CHAPTER II

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The logic of foreign investment in general and that of US investments in particular cannot be grasped without attending to the policies, postures and responses within Mexico towards such investment. The flow of US capital into Mexico depended to a great extent on the nature of the economic processes governing the overall pattern of development. However, the policies towards US investment were deeply embedded in the necessities of the recipient economy. US investment can scarcely be divorced from the expansionist policy of the American State for global economic hegemony, particularly over its immediate southern neighbour. At the same time such investment could not have been possible without Mexican invitation and the principles underlying its overall policy. Having examined at length the rise of US investments in Mexico during the Porfiriato in the first chapter, the present chapter examines Mexican response towards US investments (as reflected in the evolution of policies and laws governing direct foreign investments in Mexico) after the Porfiriato, up until the 1980s. It then assesses the attempts by the Mexican State to reckon with US investments through an analysis of the various phases of industrialization in Mexico.
It may be said that the nature of Mexican response in its various manifestations provided an overall position of a largely nebulous attitude to US investments. For the most part, attempts to formulate a general principle towards foreign investment, as will be evident in the course of this discussion, did miserably fail. Even the less ambitious but pragmatic efforts to codify the existing restrictions into a single legal ensemblage could not provide the necessary armour against US interests in Mexico. Each successive Mexican administration preferred to shape its own policy towards foreign investment. That a general statute might expel 'desirable' foreign capital which was considered indispensable for the economic construction of modern Mexico, was almost tacitly accepted by the rulers of Mexico.

For instance, the years immediately following the Mexican independence were, as already discussed, characterized by deep economic crisis and chronic political instability. Suffering from foreign indebtedness, countrywide famine and a largely wrecked infrastructure, Mexico was singularly starved of the domestic capital to embark upon any full-fledged development programme worth the name. An acute condition of under-
development characterized the state of Mexican economy.

In such a situation, to accumulate by cutting back its expenditure on the army or confiscating properties of the church or the Creole bourgeoisie would have been, under the given circumstances, politically impossible. The only option for Mexico was,

...to mortgage itself to foreign bankers and industrialists... The mines were reopened and new agricultural commodity developed... a large proportion of the profits went into the pockets of foreign investors; and whenever revolution interrupted the flow of dividends, there was a threat of foreign intervention.[2]

The ambiguities and anxieties of the Mexicans to US investments may be seen as a product of such a historical configuration.

Moreover, as discussed in the earlier chapter, the Mexican elite, during the Porfiriato, imbibing the Comtian system of positivism as a practical code to progress, undoubtedly paved the way for foreign investment. As aptly remarked by a Latin American scholar, the emotionalism and euphemism generated by the debate


over foreign investment evoked among Mexican intelli-
gentsia even today, are to a great extent, an inheri-
tance from the Diaz days.

ROLE OF STATE IN THE MEXICAN ECONOMY : 1916-1934

In contradistinction to the Porfirian era, the red
carpet that was laid out for foreign investment, was
partially rolled up during the post-revolutionary
period owing to the ideological conclusions within the
country. In the preceding chapter, reference was made
to the internal ideological warfare that shaped the
revolutionary configuration of 1910. The revolution
fiercely attacked the notion of the Porfirian era that
'everything foreign was superior'. The national pride
loathed foreign investors and their activities, so that
the post-revolutionary period steadily sublimated an
emotionality into an elaborate legal policy. Large
scale expropriations became imperative while the for-
eigners' rights on mining, oil and industry were ex-
punged. Mexico began to give an impression abroad that
the "Mexican revolutionary policy was dedicated to the
extirpation of all foreign investment and by extension, all foreign enterprises.

3. See Charles Cumberland, Mexico: The Struggle for
Clearly, the struggle to form a stable Mexican State, waged by Madero and his supporters was not without a war on monopolies and foreign capital while favouring at the same time, agrarian and labour reforms. In this struggle, two dominant political tendencies prevailed: the first represented the force of radical social change with its base among the workers, the landless and the poor peasants, who demanded decent wages and the right to till their own land. The other came from above -- a liberal tendency supported by people who wanted profits to remain within Mexico. The latter wanted to drive out foreign dominance without disturbing the capitalist economic order. They championed revolutionary decrees and populist policies, platitudes and programmes.

The inertia of the revolutionary fervour intensified with the fall of Diaz and provided a historical backdrop to the well known Mexican Constitution of 1917. Promulgated by Venustiano Carranza (who the Americans were quick to recognize) it was a political expression of reasserting sovereign control over its own soil, on the natural resources, raw materials and the economy as a whole.

A new political and military bureaucracy emerged that precipitated into the Partido Revolucionario Institucional (PRI) declaring itself as the official political party of the Mexican State. As a political
force, PRI continued to shape the destiny of Mexico. As a social group, the civil servants and army officers emerged as a burgeoning class of influential Mexicans. The new Constitution was greatly reassuring for Mexican business as it guaranteed its private property. If anything, the Constitution incorporated nineteenth century liberalism and celebrated private property while at the same time professing allegiance to individual Mexican enterprise and free competition.

The major thrust of the Constitution was essentially epitomized in Article 27 which laid the legal basis among other things, for the destruction of the large haciendas and redistribution of land to communal villages and small private holders. It legally established Mexico's direct ownership of surface and subsurface mineral deposits and abolished private rights in petroleum deposits. It sternly stipulated that:

The ownership of the land and waters within the boundaries of the national territory belong originally to the nation, which alone has the right to transmit sovereignty for private ownership.

The nation will have at all times, the right to impose categories of public interest on private ownership, thus regulating the utilization for an equitable distribution of public wealth and safeguarding its own preservation.

Only Mexicans by nationality or of naturalization and Mexican companies have the right to acquire dominion of the lands, waters and their accessories, or obtain concessions in the exploitation of mines, waters, or combustible minerals in the Republic of Mexico. The State will concede the same right to foreigners... in considering them as nationals ... if they do not invoke protection of their governments... Mexico reserves its rights of sovereignty on land within 100 kilometers from its land border and 50 from its seacoasts.[5]

Such a provision in the law of sovereign states restored the Mexicans' right to freedom without qualification but qualified the rights and privileges of foreigners. More specifically, it was known as the Calvo Clause, after the Argentinean diplomat who propounded the principle.

All pleas in favour of the enforcement of the Clause by Mexico were fiercely opposed by the United


6. It is well worth mentioning here that the so-called Calvo Clause represents a cardinal policy in most Latin American countries in that it remains a most successful attempt by the states to protect national interests. However, it has never been recognized as a principle of international law, or established by international agreements or tribunals. For a lucid exposition of the Calvo Clause and its place in Latin American economic history see Donald R. Shea, The Calvo Clause (Minneapolis, 1955) and K. Lipstein, "The Place of the Calvo Clause in International Law", British Yearbook of International Law (London, 1945), 22, pp.131-34.
States. Despite the Clause, and the heavy penalties that were imposed upon its breech, the foreign investors in Mexico seldom displayed any serious concern nor were they deterred in their enterprises in Mexico.

