketing of Mexican products e.g. complying to international standards and procedures, access to foreign buyers, procedures of export and fixing international price structures. The MNCs were privy to a trading network which provided the necessary transmission of credible information that was so essential to link production with pricing and marketing.

Clearly, US investment in Mexico was neither unidirectional nor unilinear. Its reality was almost labyrinthine. There was a constant shift of investment strategies. As of course, such shifts were decidedly influenced by the Mexican response and related State regulations. Yet, the politico-economic forces within the American economy in steering the investments into select sectors cannot entirely be underplayed.
American MNCs did not stubbornly stick to their strategies and compulsions of their domestic economy. Their functioning in Mexico represented a remarkable resilience without which it could have been next to impossible for them to survive the nationalist State regulations. This resilience was well illustrated in the role of US multinational corporations in the Mexican economy.

Since it was the Mexican manufacturing sector which accounted for the highest concentration of US DFI from 1960s onwards, it was in this sector that the resilience was revealing. Indeed, the MNC as a specific phenomenon in the Mexican economy, emerged precisely at the conjuncture of the shift from extraction to manufacturing. With the MNCs, the era of simple export of capital or direct ownership of sub-soil properties in the host country came to an end. The emergence of MNCs was inextricably linked with the policies of import substitution industrialization and export promotion. The priorities and preferences of US MNCs in Mexico were neither in keeping with the desired goals of such policies nor indeed guided by the indigenous economic needs. It was primarily geared towards taking advantage of Mexican policies for augmenting profits and the proportion of direct investment which swelled from $745 million in 1958 to $5,940 million in 1980.
The introduction of MNCs, it was argued, inaugurated a new era in the history of Mexico and its location in the international division of labour. Mexico could be seen to provide an apt illustration of the historical role of MNCs. The trajectory of MNC activities in Mexico holds a special significance for the development of Third World economies. In the Mexican case, the MNCs which were geared towards vertical ISI after a substantial phase of horizontal ISI, did temporarily meet the internal demands. It satisfied one major requirement -- the need for foreign exchange. This was accomplished by their active role in the export of semi and fully manufactured goods. The persistent balance of payments problems, galloping inflation and shrinking public sector revenues had made it essential to subsidize the import of machinery and equipment. Incentives for imports were provided alongside imposition of tariff walls and quantitative controls on imports of manufactured goods.

A significant stimulus to manufacturing was provided by the Second World War. But it was the period from 1960-75 that registered a rapid growth of US firms in the Mexican manufacturing sector. American firms controlled the great bulk of the manufacturing sector, nearing 70 per cent. Privately held Mexican firms dominated in only two of the major manufacturing industries such as food and textiles -- industries where
technology was not very advanced. It was not at all surprising that MNC assets tended to concentrate in industries requiring high and specialized technologies depicting an oligopolistic character. American MNCs outrightly purchased the plants from the Mexican manufacturing firms and established entirely new units. There was no clear-cut pattern visible in the process of American acquisitions. In some cases, a newly formed US owned affiliate subsequently acquired a large Mexican firm while in other cases new firms were launched under the corporate laws of Mexico, only to be acquired later by American MNCs.

There was, as suggested in the Chapter, a high degree of ambiguity in the process of acquisitions, thereby making it difficult to assess the extent of 'takeovers'. The ratio of acquisitions in the manufacturing to the rest of the sectors was much higher than the ratio of formations. Ironically, many of the Mexican firms acquired by the US MNCs were not only viable financially, but were profitable ventures. Such manufacturing firms, before being acquired by American MNCs, were known to register high rates of profit.

The ascendancy of US MNCs in Mexican manufacturing was possible due to an overlapping of Mexican State policy and US MNC prerogatives. The policy of export promotion marked the peak of the convergence between
the host countries' priorities and the prospects of foreign investors. Even though the Mexican and the MNC interests were diametrically opposed, due to the fact that Mexican State had taken upon itself to rapidly industrialize the economy, the MNCs had to be embraced often to the detriment of the desired goal. Having allowed the MNCs to participate, the Mexican State did not possess a modus operandi to tame the foreign investors who ultimately dominated the manufacturing sector. Here the latent consequences of MNC participation defeated the manifest cause they were supposed to serve.

