CHAPTER I

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A SOCIO-HISTORICAL SURVEY
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In the making of Mexico’s modern economic and political history, no other country has played as immense a role as the United States. As the latter’s closest southern neighbour across the Rio Grande, Mexico has always occupied a significant position in American foreign affairs. Rich in almost every kind of mineral product and having land fertile for growing most crops, it has for long been an important trade partner of the United States and a prime market for American economic interests abroad. The United States (US) in fact, has always tended to view Mexico not as a separate country but as a 'naturally extended area' (sic) of its own territory, providing great development potential for economic integration and offering ample opportunities for US business interests. Ever since Mexico’s inception as an independent nation, both the American and Mexican sides have laid emphasis explicitly and implicitly, on the 'mutuality of interests' between the two countries, on the 'importance of closely knit economic policies' and on the 'indispensability' of American capital and technology for Mexican growth and development.
After three centuries of Spanish colonial domination (1512-1823), the struggle for political liberation in Mexico coincided ironically, with ambitious geographical expansions by the developed countries of Europe and United States. The rise of the newly independent Mexican nation is thus inscribed in the broader history of such external 'aggressions' on the country. This chapter seeks to justify the contention that these 'aggressions' also marked the beginning of the decisive role that foreign interests were to play in the future of the social, political and in particular, the economic history of Mexico.

It is against this backdrop that the chapter attempts at a socio-historical survey of US investments in Mexico. It begins with a brief statement on the economic and to some extent, political situation in Mexico immediately after its independence. The second section discusses at length the expansionist US interests in Latin America primarily to put into perspective the role of foreign capital in Mexico during the Porfiriato dealt with in the subsequent section. The fourth section discusses the nature and content of the revolutionary welfare of 1910 in Mexico which marked a major political break from the Porfiriato. The last two sections then try to put into perspective the forces of foreign capital and the subsequent ascendancy of American investments in post-revolutionary Mexico.
MEXICO AFTER INDEPENDENCE: POLITICAL AND ECONOMIC SITUATION

The first half of the nineteenth century without doubt, constituted the most ill-fated and difficult period of Mexico. Available evidence (cited subsequently) suggests that by 1850s the government of Mexico was faced with financial problems relating to immense losses of income in the internal market. Among other reasons, this was due to a highly inefficient politico-administrative machinery. Mexican polity at the time was characterized by the bitter struggle for power between various groups of Creole elites, vying with each other to gain control and establish their rule over the country. Independent Mexico hence inherited a completely ravaged economy with most of its mining system flooded and wrecked, a near famine, a highly skewed class system, a huge foreign debt, an eclectic army controlled by sectional political interests and above all a lack of social awareness with respect to the making of a nation.

It was during this period that the expansionist activities of powerful countries like Britain, France and the United States made the best of Mexico's social and political contradictions to spread their commercial and financial interests along with territorial and militaristic influences. Mexico experienced foreign invasions and military occupations on the average of
one every six years, not counting the twenty-five year occupation and the annexation finally, of what is today Texas. Between 1835 and 1836, the Americans, for instance, led a successful secession of Texas. Besides annexations of its territory, Mexican land also became "an object of sale and purchase" when in 1825 President Monroe sent a special envoy Joel R. Poinsett to arrange with the Government of Mexico to buy its territory until Rio Bravo and Rio Colorado for one and a half million dollars. The advocating of the "manifest destiny" by John L. O'Sullivan in mid-nineteenth century further encouraged the United States which declared war on Mexico in 1846 under the pretext of claiming its debts from Mexico. Almost half of Mexican territory was seized in the process. The period 1846-48 was perhaps, one of the most significant in Mexican history. It marked the beginning of Mexico's position vis-a-vis the US for times to come. In an emotional diatribe, Jose Luis Ceceña describes Mexico's state at the time:

The loss of territory and men, the expenditure towards national defence and the strong social and economic impact (of the US) provoked a struggle which was weakened to an extreme degree by the rising expansionist ambitions of the US... From then onwards, we have had as a neighbour, an immense power with a

rich territory four times the size of Mexico, consistently involved in a strong process of territorial and economic expansion. The disaster of 1848 can be considered as constituting the turning point in which the US grew rapidly and strengthened itself more than ever, while Mexico weakened steadily, falling under the orbit of the US...

From then onwards the sale and purchase of Mexican territory became a more regular phenomenon without much resistance from the Mexican people. In 1853, the US while constructing railroads, exercised pressure and purchased 109,574 kms of land from Mexico, which today form the states of Arizona and New Mexico. Until the end of the nineteenth century there were a continuous spate of territorial demands on rights of transit that the US imposed on Mexico. The method utilized was mainly that of military aggression.

By the mid-nineteenth century, American military interventions created without doubt, conditions through which the US began to exercise an increasing control over the political and economic structures of Mexico. Once having established a territorial superiority, the US then begin to gain grounds on the economic front.

Mexico, was in itself, caught up in a vicious circle. In order to strengthen and fortify its position in the face of external aggressions and alleviate the situation of its financial crisis, it was compelled to look out for external sources of finance. The
post-independent Mexican economy was oriented to serve only one specific purpose -- the extraction and export of its economic resources (i.e. agriculture and mining) to its former colonial power. There was no effort to create an infrastructure that could serve the needs of Mexico's indigenous economic development. For 65 long years after independence, political chaos and civil strife within Mexico, by different interest groups struggling to secure power, put Mexico in an extremely unstable and vulnerable position. This facilitated foreign powers to not only lay claim on its territory but also initiate investment activities there.

Mexico, on its part, began to open itself to foreign bankers and industrialists. This undoubtedly suited the laissez faire interests of the countries of Western Europe and United States. Trade and commerce which was already a booming industry there, lost no time in exploiting investment opportunities in Mexico. To begin with, most of it was in the form of "portfolio" investment as against "direct" investment with heavy purchases of bonds and shares from especially the British stock markets. Very little capital existed for public investment and with the government's operational expenditures increasing, principally to finance large military expenditures, the government resorted to foreign and domestic loans and the issuance of paper money.
Mexico's private sector likewise, had little savings available for investment. Hence the country was thrown open for private direct investment in almost all of its major sectors -- mining and agriculture and their respective subsectors. Whereas before independence, almost all of the mines had belonged to the Mexican ruling elite, including Spanish residents in Mexico, a process was initiated thereafter whereby about 95 per cent of the mines became the property of foreigners. Production began to recover after foreign, principally English, investors began in 1821 to acquire ownership of the defunct mines and replace them with new ones.