Apart from the incorporation of the Calvo Clause in Article 27 of the Constitution, Article 33 too epitomised anti-foreign sentiment within the country. According to this Article, full power was bestowed upon the president to deport without legal trial, any foreigner whose presence was doubted by the sovereign state. In a somewhat different vein, Article 123 also incorporated an organized legal attempt to counter-balance the free hand of the foreign industrialists. It provided for a sustained programme of labour legislation and indeed remains one of the earliest attempts of its kind in labour history in the world.

The Article forged with it the creation of an organized working class in the country. It was the constitutional concession to an emerging working class consciousness. The Constitution as a whole seen in the context of the impact of foreign capital, was, no doubt, a fine expression of aspirations. However, the chasm between constitutional promise and practical conduct which became pronounced in the case of Mexico, cannot be explained by any simple causality. The reasons were more complex than many critiques of the constitution were prepared to concede. It is, never-
theless, necessary to delineate the various nuances that characterized the Mexican response per se.

THE NATIONALIST INTERLUDE : 1934-1940

The nationalist policies of President Lazaro Cárdenas (reference to which has been made in Chapter I), inspite of their marked limitations, rhetoricized 'Mexico for Mexicans'. Critiques have conferred them the honour of a 'renaissance of the Revolution'. Soon after assuming office in December 1934, Cárdenas set about two important tasks that were for long sidetracked during the period of political consolidation following the Revolution. Very simply, it may be said that this programme focussed upon the redistribution of land and loosening the hold of foreign hands on the country's economy. Whatever may have been the limitations, it goes to his credit that he mounted the most methodical attempt to break foreign monopolies. His period in office was hailed by the Mexicans as the beginning of their economic independence. It was a compulsive campaign on foreign capital to reinvest its profits on Mexican soil. Cárdenas was convinced rightly or wrongly on the conspiracy of foreign capital. He blamed much of the country's economic crises to such a conspiracy.
Besides large scale redistribution of foreign-owned land, there were expropriations of foreign-owned railways and the oil companies, sectors which were predominantly under partial and total foreign control. Under the law, permission as well as concessions for the construction of federal roads, bridges and public transportation were made available to native-born Mexicans only. These attempts resulted in the elimination of one of the largest blocks of foreign capital in the country and represented a giant step in curbing foreign capital in the economy. Expropriations of the principal oil and gas companies in 1938 closed this sector to private enterprises. A wholly state-owned concern Petroleos Mexicanos (PEMEX) was created to take control. The Constitution was suitably amended in 1940 especially Article 27, so that the grant of concessions on petroleum and hydrocarbons were prohibited. By 1948 PEMEX bought up most of the remaining private holdings.

The dependence on foreign capital considerably declined during the tenure of Cardenas due to nationalization of the railways and petroleum and extensive land reforms in agriculture. The distribution of wealth, consolidation of the internal market and strengthening of an economic industrial base provided Mexico in this period the first significant steps for the rise of an independent industrial structure. In effect, by 1940 the final year of the Cardenas govern-
ment, fresh direct foreign investments had substantially reduced. Foreign debt however increased, not due to fresh loans but because of the expropriations in the various sectors and mounting military expenditure. Total foreign direct investment thus declined (from $1,084.2 million in 1935 to $449.1 million in 1940).

As a matter of fact, Cárdenas' era accounts for the most significant decline in the foreign direct investment and a consequent control of the Mexican State. The complexion of the domestic market too considerably changed. Urbanization unleashed the growth of a middle class. From its agrarian past, Mexico graduated into the consumer oriented industrial State. Industry and commerce grew to comprise 31 percent of the gross domestic product. Thus by the end of the Cárdenas era, the role of the State became increasingly significant, as State enterprise spread and federal ownership extended in later administrations to major steel plants, fertilizer complexes, railway equipment factories and several additional banks as

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well as to petrochemicals, aviation and mining. Cárdenas charged the foreigners with indifference to Mexico's economic and social improvement, discrimination against Mexican workers and persistent interference in Mexican politics. The companies' bitter counter-attacks through the press and related economic sanctions by their home governments against Mexico served to deepen the wide-spread anti-foreign feelings and touched off an increased flight of private foreign capital.

The Mexican State which now began to intervene in a determined manner did initiate important changes in the structure of direct foreign investment. At the turn of the century, Mexico was a classic case of exporter of primary products, trading them for manufactured goods from the capitalist countries. However, the Great Depression, coupled with Cárdenas' nationalist stance brought a downturn in such investment and their subsequent repatriation. Thus from 1940-45, increasing emphasis was placed in the production of goods formerly imported, a trend which will be discussed in the next section.

With this state of affairs, one would expect a sharp decline in foreign investments in Mexico during this period, especially from 1926-1940, a period stormed by zealous nationalism and a despise for everything foreign. Cumberland's study of this situation reveals that the anti-foreign fervour in Mexico was more of a myth than reality. In fact, Mexico intended "neither to extirpate private enterprise nor to evict foreign investment". Though the government did intervene in the economic process of foreign investment operations in its country, there was no specific 'plan' as such to do away with any or all forms of foreign capital. Rather, given the poor and disorganized state of the Mexican economy, the government was ready to avail of any opportunity that would provide it with capital and technological resources. As Cumberland summarizes:

Mexico in fact made no attempt to curtail either existing or new foreign investment as such. The issue between the foreigner and the government, if there was one, revolved not around the magnitude nor the nature of the investment, but touched on the nature of the control to be exercised.[10]

Foreign operations thus, which may have been temporarily disrupted or damaged, with their influence in the traditionally dominated sectors declining, did

not however, seem to be affected very much during this period. For had they incurred heavy losses, they would not have been in a position to "immediately, upon the return of the semblance of order on a national scale... initiate ambitious construction and expansion programmes". This was particularly so in the case of American investments. The American administration for instance, from time to time, mobilized strong offensive and defensive strategies in the face of any crisis in Mexico in order to maximize protection afforded to American lives and property. It acted to "preserve and protect American interests in Mexico out of their belief in the crucial importance of foreign markets for national survival".

The total of all direct foreign investments declined considerably between 1926-1940 for reasons already discussed. Yet, in relative terms, this decline can only be considered marginal. For example, at the end of 1940, all foreign direct investments in Mexico were 28.5 per cent of the total in 1911 and 23.5 per cent of the total in 1926.


In this period, the single most important piece of legislation concerning foreign investment in Mexico was the executive decree issued by President Ávila Camacho on June 29, 1944. Generally referred to as the emergency decree of 1944, it was the basic statutory instruction for the regulation of private foreign participation in the Mexican economy. The only prior legislation in the area was the Constitution of 1917 which established restrictions on foreign acquisitions of land holdings, and legislation following the 1938 expropriation closing the petroleum industry to all private investment. The control of the emergency decree was vested in the Ministry of Foreign Relations by virtue of the requirement that the authorization of the Ministry was essential for the incorporation of any Mexican company and for the acquisition by foreigners of certain property rights in Mexico.