The manifest cause had progressively drawn the Mexican State, the MNCs and the local bourgeoisie into a historic triple alliance. Chapter IV dealt with the internal logic and the character of this alliance. It argued that the semi-hegemonic position of the foreign allies only directed Mexico towards what came to be known as denationalization. The triple alliance was a necessary precondition to the process of denationalization. It was not in spite but because of the alliance and its inner structure that the policies of ISI and EP could not steer Mexico to the desired destination. The process of denationalization incorporates within its fold economic, cultural and politico-military aspects as constituent parts. The present study however, limited itself to the aspects of economic denationali-
zation alone, indicating that the process of industrialization eventually led to the transfer of economic decision making towards foreign investment. Among many other consequences, the process manifested itself in the monopolistic tendency and oligopolistic character of the MNCs especially in certain critical sectors of the economy. The most concentrated industries in the manufacturing sector, were invariably foreign dominated being the strongest in the consumer durables. This resulted in the MNCs consolidating considerable power over the market.

The MNCs were thus empowered to perpetuate their position of dominance by manipulating State regulations for their profit maximization. A large portion of industrial production in Mexico was generated by a small number of manufacturing establishments owned by foreigners typifying the denationalizing process. An in-depth look at one industry -- that of the steroid hormone, illustrated the inner logic of denationalization. This case study highlighted the lack of national priorities and concerns on the part of foreign MNCs. The supranational character and constitution of such corporations inevitably demonstrated the pre-eminence of their global strategies.

MNC and their operations abroad were guided by international market forces rather than host country priorities. Indeed, it was this that characterized the
central organizing principle in the triple alliance. The MNCs were not mere profit making partners in the alliance. For them, local considerations were of minimal consequence. Their entrepreneurial role was always subordinated to their global profit motives. As a matter of fact, the inability of the State and local capital to strike a balanced bargain with the MNCs remained the necessary prerequisite for the latter's supremacy.

Against this background of arguments presented in the preceding chapters, it may be pointed out here, that despite the Mexican State's 'strict regulations' on foreign direct investment, a review of the economic situation by the end of the eighties revealed that these regulations were perhaps only 'paper tigers'. Foreign investment, in particular that of the United States, continued to grip Mexican industries. Having dominated the Mexican manufacturing sector for almost four decades, it moved into Mexico's capital goods industries in a big way. What the Mexican State perhaps always overlooked was that most of its policies inherently, did not really question the hegemony of US capital. There was a strong underlying trend in them that actually expressed the desire and keenness for foreign capital to participate in Mexico's development process.
However, in a report published in mid-1981, the Secretariat of National Properties and Industrial Growth voiced concern over the fast growing rate of foreign investment in Mexico. It also addressed one of the controversial aspects of foreign investment -- that the subsidiaries of foreign companies drained capital from Mexico by sending profits back to their parent firms and the severe deficit in Mexico's trade with the US.

The beginning of the decade of eighties saw a series of plans in Mexico which set out goals for development, clearly specifying the roles of the public and the private sectors with the target of achieving high industrial and economic growth. In April 1980, a Global Development Plan: 1980-82 was published by the Secretariat of Planning and Budget incorporating all previously issued partial plans. The most important of all the plans in this was the National Industrial Development Plan, 1979-82, which set out a goal for the development of 33 sectors until 1990.

Basically, the plan required high rates of growth to help provide employment and a greater distribution of wealth. It called for the base of the economy to be

strengthened to support such an expansion and to correct distortions that would impede this high growth. This included the creation of new targets for the production of basic consumer items; the development of high priority industrial zones which would not only decentralize economic activity but also provide exports and efficient substitution of imports; the reorganization of the domestic industry to provide additional sources of supply entailing preferential treatment for small and medium sized firms. It called for the integration of the big oligopolistic firms with medium and small ones in order to break the network of concentration of income and capital.

Despite such elaborate plans, policies and regulations, there existed as always, a relation of pragmatism between the Mexican State and foreign private capital. In other words, despite the State policies on MNCs, these were not administratively sound and encountered severe political criticisms as well as pressures to nullify them. Also economically speaking, they were never effective to regulate foreign companies. It is against this background that foreign

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2. ibid, pp.17-23.


4. ibid, p.72.
capital in Mexico, despite policies of control and check against it and National Plans to achieve self reliance, managed to remain in the forefront of the Mexican industry.

The decade of the eighties however, saw a break in the monopoly of US MNCs in Mexico. Besides the United States, Japanese and European investors started scrambling to form joint ventures with Mexican groups in the hope of sharing in the economic boom earmarked by Mexico's discovery of significant amounts of oil.

In early 1981, 53 proposals to invest more than $1 billion in new Mexican controlled joint ventures were put up by foreign investors for approval to the Foreign Investment Commission. A further $1.2 billion was proposed to be invested by foreign companies already in partnership with Mexican capital. In exchange for permission to expand and diversify their operations, some wholly owned subsidiaries of foreign companies also chose to sell at least 51 per cent of their shares to Mexican nationals forming joint ventures.