Free trade of primary goods for Europe's manufactured goods was seen as the easy way out of backwardness, foreign debt and technological lag. Rather than effect tariffs for protection and development of a nascent industrialization that could emerge given Mexico's economic resources, foreign investors and capitalists were freely allowed to 'rehabilitate' the mines. Increased mineral production allowed at the same time for the foreigners to draw off massive profits. Mexico began to depend more than ever upon silver and gold for its export earnings (86 per cent in

1872), while hides, sisal and ixtle, followed by coffee, were booming agricultural exports. In the 1870s, sixty per cent of the total value of Mexico's foreign trade was derived from commerce with European nations and only thirty per cent from trade with the United States.

By the last quarter of the nineteenth century, it became evident that in the struggle for existence and control of power, only the 'fittest' would survive, their fitness certified not only by their survival but by their domination. Those whose superiority -- economic, technological and military was unquestioned and seemed unchallenged now dominated a greater part of the world. But for 'most politically organized peoples of the non-capitalist world the issue was not whether the world of white civilization could be avoided, but how its impact was to be met--by copying it, by resisting its influence, or by a combination of both'.

US EXPANSIONIST INTERESTS IN LATIN AMERICA

US expansionist activities in Latin America date back as early as 1786 when Thomas Jefferson apparently urged an increase in the American population in order that the Americans could gain piece by piece all

3. ibid, p.171.

the land under Spanish domination. In fact, from the
time the US attained independence from Britain (1783),
it launched on to ambitious world-wide links through
trade and acquisitions of foreign territories. Even
though Britain and France wielded immense economic
power and political influence in Mexico, American ships
were already sailing to major ports of Latin America,
trading with the territories of the Spanish Crown. An
important testimony contained in the communication that
Don Luis de Onis sent from Mexico to the Spanish
Viceroy, Francisco Javier Veregas (1810-13), summarizes
the early 'big fish' attitude of the US:

Each day the ambitious ideas of this
republic (US) develop more and more
confirming its hostility towards
Spain... Its government has proposed
to fix its territorial limits to nothing
less than the outlets of the river in
the north, following its course to 30
degrees and from there drawing a
straight line until the Pacific, Nuevo
Santander, Coahuila, New Mexico and part
of the provinces of Nuevo Vizcaya and
Sonora. This seems a frenzied project
which the government of US seems to be
successfully propagating to include all
this as well as the island of Cuba as
part of its republic (translation mine).

Ninety per cent of these estimations were later to
come true, hence making evident the special interest US
had in extending its economic and political influence

5. Gasto García Cantú, México en el Mediterráneo
Americano, cited in Jose Luis Ceceña, n.1, p.17.
in Latin America:

The statesmanship of the past has been to develop our vast internal resources... The statesmanship of the present and future is to extend our commercial relations and secure markets for our marvellous surplus production... New York, not London, is to be the money centre of the World. (Whitelaw Reid, Peace Commissioner to Paris Treaty and Spanish American War, 1899).

The American Civil War (1861-65) marked the turning point in American economic history, a transformation from a predominantly agricultural economy based on slave labour to a vigorous industrial and financial one based on wage labour. So great was the force of this development, that five years later, by 1870 United States occupied second place in the world scale of industrial production -- 23 per cent, surpassed only by Britain's 30 per cent. By the end of the nineteenth century, United States displaced Britain to hold the first position and in 1913, its contribution to the world industrial production amounted to the scale of 36 per cent. In the area of foreign investments as well, US investments now replaced most European ones, especially in Latin America, and Mexico was no exception to the rule.

Thus the nature of American investments abroad was a direct consequence of the development of the economy

6. ibid.
at home. The dynamic character of their selectivity lay in the changing needs of capital accumulation at home and availability of resources in the host countries. Until 1840, industrial development was slow in the United States. By every available measure, however, there was a significant change after this period. The economy was in a state of transition: capital was moving from mercantile to industrial pursuits and financial institutions were developing for the growing transportation, construction and manufacturing industries.

Their railroad system was the single most important factor in the development of American capitalism. It accounted for the opening up of new areas for production, lowering costs, bringing internal economies to operate with external ones through extension of markets and the transportation of raw materials from areas of abundance (especially in the south) to the great manufacturing centres of the north. This made the factory system and large-scale production more profitable, having favourable effects on income and productivity. Finally, the railroad fostered the growth of financial institutions which were necessary for the development of American capitalism. All techniques acquired in the field of railroad finance were ultimately used to raise
large sums of money for the building of other industrial enterprises.

The main reason for the rapid economic growth in the pre-Civil War period was the growth of banks in America, the capital for which was derived from a very prolific overseas trade (especially cotton). The development of new business and industries now demanded new sources of credit. The banks were the chief suppliers of this credit, while creation of the stock exchanges facilitated the acquisition of large sums of money, thereby contributing to the change-over to large-scale enterprises. Hence, a developed banking system, complete with the construction of a good nation-wise transport system, was therefore, a necessary economic pre-condition for the rise of big business in the United States. It was the emergence of this big business and the formation of corporate structures that played a major role in determining and controlling American investments abroad.

The earlier phase of American industrialization provided considerable opportunities for the great buccaneering business entrepreneurs, aptly named as 'robber barons'. The following reasons distinguished the era of the American 'robber barons' and their business overseas

from other flourishing capitalist economies of the same period. First, there was the total absence of any kind of control over business dealings in America. American business during this period had characteristics of ruthlessness coupled with corruption both at the local and national level and "there was little that could be called government by European standards, in the United States". Secondly, most of its successful practitioners were not guided by any particular ethics. All they wanted was to maximize profits which were derived through railway constructions, gold-rush, mining, exporting of raw materials etc. from Latin America and any other region they could venture to stumble upon. Thirdly, a considerable proportion among them were 'self-made men' who had no competitors in wealth and social standing -- a characteristic somewhat over emphasized by the mythology of the success of American capitalism.