During this phase, the Mexican response was typically expressed by the organizational formation of the Cámara Nacional de la Industria de la Transformación (National Chamber for Manufacturing Industries or the CNIT). Mexican business interests joined hands to form a platform or opposition to virtually all foreign enterprises. This group emerged in the mid 1940s with a firm commitment to rapid industrialization of the
country. Viewing foreign investment with increasing concern, they tended to regard the negative effects of foreign enterprises as outweighing the contributions to the industrialization process.

During Second World War, goods traditionally imported could not reach the Mexican shores. With the availability of the domestic market numerous indigenous industries in Mexico registered a growth. But once the war was over, foreign capital began to stage a comeback. The new industrial interests of Mexico that were consolidated in the war time boom launched a sustained campaign demanding state intervention in the economy. The fulcrum of such a campaign hinged on state protection for domestic industry. The nationalist forces decried the "decapitalizing" effect of foreign investments. They urged strict government protection to prevent foreign acquisition of existing Mexican-owned firms and to arrest all foreign investments competing with domestic industries. In a sense, CNIT represented the avante-garde in the nationalist consciousness. The struggle against the ruthless exploitation of the natural and human resources by the giant foreign mining and petroleum companies was already waged.

13. For CNIT's position in the words of its principal spokesman, see Jose Domingo Lavia, Inversiones Extranjeras (Mexico, 1964).
Whatever may have been the extent of such internal pressures upon the State, the government's approach towards foreign investment marked a significant shift in the late 1950s and early 1960s. However, in the economic circumstances obtained in the country, the State attitude towards foreign industrial investment was not exactly identical to that of the indigenous business interests which shaped it. The nationalist sentiment and the logic of the arguments put forward by the business organizations did not and indeed under the circumstances, could not be pushed too far, for the government of Mexico realized the indispensability of capital and technology foreign investors possessed. Clearly, the State could not afford to offend and unduly frighten foreign investors. As a matter of fact, foreign capital inflow accelerated into the decade of the 1950s augmenting rapid industrialization -- a process that had already begun as a consequence of the Great Depression and Second World War.

**Mexicanization**

Until the late fifties, there was little effort on the part of policy-makers to implement measures adopted to restrict foreign investment in industry. At this juncture, the dilemma of Mexico's development was partially resolved by the process of "Mexicanization" (though the process was not entirely without attendant
problems which will be discussed herein). The Mexican State reckoned with the fury over foreign investment by resolving to associate foreign investors with Mexican capitalists and more importantly, assigning the foreign investors a subordinate position in every possible venture.

A rather formal, institutionalized procedure was implicit in the process of mexicanization. Only with the administration of President Adolfo López Mateos (1958-1964) did noticeable shifts in attitude take place and more concrete measures implemented to make "mexicanization" a reality.

Under the procedure, the prospective foreign investor presented a written request for approval of the manufacturing programme to the Ministry of Industry and Commerce. A detailed description of the proposed programme containing such information as the amount of the projected investment in land, plant, machinery, equipment and working capital; a time-schedule for commencing and completing the project; cost-studies showing the distribution of production between items of Mexican origin and imported items as well as relevant price studies was mandatory. The Ministry and its duly

constituted committee usually took between three to six months by way of scrutiny before its final approval.

Needless to say that in each single case, the ministry's approval of a proposal was based upon the percentage of foreign ownership and the percentage of Mexican inputs by way of resources. In the case of the existing industries the percentage of foreign ownership vis-a-vis Mexican remained an important source of reference for granting permission. In companies where Mexican participation was considered possible, attempts were made to increase such participation to as high a percentage as could be.

'Mexicanization' as a term, came to acquire different connotations with varying implications. However, in a very broad and general sense, it referred to the Mexicans' keenness to develop their economy in their own way, in accordance with their own interests and desires. At more specific levels, it referred to any one or combination of the following elements: (1) majority Mexican ownership of equity capital, (2) control of the boards of directors of firms by Mexican nationals, (3) replacement of foreign managers and employees by Mexican nationals, (4) maximum use of Mexican raw materials and component parts (known as 'integration'), (5) adaptation of foreign investors as

15. ibid, p. 158.
individuals to local language, customs, society and perhaps even citizenship and finally, (6) nationalization.

The aspect of Mexicanization which impinged most directly on foreign-owned firms was the need for accepting Mexican nationals as partners. Numerous statements were made by public officials during these years reiterating explicitly that new foreign investments were only welcome in conjunction with domestic capital. By 1960s as more and more foreign-owned firms cautiously began submitting investment projects to the ministry, this clearance process was used to press for the inclusion of Mexican partners in the projects. It was made quite clear that Mexican partnership greatly facilitated the processing of import permits and other governmental benefits. Subsequently, this procedure of reviewing prospective investments was used quite effectively to limit and control foreign investment in industry, through broad legislations, without necessarily prejudicing the investment climate in the eyes of foreign investors.

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17. Wright, n. 14, pp. 156-57.
The specific percentage of foreign capital allowed depended in large measure on the degree of foreign involvement in firms already established within that industry. If some firms did have majority Mexican ownership, then the applicant had to place at least a simple majority of shares in Mexican hands. Some flexibility was, however, permitted in industries where established firms were wholly foreign-owned, or if the application was for a new industry. In these latter cases, the Ministry strived for 35-40 per cent Mexican ownership and up to two years was granted to place the stock in Mexican hands.

There were two notable exceptions to the restrictions against wholly foreign-owned firms. The first allowed such firms to manufacture in the border areas provided they used Mexican labour and exported 100 per cent of their production. In addition, the ministry showed ready willingness to allow a new company to be wholly foreign-owned when 50 per cent or more of its production was exported.

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19. For a more comprehensive discussion on this point, see export promotion industrialization phase in the last section of this chapter.

20. Wright, n. 14, p. 159.
It was in November 1967, that the power of the Ministry of Industry and Commerce was further reinforced thereby all permits by the Ministry of Foreign Relations for incorporation of a Mexican company were to be referred to the former ministry. This applied whenever the incorporator seeking permit was a foreigner or had a foreign word in its name or indicated that it was a subsidiary or an affiliate of a foreign company. The policy of coordination between the ministries progressively made it far difficult for foreign investments to evade control. Another means of enforcing restrictions on foreign investments was the 'New and Necessary Industry Law'. Though it was not written into a statute, the working policy had been that such status will be granted only when a majority of the firm's equity capital was Mexican even though the industry did not fall into a restricted category.