In some other sectors, Mexico seemed willing to approve new, wholly owned foreign subsidiaries, but in exchange for the establishment of new plants in an area of the country where unemployment was high and with a strong commitment to export. The Mexican subsidiaries of Ford, General Motors and Chrysler, which were 100...
per cent owned by their parent companies, expanded their capacity on the understanding that the Mexican components in their vehicles would continue to grow and export of car parts would arise. A new $213 million Ford plant for instance, was committed to export 80 per cent of its production to the United States.

Thus US private investment in Mexico picked up momentum. Outlays in the manufacturing sector grew 24 per cent -- 75 per cent of total private US direct investment in this country in 1980-81. Investment in transportation equipment expanded 38 per cent; machinery 26 per cent; food 21 per cent; metals 7 per cent and chemicals 16 per cent. The chemical sector remained the major recipient of US investment funds at $915 million, followed by machinery with $649 million and transportation equipment with $510 million.

Other sectors also chalked up 'healthy' increases, thanks to Mexico's development of oil resources and "good economic performance". Investment in petroleum shot up 97 per cent to $81 million. Trade investment expanded 25 per cent to $696 million and investment in

6. Ibid.
finance and insurance was up 19 per cent to $136 million.

In the last few years before the debt crisis of Mexico in August 1982 when its economy came close to bankruptcy and financial collapse with $80 billion external debt, foreign investment in Mexico increased tremendously. According to the Banco de Mexico, direct foreign investment came close to $900 million. During the early months of 1981, the Comision Nacional de Inversion Extranjera approved a total of $2,100 million in new projects of investment which signified an increase of 26 per cent with respect to the previous year. Had the Mexican economy not collapsed, US direct investment was expected to total another $1.24 billion in 1982, slightly less than the previous year but nevertheless significantly high. The figures covered direct capital expenditures planned by affiliates of US companies in Mexico in that year by majority-owned US firms as also those that held important minority equity positions in the Mexican affiliates. When MNC interest in investment abroad began some 40-50 years ago, it signified a strong capital investment with low utili-

8. ibid.

ties. In the long-term, this tendency resulted in the process of denationalization which the present thesis delineated. It was not at all ironic that for each dollar that entered the country, $4-5 left through different channels: royalties, technical assistance, patents and above all, through the system of transfer pricing.

According to Hector Alvarez de la Cadena, Director of foreign investment of the Secretaria de la Patrimonio y Fomento Industrial, "the reasons by which international capital invests in our country, marks the global system of development". But did it mark Mexico’s development? The imminent bankruptcy of the Mexican economy was perhaps not envisaged. However, a critical assessment of the role of foreign capital could not have overlooked the impending possibility of such a crisis in the Mexican economy.

The holistic approach (incorporating historical, political and State policy dimensions of US DFI) in the Mexican economy as presented in this study, refutes any monocausal economic explanation for the process of denationalization. The onus of this historical process cannot squarely be placed on the economic

10. "Inversion Extranjera...", ibid.
interests of American MNCs for this would grossly undermine the role of the Mexican State and the local bourgeoisie. Without taking into account the political and economic processes within Mexico, the role of the DFI would only turn into a convenient scapegoat. For the most part, the politico-economic forces within the national confines provided the social conditions within which foreign interests were articulated. The Mexican experience perforce holds the key to unlock certain myths about MNCs and aphorisms around liberalization policies in Latin America.

The so-called 'debate crisis' that sent shock waves throughout the Third World were mere palpable symptoms of an ailment that had long inflicted the Mexican economy through its travails and triumphs. They were symptomatic of historical shifts (e.g. of DFI from extracting to manufacturing sectors) and reordering (e.g. from horizontal to vertical ISI; EP etc.) in the Mexican economy that could scarcely be explained solely in its own terms. This event was by no means unique for in the context of the more encompassing phenomenon of denationalization, it mirrored an instance in a process to which the present thesis addresses itself. It has however, questioned the conventional wisdom that access to private international capital is a safe road to development.
The possibilities of pursuing alternative roads to development or for that matter perceiving alternatives to the present development is an area which is, no doubt, beyond the purview of the present study. Indeed it is in itself worthy of an emergent area of research. This opens up a study into what is possible for a country subject to severe external constraints in achieving dynamic levels of growth. At the same time, it is necessary to investigate from a broader perspective the limits on the definition of national development goals. These are limits imposed by the domestic institutional structures, experience and knowledge, on the basis of past successes and failures. The question of alternative paths of Mexico's development is perforce as open as it was at the beginning of this study but the research on what could have possibly happened can scarcely ignore what actually happened to the Mexican economy.