The growing needs of the United States' domestic economy formed the driving force for the penetration by US investors into Latin America. This accounts for a foreign policy that was in essence expansionist. The Monroe Doctrine and the Roosevelt Corollary to it, followed by the Pan American Conference (better known in later days as Dollar Diplomacy), ostensibly promoted

8. Hobsbawm, n.4, pp.143-5. 7s 2
free trade and commerce in Latin America. At the same time they advocated expansion of the market for the absorption of surpluses from giant US firms, and for generating sources of raw materials that these firms were so much in need of. The acquisition of the new territories, justified by "manifest destiny", came from the impetus of this expanding economy. Hence concentration of capital through rapid domestic production and formation of monopolies was aided and sustained by the opening of new markets overseas. New York had begun to challenge London as a financial centre.

One of the reasons for the rise of United States foreign investments was that US companies were more oriented to "direct" rather than "portfolio" investments. This was due to their early shift from mercantilism to industrialization. Most European investments abroad were "portfolio" in nature. This accounted for the ascendancy of US investments in this region after the First World War. In 1914 the US accounted for 18.4 per cent of the total private foreign investments in Latin America and the stage was set to preempt

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9. Direct investment refers to investments in which foreign nationals and enterprises hold a controlling interest, usually representing 25 per cent or more of the equity capital. Portfolio investment consists mainly of foreign government or private bonds publicly offered in the developed country, but also includes shares of foreign corporations owned in the developed country by non-controlling interests. Adopted from United Nations, Foreign Capital in Latin America (New York, 1955), p.6.
Britain as the principal source of capital in this region.

US investments were highly concentrated in relation to country and sector. It may be noted here, that by the end of the nineteenth century almost all Latin American countries were independent of the colonial powers. They were now faced with the formidable task of economic development. But the lack of indigenous capital forced almost all Latin American countries to resort to foreign capital. The supplier countries on their part reinforced the assumption that foreign capital was the only option and source of 'development'. American capital in its initial phase was particularly used for the modernization of industry. It is interesting to note the sectoral distribution of American capital. It was primarily oriented to those sectors of Latin American economies which were more or less extensions of their own sectors back home, and which complemented the US economy.

The latter half of the nineteenth century accounted for an increase in US investments in Latin America and a phenomenal rise of American capital investments on a global scale. During this period, the developed powers of the world (i.e. both European and American) were involved in frantic and cut-throat competition to gain control over the world's resources. This was the beginning of the development of monopoly capital. In
each of these countries, the process of economic concentration was taking place in the industrial sector, banking, commerce and public services -- firms and companies whose main aim was the maximization of their profits.

In order to achieve their objectives, the companies and firms operated in two different ways: horizontally, i.e. setting up firms abroad that would produce the same product as at home or vertically, i.e. setting up firms abroad that would link the process of production at different stages. This secured markets for the products and primary materials for maintaining an increasing volume of production. It was in this manner, that the big monopoly structures of United States, principally along with other European countries, launched on with great intensity, the capture of foreign markets at the end of the nineteenth and the beginning of the twentieth century.

PORFIRIATO AND THE ROLE OF FOREIGN CAPITAL

In Mexico, such expansionist endeavours encountered favourable political climate during the government of Porfirio Díaz (1876-1911, popularly known as Mexico's Age of Iron). Although the United States remained a net debtor on its international capital account until the First World War, an increasing amount of funds found their way into Latin America after the
Spanish-American War of 1898. However, where Mexico was concerned, American investments had begun their ventures almost a decade ago. In 1890, half of the total US $250 million direct investments of the United States were in Mexico and by 1914, Mexico accounted for two-thirds of US direct investments. It was both a combination of external as well as internal factors that resulted, during the Porfiriato, in producing considerable expansion of private American economic interests especially in the last decade of the nineteenth century.

For Mexico at least, during the whole of the nineteenth century, the answer lay in adopting the first attitude. The Comtian motto of 'Order and Progress' -- the ideology of classical liberalism, gripped 'educated' Mexicans. Socially and economically, very little had changed until now in Mexico. Nevertheless, more than half a century of political and social chaos in post-independent Mexico certainly created a class of powerful and wealthy estate owners -- the latifundistas, whose position was considerably strengthened by the abolition of Spanish colonialism, which had attempted to maintain control over them. With the position of the peasants markedly weakened, it was the latifundias and their owners who now wielded power.
General Porfirio Díaz was a product of this class which laid implicit faith in the positivist philosophy. He and his científicos (social scientists and economic planners) embraced economic liberalism and laissez faire philosophy of the developed North, as the only path towards development and modernization. If Mexico was to follow a similar path, it could do so only by opening up the economy to a free play of foreign capital and investment. This however, also involved a simultaneous shift from European to American investments, a consequence of the vigorous expansion activities of American capital. Thus with the coming of Porfirio Díaz to power in 1876, American private investment began to hold a dominant and controlling position in the Mexican economy -- a trend which was to become irreversible for the rest of Mexico's history with regard to foreign investments in the country.

It was the most concentrated period of railroad construction and mining under the aegis of American capital which also flowed into banking, manufacturing and commerce. US investors set up subsidiaries wherever rich supplies of raw materials could be found. By the end of the Porfiriato in 1911, US investments constituted about 40 per cent of the total foreign capital in Mexico. This was a substantial increase compared to the negligible figure obtained even in the past. It was the period in which concentration of
wealth in the developed countries was rapidly giving way to the formation and establishment of firms in industries, banking, commerce, public utilities etc. The expansionist policies of these international monopolies encountered favourable conditions in countries like Mexico. The Porfirian regime, besides allowing unrestricted entry of foreign capital on liberal terms, also gave large scale concessions and provided subsidies to the foreign private investors. The Díaz government maintained that "it was necessary to make an extreme effort even to making sacrifices rather than lose the opportunity of gaining by the investment of foreign capital in Mexico, the impetus that would bring prosperity".

Under the guise of stimulating industrial development and agricultural production, the railways however, in reality only helped in providing markets through the principal ports. Competing lines operated on the most profitable routes duplicating channels of communication and at the same time rendering large areas of the Mexican hinterland isolated.

The years preceding the 1870s were undoubtedly characterized by the hegemony of British capital in

Mexico. The Porfirian era marked a gradual predominance of American capital that had displaced other foreign investments. The richest copper mines for instance, were American-owned. The copper giant Green Cananea had an authorized capital of $60 million in 1904. The American Smelting and Refining Company known as ASARCO became the key company in Mexican mining and industry with a capital of $65 million. The investment of US Waters-Pierce Company rose to $2.8 million in 1903 and by 1908, the total investment amounted to $12 11 million. Thus in the total overall foreign investment, by 1911, US had undoubtedly risen to the primary position not only in terms of its investments but also with regard to the total capital assets in Mexico.