It was under the administration of President Díaz Ordaz (1964-70) that the approval of new investments in manufacturing facilities and substantial expansion of existing operations received an elaborate formalization. In a decree issued by the President on 30 June, 1970, as his administration was coming to a close, foreign ownership in new companies formed in the steel,

cement, glass, fertilizer, cellulose or aluminum industry could not exceed 49 per cent of the capital stock. The Decree provided that at least 51 per cent of the capital stock of companies engaged in the industries cited, had to be subscribed by Mexicans or Mexican companies, whose articles of incorporation contained a clause prohibiting foreign ownership. If the company concerned was a corporation (sociedad anonima), its capital stock had to be represented by two series of shares -- one restricted by the regulations to Mexicans and the other left freely transferable.

Though it was fairly difficult to force mexicanization on previously established firms, governmental agencies could bring pressures to bear especially on those largest and more important companies wherever the firm dealt with the government for import permits, grants of new tax concessions, or when the government demanded integration plans.

Thus the policy of mexicanization became well-entrenched as a long range response. Reversals in such a response were scarcely possible under the circumstances. From the government's point of view, mexicanization was considered a success. There was no lack of

22. Information given by a senior official of the Ministry of Industry and Commerce in an interview with the author.
domestic capital to associate with foreign investors. And therefore, there were no reported cases of failures by prospective foreign investors to enter the economy. At the same time, evidence suggests that foreign firms considered it a necessary prerequisite for having a share in the lucrative Mexican market. Most of the foreigners were, by and large, pleased with their domestic partners.

It appears that the initiative for this new measure (the Decree) may have come, at least in part, from the Mexican industrial sector with the concurrence of the Ministries of Industry and Commerce and that of finance. Almost certainly the Decree and the policy behind it, was understandably championed by Luis Echeverría, the president elect who took office on 1 December, 1970.

The nature and scope of the Mexican response can scarcely be grasped without looking at the triangular field of resistance created by mexicanization, import controls and industrial integration. On the policy front, these three responses were integrally related. It is therefore, necessary to discuss the two other responses in the light of mexicanization.

24. Wright, n. 14, pp. 149-50.
Import Controls

Protectionism had always been a feature of Mexican import policy. But as a specific instrument for import replacement and industrial development, such a policy began to be applied since the Second World War.

With the implementation of this policy, companies that once supplied the Mexican consumer goods market by export sales from their plants in foreign countries were under compulsion to establish production facilities in Mexico. Or alternatively, they were forced to forfeit the market as prohibitive tariffs and import restrictions were imposed on their products. At the same time, companies that entered production in Mexico were assured a protected market amounting in many cases to a virtual monopoly. As of course, this resulted in a substantial increase in investments in the manufacturing sector. Consequently, the import of consumer goods registered a marked decline.

In the forties and fifties, the facilities were often not more than assembly operations. A manufacturer could usually circumvent the import restrictions and obtain protection for his product by installing a plant...

25. Rafael Izquierda had conducted an excellent study of import policy in Mexico. See for instance his "Protectionism in Mexico" in Vernon, n.9, pp. 67-83.
for the assembly or final processing of raw materials and semi-finished goods that were imported. Such goods often came from factories just across the border in United States. Beginning in the early 1960s however, the Mexican government began to move decisively against the indiscriminate assembly plants, and to extend the protectionist policy to secondary and auxiliary industries. As a result of this, new investments were channeled into the production of intermediate goods and integrated manufacturing operations.

The Mexican government however, had preferred to avoid international agreements limiting its powers to regulate tariffs and did not participate in the General Agreement of Tariff and Trade (GATT). In 1960, Mexico did sign the Treaty of Montevideo creating the Latin American Free Trade Association (LAFTA).

Import duties were based on specific and ad valorem compound rates. The latter were based on either invoice price or official price whichever was higher. Official prices were taken from government market studies of current prices that were regularly updated in order to prevent under-invoicing.

While the individual rates varied, in general they were rather high (50-100 per cent or even higher) on consumer goods, items produced in Mexico and luxury goods. More moderate rates were levied on raw materi-
als and on capital goods not produced at all or in insufficient quantities to meet domestic needs. In 1963, an additional 10 per cent ad valorem duty was levied for raising federal revenue. There was also a customs surtax of 10 per cent of the duty levied on imports by mail and 3 per cent on other imports.

Import licensing complemented mexicanization by providing control and enforcement of all governmental regulations on industry. Virtually all large scale modern manufacturers in Mexico imported at least some items. The delays in granting vital import permits served as an effective device for invigilating business practices regardless of their specific relation to importation.

Licences were of course first required in 1947. Subsequently, at least 80 per cent of all products imported into Mexico were carefully covered. The criteria used in granting permits were regulations issued in 1956 by the Ministry of Industry and Commerce, which had almost unlimited authority in this regard. The general assumption was that a licence should not be granted until sufficient reasons were produced to plead for its requirement. Officially,

admissible reasons were the unavailability of the domestic product (except under conditions that compare favourably with the foreign product with respect to quality and time of delivery), lack of domestic substitute and local production insufficient to supply the internal market or temporary scarcities. However, in practice the only consideration of importance was domestic production. If a local producer could demonstrate that he could produce the product or a substitute in sufficient quantity, an import licence was impossible to obtain. Private industry also played an advisory role in the granting of import licences.

**Industrial Integration**

The third level response which was never intended to disrupt the steady growth of the manufacturing industry but to further consolidate the import policy for industrialization was integration. Industrial integration referred to the domestic production of commodity from domestic raw materials, intermediate products and other Mexican-source supplies. It did not necessarily imply that a manufacturer controlled sources of supply and earned through the entire production process -- from the raw material to the finished product stage. It simply meant that the supplies and the intermediate resources were domestically produced or procured rather than imported. The degree of inte-
Migration of a particular manufacturer or industry referred to the percentage of Mexican origin that went into what constituted the end product. In other words, its magnitude was measured in terms of the proportion of its direct cost of production expended in Mexico. For integration requirements, "national direct cost of production was calculated by taking the total cost of direct labour (even if some employees were foreigners), raw materials and components produced in Mexico" even though the latter contained imported components, fuel and power brought in Mexico and a factor for depreciation of machinery, equipment and buildings that could not exceed 10 per cent of the sum of the other direct cost items.

With the promotion of the Industrial Integration policy, new investments in most industries and many established enterprises were affected. The Secretaría de Comercio (Secretariat of Commerce) supervised industrial integration programmes, under which new or existing companies agreed to increase the national content of their product, to limit prices, royalties, interest and other amounts payable abroad; to observe official quality standards and to divest at least 51 per cent of the stock of Mexicans over a given period.

27. ibid, pp. 171; 174-75.
Although the need for industrial integration had become imperative by 1955, little direct governmental action was taken until the early 1960s. Instead, the New and Necessary Industry Law was first used by making its tax exemptions available only to firms which purchased at least 60 per cent of their direct costs in Mexico. However, this produced little effect as firms preferred to forego the tax benefits rather than contend with high cost-low quality domestic production. Government reliance on foreign capital during this period covered the deficit on the current account. It is not entirely clear why direct action was avoided but two important reasons have been suggested: (a) the desire to avoid price increase due to more expensive domestic production and (b) the desire to attract foreign investment.