It has been suggested that one of the main reasons for the Porfiriato to encourage and have such immense faith in foreign capital was the "apparent weakness of its own private capitalists", that the private sector of Mexico was never really keen on investing its capital in some of the more risky ventures for Mexican infrastructural development. Reference is made in Historia Moderna, by a member of the Mexican Congress (Diputado Carvajal) concerning the reluctance of the

private sector to invest at low interest rates. It refers to a press report which points out the scarcity and timidity of Mexican capital and quotes it as follows:

In this situation, it is without question that something must be done to encourage foreign capital to develop the exploitation of our mines, employing all of the resources of science and applying known machinery in order to extract minerals and refine them.

It is now fairly well established that the whole orientation of liberal philosophy in Mexico especially during the Porfiriato was to encourage foreign capital and investment at the cost of strangulating private local potentialities of doing the same. The small concentrated groups of latifundistas found it more profitable to have transactions with foreigners especially Americans. They were reluctant to sacrifice their immediate interests for long-term national interests. Secondly, the Porfiriato, keen on Mexico's rapid economic development gave paramount priority to foreign investment and imported technology.


Even the idea of loans to the local private sector was far-fetched for the Mexican State. Until 1864, there was no private bank in Mexico. Loans could only be obtained from personal acquaintances or, more generally from merchants whose high interest rates prohibited any borrowing for long-term and/or large scale investment. Whatever little savings were managed by the private sector were again lost through heavy taxation and forced loans. On the contrary, Mexican money lenders granted loans to foreign business people for they could get higher rates of interests from them. Edward L. Doheny, an American, was able to carve out an oil empire for himself along the Gulf Coast mainly through such loans. Justo Sierra describes in candid prose, the state of petty capitalist in Mexico and what was to become of this class in later years.

The Mexicans had never known what it means to save ... The middle class both rural and urban -- the farm owner, the prosperous artisan, the store-keeper -- was the perpetual victim of the tax system, the eternal plotter of new revolutions, always hoping that the triumph of the new order would bring him

15. May & Fernandez, n. 11, p.3.
relief... The merchants and the landown­ers were engaged in desperate struggle with the government... Abandoning their businesses little by little, to the foreigner (and) the hacienda; the food store to the Spaniard (who had already returned), the clothing and jewelry shops to the Frenchman, the mines to the English-men -- they at last took refuge en masse in the bureaucracy, that superb normal school for idleness and graft which educated our country's middle class.

The Mexican business class that did manage to survive was mainly through partnership in the commercial establishments and industries that were 'foreign-owned'. Confronted with periodic economic slumps and the need for more capital and new machinery, Mexican business people had to contend with whatever was available. In an economically underdeveloped country, "it was only natural that they resorted to collaboration with US investors, when the goals of both nations' upper bourgeoisie had so much in common: economic expansion, industrialization, and profit". 18

The Mexican economy developed increasingly, as an appendage to foreign economic interests. A number of characteristics of the economy at the time testify to this phenomenon. First, the Joint Stock Company, Sociedad Anómima, a society of share holders having stakes in leading companies that represented all the

key sectors of the national economy, was created and adjudicated as fundamentally the most important body in the Mexican economic structure. Second, there was the creation of large scale banking and financial institutions in all the three sectors of mining, agriculture and industry. Third, commerce, both internal and external, became the next most critical feature of the Mexican economy. Lastly, the Mexican government encouraged and gave incentives for the formation of corporate groups that controlled the economic activities of the country.

It needs to be emphasized that this new structure was a function not of indigenous forces, but directly influenced by the impact of foreign investment. The general orientation of investments in Mexico was geared to the projection of the national economy to the exte-

19. The Sociedad Anónima, the Mexican joint-stock company is a legal entity distinct from its shareholders, with a life fixed for a long term of years, extendible by vote of the shareholders, amending the charter; it has Mexican nationality, and it can sue and be sued in the courts of Mexico and own or lease real and personal property. The shareholders’ liability is limited to the amount of their personal contribution. The share certificates are easily transferable, although transfers to or among foreigners may, depending on the circumstances require FIC permission. This type of company is the most popular in Mexico, especially for foreign undertakings; it is required for public ownership. See Lloyds Bank International, “Legal forms of business enterprises through which foreigners may operate”, in Company Formation in Mexico (London, 1980), p. C-5.
rior. For instance, investments in mining for production of metals were mainly for export to foreign countries, those in railways were geared to facilitate the export of products to the ports or the important frontier points with the United States; investment in agriculture mainly for the production of coffee, cocoa, cotton, vanilla and other products was again for their export while large scale foreign investments into banking served the purpose of financing and consolidating the foreign companies operating in Mexico. In this way, foreign capital and its vestiges carved out a crucial sphere of influence in the Mexican economy.

The formation of the Joint Stock Company was an important feature that organized the structure of foreign investment in Mexico, and is therefore worthy of attention. Prior to the creation of the Sociedad Anónima, foreign capital in Mexico was operating mainly on an individual entrepreneurial basis. The establishment of this Joint Stock Company during the Porfiriato inaugurated the organized sector in the Mexican economy. There is no doubt, however, that it was foreign investment interest that was mainly instrumental in setting up the Sociedad Anónima which was primarily represented through public share holdings. Where foreign interests were concerned, it was more profitable for them to invest through public shares. Control over a company did not however, depend
on the number of shares held by the company. A group could still hold a controlling interest in a company having even less than fifty per cent shares. The added advantage of foreign capital to invest through the Sociedad Anónima was that it would make use of local capital rather than bring in its own, simply by issuing bonds or debt titles.

The Sociedad Anónima which held majority shares in 170 largest companies in Mexico by 1911, symbolized in essence, the participation and involvement of the Mexican economy, activitywise, with foreign interests. It represented a total capital of 1,650 million pesos. However, it is interesting to see the extent of foreign participation in this most important area of the national economy. Of the 170 companies, majority or total foreign shares were held in 130 companies, i.e. 76 per cent of the total. This amounted to a total capital of 1,042 million pesos i.e. almost two-thirds of total capital. If one were to consider the nine other companies of the 170, whose foreign share holdings were partial, then total foreign capital represented in the group would stand at 77.7 per cent. The most significant factor however is that of all the foreign countries involved in this group, the United

States represented the major source of economic strength followed by Britain and France. Thus out of the 170 companies, United States had a stake in 53, representing a total of 720 million pesos or 44 per cent of the total capital. Of this, it held total controlling interests in 45 companies with a capital of 459 million pesos or 28 per cent of total investment capital in Mexico.

The position of both foreign and Mexican capital between 1910 and 1911 can be assessed from Table 1*. If to these figures are added those measured in terms of Mexico's external debt, then the preponderance of American capital in the Mexican economy can scarcely be exaggerated. Another factor which emerges is that the total amount of American capital superceded the total European capital, especially that of Britain and France. On the other hand, all Mexican capital accounted for only 23 per cent with the private sector, a mere 9 per cent. This data reveals the subordinate state of Mexican indigenous capital and the peripheral position of its business class. However, as discussed before, this phenomenon resulted in the overarching significance of foreign capital encouraged by the Porfiriato, at the cost of stifling local capital.


* For Tables, see at the end of Chapter.
The Americans thus gained a dominant position in Mexico by the end of the Porfiriato. The contemporary American press assigned a value of one billion dollars to American interests in Mexico. Though the US State Department in its own confidential estimate, gave the much lower figure of $331 million, this may have represented the value of the physical assets excluding all loans and securities. American interests -- the Hearsts, the Guggenheims, United States Steel, the Anaconda Corporation, Standard Oil, McCormich, Doheny etc. owned three-quarters of the mines and more than half of the oil fields; they owned sugar plantations and along the American border, large cattle ranches. American firms spread their operations both horizontally and vertically besides securing markets for their products. Hence Americans came to have an enormous stake in Mexico.

Mexico, had become the mother of aliens and the stepmother of her own children! The foreigners lived in isolation reserving all the more responsible and highly paid positions in their industries for men of their own race, accumulating wealth, which they proposed one day to take home, and openly voicing their contempt for the nation which they were exploiting.


Thus a combination of internal and external forces culminated in considerable expansion of foreign investment in Mexico and the establishment of a base for US monopoly interests. Although Mexico underwent a transformation both at the level of industrial development and creation of a market structure, this development nevertheless, created at the same time, a structure, which we shall examine in subsequent chapters, was to become in later years inimical to the very process of autonomous economic and social development of Mexico.


The rise of United States economic influence was not without the simultaneous influence of its political power over Mexico. Once the Americans established themselves securely under the aegis of Porfirio Díaz, they knew they had struck not only a prolific market for their business, but also a potential and permanent customer for their long-term interests. American envoys in Mexico were sent to perform not just diplomatic roles but also police and safeguard American interests in Mexico against any possible aggression or opposition principally from within.

American State officials such as Taft, Knox and especially the American ambassador to Mexico, Henry Lane Wilson, expressed respect for Díaz' government in
full knowledge of the corruption, poverty and tyranny that plagued Mexico. They believed that because of poverty and ignorance of most Mexicans, Mexico could not in the foreseeable future achieve any workable sort of democratic governmental system. Only after a long period of education and economic development would Mexico be "ready" for democracy. During the interim, the United States believed it had to establish its influence in order to preserve the status quo.

The Porfiriato however, ended in 1910, not because of the 'success' of a new order but because of the failure and collapse of the old. Under Díaz, the local bourgeoisie had clamoured for a share in the government. Business families like Maderos active in banking, mining, manufacturing and agriculture, resented a government favouring American capitalists in Mexico. They were the latifundistas now turning into an enterprising business class who began to see the Americans as rivals. These were the causes among others that gave rise to the 1910 Revolution led by Francisco Madero -- himself the unchallenged leader of the local bourgeoisie.

The available account of foreign investment during this tumultuous period in the Mexican history is very

sparse and widely scattered. However, there is no doubt that the way for US influence was paved during the First World War when European attention was diverted to the war exigencies. Whatever may be the trajectory of American influence, there should be no doubt that the year 1910 is a milestone in the history of Mexico which shaped the successive periods vis-a-vis foreign investment. In the year 1910, brewing and steaming under the old order, volcanic convulsions erupted into fierce battles, the like of which Mexico had not known. In that fiery struggle, a whole socio-political fabric was decimated. French advisors, church power, standing army, State intelligence, rurales, serfdom and slavery were reduced to deposits and ruins in a changed political landscape. As of course, the Mexican Revolution of 1910 was preceded by an ailing economic and financial situation. Based on traditional production relations, the hacienda system could not possibly grow the grains required to feed the country. The scarcity of food sent prices sky high. Existing accounts suggest widespread starvation in large tracts of the rural hinterland.

Mexico had always exported minerals and imported food grains. From 1900 onwards, the world market prices of Mexico's exports suffered a sharp downfall. The government borrowings to contend with the crisis pushed the country into an abyss. The ensuing warfare that resulted out of the crisis, indeed epitomized the inner contradictions and external impingements. Madero's call for revolution had been deeply embedded in the agony of the burgeoning upper classes that could not reckon with the old order. The United States had ironically offered him a sanctuary in Texas from where he gave his call. As a matter of fact, there was a change in American policy towards Mexican revolutionaries. Earlier the US government had deported them while Madero was encouraged in his fight against Díaz. Porfirio Díaz and his policies had provoked American business interests. Indeed there are statements from American oilmen who called the old dictator a senile man. The reaction was very sharp from Standard Oil so that the retirement of the dictator was invariably seen to serve their vested interests.

Madero's Plan de San Luis Potosí was formulated on a promise of democracy and agrarian reform. The native bourgeoisie that rose in revolution against the old dictator and the rural masses who provided the arsenal were very quick to respond to the call from Texas. The role of Pancho Villa and Emiliano Zapata as robinhoods
of the mountains and plains helped in attacking the old hacienda order and forced Díaz to resign in May 1911. Díaz on relinquishing his reign had this to say: "Madero has released a tiger in Mexico. Let's see if he can handle it". Perforce, it was for the mighty northern neighbour to handle the contradictions. In the fall of 1911 when Madero became president through an election, foreign capital was only temporarily threatened.