It was after 1960, when integration became a high priority that direct moves were made to eliminate purely assembly operations protected by tariff walls. Formal requirements for planning and executing shifts to the use of domestic components by specified deadlines were very important to the economy or had very high import requirements. For instance, as a first case, it was the automotive industry. Subsequently electronics, construction machinery, tractors, diesel

engines and office equipment were considered as critical sectors.

In other cases, government threats to allow competitive imports were sufficient to produce increased levels of integration more or less voluntarily. The policy had also been applied to new industries through the procedure of clearing projects before the actual investment took place by the Ministry of Industry and Commerce. In general, the Ministry preferred at least 60 per cent integration, and allowed two years usually from the time production began to reach that desired percentage. However, both these conditions were flexible and could be negotiated. Where such a degree of integration raised domestic prices far above imported prices levels, or where much of the production was exported, of if the industry deemed to be important to economic growth, a certain degree of resilience in the implementation of integration was allowed.

The commitment to the goal of integration was assigned first priority. However, within that goal, the import policy also tilted towards controlling prices especially for rendering exports more competitive. Price controls were of course initiated late in 1950 but the government had always displayed the desire

to protect the lower and middle income consumer by controlling prices of essential goods. The government administration had the power to fix minimum prices in certain categories of products such as basic food-stuffs, articles of clothing, raw materials essential to domestic industry, products of basic industries, goods produced by important domestic industries and generally products that are essential for economic activity in the country.

There was often concerns from industrial quarters over the fact that the Ministry rarely authorized price increases on basic food-stuffs and other generally used consumer items, even when production costs had risen considerably. The consideration of the maximum selling price was one item that received top most attention by the Ministry of Industry and Commerce while reviewing investment projects. This too was a source of concern for the industrial sector.

Whatever be the attempts through import control and integration and the overall apex goal of mexicani-zation, the need for foreign investment for industrialization and economic development was never underrated. Within the field of restrictions imposed, limiting foreign shareholdings in Mexican companies to 49 per cent, Mexico had maintained its characteristic, pragmatic attitude towards foreign investment.
Foreign Investment Commission

In February 1973, the Mexican Senate passed a bill which stated that there could be no cutbacks in the existing foreign shareholding. Curiously some of these ranged up to 100 per cent in Mexican subsidiaries of US companies such as General Motors and Ford. The legislation provided for a New National Commission on Foreign Investment, the Comisión Nacional de Inversiones Extranjeras with authority to allow more than 49 per cent foreign ownership in new investments that could "benefit the country's economy".

This Commission, the Comisión Nacional de Inversiones Extranjeras -- National Foreign Investment Commission (FIC), was set up with the purpose of exercising large discretionary powers granted by the Registro Nacional de Inversiones Extranjeras, National Registry of Foreign Investments. The Commission was established by the Law to Promote Mexican Investment and to Regulate Foreign Investment (the Foreign Investment Law) that was enforced only in May 1973. The FIC had the discretion to determine when foreign investors could subscribe to more than the statutory maximum. A variation could be granted in connection with a new

business organized by foreigners, as well as in connection with the acquisition by foreigners of an existing business. In later years the FIC allowed variations of up to 100 per cent foreign ownership for periods of up to 10 years in new or expanded foreign investments in activities or geographical areas being promoted under the 'National Development Industrial Development Plan' of 1979.

As a matter of fact the 'Law to Promote Mexican Investment and Regulate Foreign Investment' promulgated in February 1973, sought to streamline many of existing laws enacted in the earlier years. This created a National Registry of Foreign Investments "to supervise their implementation and establish cost-benefit criteria upon which to judge the merit of a given MNC Project". This 'criteria' was based on certain strong checks and restrictions regarding operation of foreign capital especially where such capital posed a threat of displacing local capital, affected trade and the balance of payments situation, the level of technology for Mexican national industrial development, the


33. ibid.

Introducing his economic bill in early 1973, President Echeverria stated that:

Our economic objectives are now subject to a new policy which does not seek merely the net increase of the national product or of industrialization at any price. The nation has decided to propitiate a balanced social, cultural, and economic development. [36]

**Echeverria's Response to Foreign Investment**

In June 1973, Echeverría clearly delineated Mexico's economic policy. Private enterprise was urged to nurture the mixed economy of Mexico to its fullest extent. A national supply of a wide range of goods and services, profiting from a burgeoning domestic and exports market had to be ensured. The State continued to encourage private enterprise so that together with public enterprises, and without interferences or duplication, the growing needs of the population and the economy could be duly met. In order to boost national


output, the state pleaded ingenuity and dedication. In the inadequate reservoir of national savings, the economic policies steered towards the participation of private Mexican capital in foreign enterprises already or yet to be established. Such activities, it is pointed out, had to be conducted mainly in those companies where a greater participation of national capital undermined benefits in the quality, supply and price of the merchandise produced. National funds were supposed to give rise to expansions in the productivity facility and outflows. Priority was given to an effective participation of national capital in the administration of the foreign enterprises.

The most 'historic' step however, of the Echeverria period, was the drawing up of the 'Charter of Economic Rights and Duties of the States', which he presented to the General Assembly of the Economic and Social Committee of the United Nations on December 1974. This draft was duly approved by the Committee representing forty nations. It is significant though, that the countries that voted against the Draft were

United States, West Germany, Denmark and Belgium. The Draft clarified the foreign investment policies of Echeverria and testified his liberal reformist stance as well as his ardent championship for a self-reliant Mexico. Among the various proposals set forth by the Draft, outlining the duties of the developed and the underdeveloped countries towards each other, there were four articles which specifically related to the regulation of foreign investment.

The first stated that the exercise of permanent sovereignty of the states over their wealth and natural resources and the right of using them freely was imperative to the development and welfare of their peoples. Secondly, all states had the right to regulate and control foreign investment in accordance with the objectives and priorities of their development plans. Thirdly, no state could plead preferential treatment for its nationals in foreign countries nor make claims on behalf of them. And finally, all states had the right to carry out nationalization programmes involving expropriations to recover resources for reasons of public utility, security, or national interests. It invested in the State the authority to take such measures in the exercise of sovereign rights. It was upto

the State to fix the amount as well as the kind of indemnities as it considered appropriate. Where issues involving indemnity were to come up for litigation, such issues were to be resolved, according to the Draft, in the courts of the countries.