In the internal warfare in Mexico, the native bourgeoisie had always felt stifled and deprived of the raw materials which the foreigners had carted off. The building of heavy industry by the native bourgeoisie had greatly suffered under Díaz. There was no domestic market for the light industry either. The slaves who worked in the foreigners' factories, haciendas etc., could scarcely afford to buy any goods. At this time, American capitalists who owned more of Mexico's industry than Mexicans and had twice as many investments as the other foreigners had deep roots in the country. According to historians, by 1900 Mexico had become an economic colony of the United States.

Clearly, President Madero's tasks were by no means easy in the light of the expectations from the native bourgeoisie on the one hand and the masses on the other. These were interests that were by no means reconcilable on a permanent basis. In his strategies
to resolve the social and economic contradictions, Madero, at least with regard to the foreign exploiters, preferred a series of compromises rather than confrontations. And yet, in Mexico city, the foreigners had ruled and plotted against Madero and there was a relentless search for a better president. Many scholars agree that the American ambassador who was sympathetic to Madero's rivals -- the Guggenheims, had already dreamt of a camp from the right. There were American hopes on Dollar Diplomacy that could possibly find for Mexico a president who would willingly flirt with northern imperial interests.

It is with the help of American interests and assistance, both material and political (the American ambassador -- Henry Lane Wilson played a major role) that Madero was assassinated by General Huerta who seized the presidency in 1913. Curiously, Huerta's assuming office coincided with a new president in the White House -- Woodrow Wilson. The Revolution had cautioned out American investments though for a very brief moment. Somehow from the very beginning, Huerta had favoured the British imperialists who grew stronger on the Mexican soil, especially the British oil companies. Woodrow Wilson and his Secretary of State re

fused Huerta recognition and in April 1914, US Marines seized the eastern coastal part of Veracruz in the Gulf of Mexico, cutting off Huerta from the customs' revenues. Both from internal and external pressures which mounted in the following months, Huerta yielded and resigned in July 1914.

Despite the growth of nascent local capitalist class that was keen to take control of investment in Mexico, it is observed that this class over a period of time was subsequently coopted so that they continued to survive only in alliances and partnerships with the American capitalists in Mexico rather than build their own independent sectors of investment. If pre-revolution Mexico had been a victim of blatant American military aggressions and territorial annexations, American tactics in the post-revolution Mexico continued as before involving perhaps only a change in strategy. The United States through a series of steps provided full protection to American lives and property. The overthrow of the Madero regime and the installation of Victoriano Huerta to power in 1913, the systematic repression of mass revolts led by Emiliano Zapata, Pancho Villa and others, the supply of military aid and appointment of officials to oversee the management of opposition and resistance are instances of

27. Hodges & Gandy, n.25, p.27.
American conduct in Mexico. Taft, Knox, and especially the American ambassador to Mexico, Henry Lane Wilson attempted to "jealously" preserve and perpetrate American interests in Mexico. They shared a common belief that the crucial task was to protect foreign markets for American capital.

FORCES OF FOREIGN CAPITAL IN POST-REVOLUTIONARY MEXICO

As regards the role of foreign capital in Mexico, the Mexican State promulgated very clearly in its new Constitution of 1917, its sovereign and ownership rights over minerals and resources. Article 27 laid down a strong nationalist sentiment, orienting itself to the redemption of its land and subsoil wealth, a major proportion of which had been until now under the control of foreign monopolies. US and British oil companies had siphoned Mexico's sources of wealth, viz. minerals and especially oil, ruling the Gulf Coast towns with their own police force or "white guards". The formulation of Article 27, no doubt, posed a formidable threat to such foreign operations. The Constitution could well be seen as a cumulative expression of the revolutionary rhetoric and the attempt by the post-revolutionary State to reorganize the economy.

28. ibid; Ceceña, n.1.
Countries like the United States were prepared to intervene, militarily if necessary, to safeguard interests of their companies. Until the United States could receive some form of guarantee against expropriation of oil, which Article 27 certainly implied, it refused to grant diplomatic recognition to the government of Obregon (1920-23). This was despite the fact that Obregon, while taxing the oil industry, assured Washington all along, that Article 27 was not retroactive and therefore would not affect foreign oil interests.

American economic interests and their future prospects were rigorously expressed in organizational and institutional forums in Mexico. The American Chamber of Commerce of Mexico (AMCHAM) both in its ideological and organizational expressions provides an apt illustration. According to AMCHAM's own accounts, the establishment of a constitutional government in Mexico and the US involvement in the First World War -- both in 1917 -- were the main motives for US businessmen in Mexico to join their efforts for their own defence. As of course, the restriction of private property on behalf of the collective social interest enshrined in Article 127 of the 1917 Constitution, provoked much insecurity among the business community. In the oil, mining and agricultural sectors, where foreign investment was mostly concentrated, there was much opposition and sharp reaction.
At the same time, the entry of the United States into the war, adversely affected the commercial sector and its international business relations. Many national and sectoral associations of the business interests were an inevitable spin-off of such a conjuncture. For example, between 1919-20, the National Association of Mexico (NAM), and the National Association for the Protection of American Rights (NAPAR) were founded. They articulated and reiterated the protection of their investments. In fact, NAPAR even sent representatives to Versailles to seek support from the allies against the Carranza Government (1916-20) and to Washington to testify before a Senate Committee investigating the Mexican situation. Some scholars have suggested that NAM went as far as to promote a revolt against President Obregón aimed at turning back the tides of nationalist programmes.

This was the time when the oil and mining companies and their pressure organizations predominated the internal warfare in an aggressive and active manner. Formed in 1918, the Oil Producers Association of Mexico

(OPAM) representing British and American companies succeeded in obtaining concessions from the Mexican government. In securing significant concessions the US Department of State played a crucial role. In 1926, when President Calles reiterated the well known petroleum law, OPAM openly opposed his efforts. In a similar vein, the mining companies formed their sectoral pressure groups in 1917, the most prominent was the Committee of American and Mexican Mining Interests (CAMMI). With its headquarters in New York, branches were set up in all the states of Mexico where mining was in progress.

There is no doubt however, that the oil and mining lobby exerted an enormous pressure over Mexican internal economic and political affairs. The direct link between American business interests and such organizations are well demonstrated by the fact that AMCHAM had named the US ambassador and consul-general as honorary president and vice-president respectively of its organization -- a practice that continued. Furthermore, AMCHAM became a member of the US Chamber of Commerce performing its ideological role in organizing US businessmen. In collaboration with the US embassy in

Mexico in the early 1920s, AMCHAM financially assisted one of Mexico's right wing, conservative newspapers — El Universal, which had openly demonstrated a favourable attitude towards foreign capital and US political interests in general.

The International Bankers Committee formed at the end of the First World War, which strengthened enormously the position of American business interests abroad, inaugurated its offices in Mexico in 1919. For more than two decades, it exercised an immense pressure on Mexico especially in the area of Mexico's increasing external debts. The bankers relied on the support given by the American government and intervened in various ways to impose enormous burdens not only through external debt, but also through increasing reclamations for damages to foreign property. Thomas W. Lamont of the International Bankers Committee helped clear the way for a settlement by negotiating an agreement with the Obregon government concerning Mexico's debt, which Mexico's war-torn economy would default over the next fifteen years. Then Mexico and United States signed the Bucareli Agreements which reaffirmed the non-retroactive clause governing Article 27 while obliging Mexico to pay compensation for damages to US property incurred during the Revolution. The United States promptly followed with diplomatic recognition of Obregón's government in 1923.
With such concessions, the American government succeeded in nullifying the effects of the application of Article 27, protecting the interests of the mining and oil companies that had obtained ownership of land and subsoil properties during the Porfiriato. They also achieved to put a brake on the agrarian reform and the nationalization policies of the Revolution through the Bucareli conferences, which established the immediate and effective payments of all expropriations by the Mexican government. However, the Obregón government did not concede to the Treaty, Friendship and Commerce, proposed by the United States which was equivalent to the Platt Amendment in Cuba and which suggested international arbitration of reclamations that the two countries had not mutually settled upon. Even so, the Bucareli conferences signified the high price that Mexico had to pay for American recognition.

There were nevertheless, genuine efforts by the Mexican government itself to organize Mexican business interests. In November 1917 the Confederation of Chambers of Commerce of the United States of Mexico had been formed followed by the formation of the Confederation of Industrial Chambers of Mexico a year later. Among other things, there were forums that functioned

as government advisors. In matters relating to the promotion and expansion of commercial and industrial activities by Mexican businessmen, Mexican bankers formed their own association known as Asociación de Banqueros de México (ABM) in 1928.

In the light of the discussions which followed, a new federal labour law and an intersectoral organization too was formed known as Confederación Patronal de la República Mexicana (COPARMEX). As an advisory body it provided legal and labour relations assistance. From its very inception it remained an important Mexican instrument for consolidating and transmitting the capitalist ideology. It was only in 1975, that this organization was reconstituted into Consejo Coordinador Empresarial (CCE) which provided the vanguard organization of the new national business ideology.

It is well worth mentioning here that membership to such organizations as AMCHAM was restricted to US citizens while at the same time Mexican business organizations did not make it obligatory for US businessmen in Mexico to take membership. Thus there were no direct meeting points or institutional forums for Mexican and

32. "Capitalist ideology" refers to the values and ideas propagated by the 'científicos' (Social scientists and economic planners) belonging to the Porfirián era who were inspired by the nineteenth century European positivist philosophy discussed on pp. 17-18.
American business ideologies. It goes without saying that capitalist expansion in Mexico could have scarcely gone on without the collaboration of Mexican chambers of industry and organizations like AMCHAM. As of course, both the organizations had felt the necessity to forge united entrepreneurial efforts way back in 1919. The Mexican-American import-export Arbitration Committee was precisely born within mutually felt needs. By 1921, an International Trade Conference had brought thousands of representatives from different countries under the auspices of the joint chambers of commerce.

However, AMCHAM's role as a pressure group and a lobby can hardly be exaggerated keeping in view its concern for US business to stay in Mexico despite social unrest, fear of confiscation and the lure of internal market demands back home in the United States. It may be mentioned here that AMCHAM was involved in a major way in one of the most important issues in US-Mexican relations -- the regulation of migratory labour. The Mexican government had already considered AMCHAM as a reliable business organization. It had even honoured the organization by inviting it to important decision-making conferences.

33. Delli Sante, n. 29, p.343.
The election of Lazaro Cárdenas as president (1934-40) ushered in a problematic period for private business interests. In response to the insurgency in the countryside, and working class unrest in the cities, Cárdenas had initiated reforms that were anti-bourgeois and anti-rurales.

The reclamations and compensations by American investors in Mexico culminated into an aggressive stance in this period. The Cárdenas era witnessed large scale distribution of land, most of it foreign-owned, which was converted into collectivized ejidos. The major attack on foreign holdings came in the form of expropriations of foreign-owned railways and the oil companies. The fervent nationalist policies of President Cárdenas were intended to rescue national wealth from the hands of foreign monopolies whose control over Mexican resources was substantial.

It needs to be emphasized here that after the Cárdenas government's 'revolutionary' aims to keep 'Mexico for the Mexicans', no other Mexican government

34. "However, Cárdenas was by no means a socialist; he was instead, a fairly representative member of the Mexican liberal-reformist tradition seeking to stabilize Mexico's political institutions, achieve 'economic independence', and establish that vague condition of 'social justice' without destroying the class structure of Mexican society". From Delli Sante, n. 29, p.344-45.
adopted such a strong nationalistic principle especially towards foreign investors. After this period the United States implanted instruments that were more effective than even before, to buttress their investment interests in Mexico. One example is the Hickenlooper Amendment which was modified in later years to be used as an instrument of economic coercion rather than amity as originally intended, for facilitating and creating a favourable condition for American investment. It built diplomatic pressure and protection and translated individual private rights of ownership to the level of foreign governments or international organizations, shielding their assets from possible opposition.

ASCENDANCY OF AMERICAN INVESTMENT: 1934-1980s

In contradistinction to the earlier period, the presidency of Avila Camacho and Miguel Alemán covering a period of over two decades from 1940, openly welcomed the participation of foreign investors in Mexican enterprises. Foreign investment sharply rose from $449 million in 1940 to $728 million in 1952. It was indeed the first time since the Diaz era that the red carpet was unfolded for the foreigners on a large scale.

This was possible due to an alteration in the *modus operandi* of foreign investment in the country. It was during this period that US investments marked a sharp ascendancy vis-a-vis all other foreign investments. The Second World War which shaped the logic of investment in this period to a substantial extent, marked a watershed in the shift of capital from primary to manufacturing sector. The post war history of Mexican economy became more or less the history of US direct investment notwithstanding the ebb and flow of domestic politics and the internal impediments in the economy, aspects which will be considered in some detail in Chapter II.