Explicating the Draft, Mexico's Ambassador to US, Jorge Castaneda pointed out that the principles of permanent sovereignty over natural resources could surely be considered as the juridical and political basis of the regulations covering the rights and duties of the states in relation to foreign investments. He reiterated:

Mexico believes that no preferential rules should be established. No special additional guarantees should be requested or granted to foreign nations since from it a special situation of privilege arises, favouring the foreign nations with respect to their nationals. This in the past has been the origin of difficulties and it may be said that the rebellious movements which have taken place in some areas is attributable to that preferential treatment demanded by the developed countries.[40]

President Echeverría himself put the rationale of Mexico's foreign investment policy very candidly when he said in London in 1973 that:

40. An interview with Ambassador Jorge Castaneda, ibid.
At this time, we need more than ever, external assistance, provided it does not mechanically transfer procedures that increase profits and deform development, and much less at the cost of subordinating national decisions to foreign interests. We seek a worthy association between enterprises and foreign capital that would permit us to share experience and markets. We firmly reject traditional foreign ties whereby the powerful nations impose their will on the weaker ones.[41]

The shift from traditional, extractive industries to the more dynamic sectors of the economy such as manufacturing, commerce and other services brought in the operations of the multinational corporations (MNCs) that increasingly controlled foreign capital enterprise in Mexico. In order to manage the MNCs, the Mexican government was willy nilly forced to evolve policy measures and practical steps to contend with the activities of the MNCs. The Mexican government in the post-revolutionary period had had to strive very hard for striking a possible balance between industrialization through direct foreign investment and its political and economic independence. To reconcile these forces, the Mexican government had devised its foreign investment regulations.

41. C.V. Gopalakrishnan, "Mexico's Policy of Pragmatism", Hindu (Madras), 1 Aug. 1973. President Echeverria also spoke in a similar vein at a Press Conference during his visit to New Delhi in the same year.
The repertoire of its regulations were married to two basic objectives. The first of these was to encourage local investors to participate in the activities of the MNCs through joint ventures (discussed under the mexicanization policy). Mexican private enterprise was urged to nurture a 'mixed economy' that would lead to a rapid industrialization in Mexico. The second was the transfer of technology that could spur economic growth and strengthen the technical capabilities of the Mexican industries in the long run.

The export promotion policies (to be discussed a little later) despite legal restrictions, accounted for an overall increase of foreign investment between 1970 and 1980. The stimulus behind this rapid growth was relatively attractive rates of return backed by a demand for the products manufactured not only in the home country but in the world. From the Mexican point of view nonetheless, export promotion led to an increasing diversification of the manufacturing sector. Coupled with this was the Border Industries Programme which assembled component parts sent by industries in the United States, thus using low-cost Mexican labour. This more than doubled the rate of manufactured exports from Mexico. By end of the seventies, US investments in Mexico had reached the $3 billion mark. Other sectors that registered an increased American participation were petroleum, finance, insurance and real estate.
The charter of the law to promote Mexican investment (1973) thus demonstrates that it was selective rather than restrictive. For, although President Luis Echeverria aimed to push the interests of the local bourgeoisie (as well as the State sector) by expanding the scope of Mexicanization and taking a nationalist position vis-a-vis foreign direct investment, 75 per cent of all such investment remained concentrated in the manufacturing sector with 81 per cent of this originating from the United States. Even when the economy was hit hard by the world economic crisis, its investment operations in Mexico remained unaffected. This indicates among other things, the extent to which US investments were entrenched in the Mexican economy and the confidence Americans enjoyed in Mexico.

The seventies accounted for a boom in the Mexican economy. This was mirrored in the growth rate and deeper entrenchment of MNCs that now consolidated themselves. This period also affirmed the orientation of industrial production towards consumer durables and the stability of internal prices contributed to a consistently steady rate of economic growth. Official policy reiterated that Mexico would stick to the pattern of 'mixed economy' which not only gave rise to

an indigenous industrial bourgeoisie but also gave birth to a new and powerful bureaucracy.

Given these conditions it did not take long for international finance as well as transnational capital to establish a hold on the Mexican economy. Whereas the first offered a favourable alternative to public finance, the second became the vehicle for technology as well as producer for manufactured goods, which was to dominate and control the Mexican industrial structure. Hence the continued and largely uncontrolled inflow of foreign capital became the order of the day, though for political reasons, the Mexican State did not consider it prudent to appear to the Mexican public, that it was hospitable towards foreign investment and MNCs. (See Table 2 at the end of this chapter for a description of US investments in Mexico over time).

As though this was not enough, President López Portillo who succeeded Echeverría by the end of the decade, decided to give more freedom to foreign capital in Mexico. Inheriting a crisis ridden economy, with a large balance of trade deficit, unemployment and inflation, the president in his inaugural address stressed the need to further step-up the inflow of foreign capital for solving Mexico's problems, "thus laying the

ideological aspects of the laws of foreign investments completely to a side." The National Foreign Investment Commission which had until now shown less flexibility in granting permits for new investments to hundred per cent foreign-owned firms, now granted them on a case to case basis, if the corporations concerned promised to "mexicanize" within five years or invested later with majority Mexican capital.

Thus despite a tradition of strong nationalism and radical laws on foreign investment, Mexico continued to be attractive to US investors, offering a broad and steadily growing market, unrestricted currency exchange, a cheap labour supply backed by a stable economic and political climate.

By the beginning of the decade of eighties foreign capital in Mexico began to enjoy liberal government patronage. Foreign capital holdings were now allowed to exceed 40 per cent foreign equity participation, a relaxation especially after President Echeverria's administration. The flexibility was extended towards, what was referred to as, "priority cases" such as in


45. ibid.

agribusiness ventures, fisheries, petrochemicals and tourism projects; for small and medium equity capital (i.e. $1,100 to $1.1 million) depending on the nature of industry. In some cases even 100 per cent ownership would be allowed if such capital brought with it technology and capital goods that Mexico could not develop.

Not only did the government relax restrictions on foreign capital, it also encouraged joint ventures. Its incentives towards this included rebates of heavy taxes on raw materials and parts. In addition, if the venture did Mexicanize (i.e. from a majority foreign ownership to 49 per cent only) the government then provided a 25 per cent investment tax credit, a 20 per cent employment tax credit, 30 per cent discounts in energy costs and other benefits. In this way even the hundred per cent owned foreign investment projects found it more profitable to invest in joint ventures. As put by one foreign executive in Mexico, "there is an advantage to being wholly-owned because you don't have to deal with partners, but by "mexicanizing" we could


diversify into other lines of business, borrow more easily from Mexican banks and win the good will of the government.

This summarizes the foreign investment ethos in Mexico, and the rapid growth of US investments. Though more and more Japanese and European investors were scrambling to form joint ventures with Mexican groups especially in the hope of sharing in the 'economic boom' paved by Mexico's discovery of significant amounts of oil, foreign investment here was still spear-headed mainly by United States companies concentrated in five sectors namely, chemicals, automotive industry, followed by electronics, machinery and processed food industries.

THE PROCESS OF INDUSTRIALIZATION: VARIOUS PHASES

Without in anyway underrating the legal restrictions enacted by the Mexican State, it must be mentioned that despite steps, the MNCs had proliferated and maintained a pragmatic relationship with the Mexican economy. Notwithstanding its legal strictures, relating to direct investments, patent rights and technology transfer, the Mexican State could not possibly deter the growth of the American MNC activities within the Mexican economy. As a matter of fact, the

50. Noticias, 8 October 1981.
rise and growth of American MNCs became inextricably linked up with the process of Mexico's economic development. If anything, Mexico's internal policies could only marginally influence the direction and sectoral distribution of foreign investment in Mexico within the overall trends in international capital market. The growth of US investments in particular, can possibly be categorized into three major phases and interestingly they more or less overlap the broad phases of industrialization in Mexico.

The first was the primary product export phase beginning in the 1880s and lasting till 1930. The second may be discerned in two distinct stages of horizontal import substitution (1930-1955) and vertical import substitution industrialization (1955-1970). The third and most recent phase is diversified export promotion (1970-present). Though each of these phases had its own internal dynamics, the participation of foreign capital in the different periods with almost equal rigour remains a major underpinning of the Mexican case. Whereas in the primary export phase foreign capital was heavily involved in the traditional sectors of mining, railways and other extractive sectors, in the import substitution industrialization (ISI) and the export promotion (EP) phases, foreign capital was ploughed into the production of intermediate goods and establishment of manufacturing industries respectively.
This section however, focuses on the import substitution and export promotion phases.

At the turn of the century, Mexico undoubtedly, was a classic case of an exporter of primary products such as silver, gold, copper, lead, zinc, etc. Mineral exports were the most important sources of export earnings that were spent to pay for manufactured goods. Until the Mexican revolution, mining was predominantly controlled by foreign capital especially that the United States which accounted for at least 60 per cent of the total investment mining. From the Mexican Revolution to the beginning of the Depression, there was a sharp decline in direct foreign investment. The great Depression in the United States and the nationalist fervour which coincided with the Depression were to account for the downturn in the foreign investments and their subsequent repatriation.

Horizontal Import Substitution Industrialization

The transition to horizontal ISI had its beginnings in the phase of primary product exports when manufacturing ventures sprang up during the mineral export phase. The horizontal ISI focused on local production of consumer nondurables and the local assembly of consumer durables. It was when export orient-

ed growth became untenable that the growth of local manufacturing of light consumer goods became the dominant aspect of development. Mexican responses that we have already charted, were instrumental in steering the economy out of the primary export phase.

The nationalization programme of Cardenas, especially that of the petroleum industry had already instilled doubts among foreign investors. Many of them harboured the fear that the socialist rhetorics of the Mexican Revolution might translate into social reality. It is indeed not surprising that US investment in Mexico had dropped by 50 per cent between 1929-46 most of which can be accounted for by the elimination of petroleum holdings. It was not until the more pro-business regime of Miguel Aleman (1946-52) that foreign investors considered Mexico with the same prospects as had prevailed during the Porfiriato. The period of horizontal import substitution industrialization which was marked by the strengthening of the local business class ostensibly, though not really, diminished Mexican dependency. It was also the period in which foreign investors, keeping in tune with the Mexican expectations seemingly played a more positive role.

The Second World War period, as we have already mentioned, generated demands for raw materials and provided new markets for primary exports, while at the
same time diminishing competition from imports within the domestic market. This was a period of optimism for the Mexican business class. It is within such an optimism that the perspectives of successive Mexican administration by Ávila Camacho and Miguel Alemán may be seen. In contradistinction to Cardenas' administration, there was an open favouring of foreign participation in Mexican economy. Foreign investment began to grow rapidly during this phase perhaps for the first time since the Diaz era. This period initiated important changes in the origin and destination of foreign direct investment in Mexico. In terms of origin, the most significant development was the sharp ascendancy of US investments superceding all other foreign investment in the country immediately after the Second World War. Despite differences in domestic politics and investor reactions to it in the early part of this period together with the import substitution activities in Mexico, direct US investments rose unabatedly in the post Second World War period (See Table 2).

It must be mentioned here that amongst other factors responsible for the rise of direct foreign investment in industrial activities, the most significant one lay upon the strength of the indigenous growth
that took place in Mexico through the process of ISI. The indigenous development of an infrastructure during the depression period and the world war strengthened by Mexican capital, prepared grounds ideally suited for DFI to go into industry. Industry, not mining now became the most promising and profitable sector. As Pescador Castañeda observed, the

favourable climate for foreign investment like the enlargement of the economic infrastructure carried to unprecedented limits, and the fiscal and protectionist facilities stirred confidence in the foreign capitalists who augmented in a significant manner their investment in Mexico (translation mine).[53]

Thus, between 1940-50, foreign investment in the manufacturing industry in Mexico tripled to nearly $100 million, stimulated by conscious policy of substituting for imports mostly in consumer goods. By 1952 foreign investment in manufacturing had doubled again, owing to the open door policy towards foreign invest-


ment adopted by the Alemán Administration. Foreign investment laws during this period were no doubt unprecedentedly relaxed.

**Vertical Import Substitution Industrialization**

The shift from the horizontal to the vertical ISI must be seen in the context of the serious recession which Mexico suffered after the Korean war boom was over and the demand for Mexican exports had considerably shrunk. In fact; in the year 1954, the pressure arising out of the balance of payments forced Mexico to devalue its peso by 50 per cent. It is important to note that Mexico’s foreign trade until 1940, enjoyed a positive flow in its balance of trade with exceptions during 1942 and 1943, the period of the Second World War. Table 3 shows the trend of foreign trade from 1921-73, indicating the growing deficit in its balance of trade position that forced the policy makers to shift the development strategy.

It is against this backdrop that vertical import substitution was geared to plug the big drain on balance of payments by broadening the range of local production. It was essentially meant to build up local manufacture of the capital and intermediate goods which were previously imported. The emphasis in this phase was on internalizing all phases in the manufacture of
consumer goods and integrating backwards in the direction of intermediate products and capital goods.

The automobile industry for instance, is an apt illustration of the policy of vertical import substitution. This involved superior technology and capital intensive industry even more that what the horizontal ISI had required. The American MNCs were a natural ally to translate such a policy into practice. On their part, the MNCs concerned were only too eager to respond as the growth of investment in the core countries, especially the United States, did not require all the resources at their disposal.

The shift in the policy of the Mexican State in favour of foreign capital, as it were, buttressed the latter wittingly or unwittingly, to establish its stranglehold in the critical sectors of the economy. The Cárdenas era had greatly augmented the power of the Mexican state which had made alliance with the private sector and carried out its spheres of support from the workers and peasants in order to augment its policy of horizontal ISI. There was a considerable shift now in the content of the State policy which began to

55. Gereffi and Evans, n. 51, p. 33.

56. Fernando H. Cardoso & E. Faletto, Dependency and Development in Latin America (California, 1979),
subsidize imports of machinery and equipment in order to encourage manufacturing. Inviting it through the medium of foreign capital, the Mexican manufacturing increasingly relied on sophisticated technology from abroad.