Again, by the end of the Second World War, there was a simultaneous jump from 7.5 per cent of total direct foreign investment (DFI) resources devoted to industrial activities in 1940 to 17.5 per cent in 1945. The total DFI in other sectors such as electricity and transport-cum-communication dropped from 31.5 to 24 per cent and 31.6 to 25.6 per cent respectively. The space that was vacated by the foreign investors within the sectors was solely in the hands of the Mexican State. American investments reached a peak of 70 per cent of Mexico's total DFI in 1950 while European investments dropped to 25 per cent.

Not only was the value of American investments by far the highest but it assumed a paramount proportion
in terms of their world regional distribution. Whereas in 1914, the total value of US foreign investments was 6.3 per cent as against the European total of 93.6 per cent, there was a complete reversal in the decades of 1950s and 60s. US direct investments in Latin America, Canada and Western Europe accounted for 84 per cent, while the remaining 16 per cent comprised the value of the foreign stakes of other investor countries.

Having overtaken Britain as the major source of new foreign private investment between 1915 and 1940, by the end of the Second World War American investment had far surpassed British holdings in the region and especially in Mexico. In the region, the net growth of US investments marked a three-fold increase from $3.5 billion in 1959 to $13.8 billion in 1969. In Mexico, American investments stood at $759 million in the same year. While US investments alone accounted for 61.6 per cent of the total in 1939, this went up to 75 per cent in 1959. There was in all a 211 per cent increase of US investments in Mexico between 1939-59 amounting to three-fourths of all foreign investments by the early sixties. As will be examined in Chapter III, these investments increasingly concentrated in the Mexican manufacturing sector through the medium of

36. ibid, p.120.
multinational corporations. Specifically, between 1958-68, US direct investments had doubled in Mexico, from $745 million to $566 million out of which $1,147 million were entirely in the manufacturing sector.

In the early part of 1970, foreign investments marked a steady increase. In a climate of import substitution industrialization (ISI) that will be discussed in Chapter II, total American investments in 1970 stood at $1,912 million rising to $3,200 million in 1975. After this period, the rate of increase in US investments considerably slowed down testifying to the 1970 decrees of the Mexican State and their impact upon foreign investments. But again, after 1978, American investments began to record a rapid growth increasing from $3,690 million to $5,940 million in 1980. It is characteristic that the manufacturing total American direct investments in Mexico in this period.

It is worth mentioning here that the complexion of foreign investment as it obtained during this decade was fairly representative of such investments in rest of the countries in the region. By now, Latin America undoubtedly had become a favoured region for US MNCs. A survey by the US Department of Commerce showed that investment by US companies in Latin America stood at
$16,527 million in 1975 which was 12.4 per cent of their investment worldwide.


The modus operandi of American investment in Mexico, as it emerges from the substantive data presented in this chapter, does not follow a unilinear path. However, US direct investments in the country had a steady ascendancy with intermittent periods of difficulties when Mexican responses were directly geared to the threats of foreign investments. Even though Mexican administration over successive periods did not consider it prudent to appear hospitable towards foreign enterprises, there was an underlying commitment to industrialization as one and the only road to economic development. And this was a necessity.


which American investors judiciously reacted to. The result was a continued and largely uncontrolled inflow of US direct investments in Mexico.

The present chapter has provided a brief politico-historical sketch of the rise and growth of American capital in Mexico. The political and economic situation of Mexico immediately after its independence was marked by a series of incursions and military occupation, predominantly by the US, resulting in the mortgage of Mexico's land, resources and economy to American political and economic interests. US expansionist interests, a consequence of development of economic forces at home, rapidly penetrated into the critical areas of the Mexican economy. In pursuing their interests, the US investors were favourably received by the Mexican elite who assigned a positive role to foreign capital in Mexico's development.

Fervoured by the positivist philosophy and laissez faire outlook, the Porfiriato marked the inauguration of US hegemony in Mexico. In its whole-hearted invitation to foreign capital, the Porfirian regime provided out of the way concessions and subsidies to American investors. The Americans on their part, operated under the guise of stimulating industrial growth and agricultural production. In reality, Mexican growth during this period was somewhat deceptive. At every step of the development of Mexican economy, Mexico willy nilly
remained an appendage to American interests. Represented through public share-holdings, the Sociedad Anónima was a significant step, in that foreign investment consolidated itself through this joint stock company.

Although the Mexican Revolution altered the balance of power within the country, due to a complexity of factors, it could not come to terms with the profit making foreign ventures. In an embryonic form, a nascent local capitalist class had come into being which was no doubt 'coopted'. At the same time, the Americans had tilted their tactics in a manner that 'jealously' guarded American capital. Curiously, there were no signs of panic on the part of American investors, though the volcanic convulsions during the revolution had sent shock waves right up to Washington.

Post-revolutionary Mexico witnessed a certain change in the politico-economic climate. The repertoire of revolutionary rhetorics had, no doubt, snow-balled. But it merely culminated in constitutional changes which were, by and large, devoid of legal teeth. Even so, foreign capital was quick to respond to the constitutional impediments in that, it quickly resorted to organizational and institutional forums that were openly ideological and partisan. The American Chamber of Commerce of Mexico (AMCHAM) was a typi-
cal example. There was, of course, the more powerful interventions directly from the American government which shielded American private investment by exerting diplomatic pressures.

It was the post Second World War period which marked the high point in the ascendancy of American investments in Mexico. The staggering jump, in a way, replicated the Porfiriato. However, both the indigenous attitude of the Mexican elite representing the economic objectives of laissez faire, and the changing modus operandi of American investment were to account for the dramatic increase during this period. The highest record of single year's investment at current prices was registered in 1980. This chapter, hopefully attempted to analyse the process of Mexican socio-economic transformation to the extent that the history of American investment is integrally linked up with the changes in the indigenous social and political structures of Mexico. In order to contextualize American capital, it is necessary to attend to the Mexican response to direct foreign investment, US investment in particular, in all its various manifestations and implications. The subsequent chapter represents an attempt to this end.
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Source: Jose Luis Ceceña, México en la Órbita Imperial: Las Empresas Transnacionales, (Mexico, D.F., 1979), p.34.