The indispensable need of technology in the desired economic development and the burdensome conditions under which it needed to be imported was evident when the Mexican Congress passed a technology transfer law with immediate effect in December 1972.

The legislation officially termed the "Transfer of Technology and the Use of Exploitation of Patents and Trademarks was born out of the resolutions adopted during the Third United Nations Conference on Trade and Development in Santiago, Chile. It sought approval of all technology contracts by the Secretariat of Industry and Commerce and for the first time imposed substantive

57. The term 'technology transfer' covers the whole package of technical and managerial knowhow that flows into the overseas operations: formulae, processes, engineering, operating manuals, workers training, executive development, financial expertise and organizational techniques. It embraces the skills transmitted by retailers as well as industrial concerns such as inventory controls, market research and consumer credit. "Mexico", Business Week, Advertisements, No. 2273, 31 March 1973, p. 46.

58. El Gobierno de México, "Ley sobre el registro de la transferencia de tecnología y el uso y explotación de patentes y marcas" (Mexico, 1973).
standards and a prior registration requirement on all licences of patents, trademarks, technology and managerial services.

It was clear that the government had no intention of curbing the purchase of technology, but would use the legislation to help private businessmen acquire better technology under the best market conditions. Mexico paid an estimated $200 million per year, for foreign technology rights. In general terms, the new law was directed to help Mexico overcome certain development and foreign trade obstacles, and permit the purchase of technology contracts which reinforced the vertical ISI (and also established the basis later for the export promotion industrialization) policy of the government. It aimed at stimulating the creation of Mexico's own science and technology infrastructure, allowing for the adaptation of foreign technology to local conditions and needs.

The law also provided for creation of the National Registry for the Transfer of Technology. Companies relying upon foreign technology or acquiring new or additional technology from abroad had to submit details

59. José Campillo Sainz, "New Legislation -- Technology/Foreign Investment, Business Week, No. 2273, 31 March, 1973, pp. 63-64. (Sainz had been the under secretary of Industry, Mexico). Also see 'Transfer of Technology: Mexican Way', Hindu (Madras),
and the terms of the contracts involved to this agency. A margin of flexibility however, was offered by the law, allowing the Secretariat of Industry and Commerce to make exceptions when the technology involved was of particular interest in creating employment, aiding the balance of payments or spurring industrial development. It also allowed for the use of foreign technicians to install plants and machinery or to carry out repairs. It made concessions for the furnishing of designs, catalogues or similar accessories, necessary for the installation of machinery and equipment, the instruction and training of technical personnel and the establishment of training centres for unskilled labourers. The so-called 'in-bond' assembly plants were however exempt from registration. They followed special laws which regulated their operations.

Members of the Registry were obliged to guard technical processing secrets referred to in the contracts. Moreover, the relationship between foreign companies and their fully owned subsidiaries was indeed a complex one. The price of the technology was also irrelevant in this relationship, because given the free exchange, any amount that could not be remitted as royalty, could be sent abroad as profit, both royalties and profits being taxed at the same rate (of 42 60 per cent).

60. Hindu. n.59.
Thus DFI began to flow into the Mexican economy at an unprecedented rate (Table 2), replacing horizontal with vertical ISI. This new type of industrialization focussed upon capital goods, not to speak of the intermediate and consumer products such as automobiles. At the same time,

horizontal ISI had encouraged protectionist policies for the consolidation of the domestic market and for public and private internal accumulation. The only way for foreign investment to get around the tariff wall, was to supply the necessary, sophisticated technology and manufactured goods for the peripheral countries’ vertical industrialization.[61]

The MNCs’ ready response to this was also linked to the fact that the growth of investments in their home countries and their success abroad increasingly depended on vertical integration of their subsidiaries.

Thus, encouragement of foreign capital in select sectors along with State participation in other sectors resulted in three-quarters of foreign investment, mainly American, to concentrate in manufacturing. The government, with the idea of reducing dependence on imports of equipment and also development of backward linkage industry, began to give priority to imports.

This trend coincided with the rise in importance of the new growth industries within manufacturing based on import substitution -- chemicals, metals, machinery and transportation. The traditional sectors -- food, clothing, and textiles -- were eclipsed and their share of total manufacturing value added declined.[62]

Mexico's industrial bourgeoisie had aligned with the MNCs by consolidating common grounds. During the period of vertical ISI, there was a marked rise in local manufactures. Conversely, imports had distinctly fallen, However, DFI burgeoned while local manufacturing increasingly became foreign owned. Some scholars have characterized the initial period of the vertical ISI phase as 'the internalization of imperialism,' or the "internationalization of the internal market". The vertical ISI as a strategy epitomized a "triple alliance" of State, MNCs and local capital. It represented the historic stage of "dependent development" in all its characteristic contradictions.


64. Cardoso and Faletto, no. 56, pp. 149-71.
The consequences of such a strategy including that of denationalization (which will be discussed in Chapter IV) evoked sharp nationalist reactions. There was a pattern in Mexico of nationalist periods intermittently alternating with reconciliatory policies towards private capital in general and foreign capital in particular. Sometimes the same administration vacillated between the two contradictory and mutually irreconcilable positions. For instance, López Mateos, like Ruiz Cortines shifted from a nationalist stance to a reconciliatory concern. López Mateos made it clear that he was governing "on the extreme left within the constitution". At the start of his term in December 1958 an estimated $250 million from Mexican private sector fled the country. His attempts to cut back the role of DFI in Mexico further aggravated the situation and capital continued to move out of the country. This rapidly resulted in a near crisis situation forcing Mateos to not only revise his stance but to publicly assure support for the Mexican private enterprise.

It was clear by the late 1960s that vertical ISI proved incapable of resolving the internal contradictions and the increasing imbalance in the economic relations of Mexico with the external world. The rise in inflation in the country was coupled with a chronic balance of trade problem. At this time,
reduced levels of profits in the core (US) and increased confidence in the profitability of manufacturing in the semiperiphery (Mexico), made it possible to gain the cooperation of the MNCs in the promotion of the manufactured exports.[65]

Export Promotion Industrialization

Diversified export promotion that followed vertical ISI was very different from the export-oriented growth of the primary export phase. Its salient feature was increasing diversification of exports rather than of single commodities along with expanded local production of capital goods (and increased importance of finance capital relative to DFI). It did not entail the rapid implantation of new technology rather, Mexico became a sourcing base for MNCs and their subsidiaries. The MNC subsidiaries in Mexico played a role that was more or less determined by the plans of the parent MNCs. The MNC manufactured exports from Mexico were more often than not intra-firm sales between affiliated corporate units. The markets in which these subsidiaries sold their products were less under the potential political control of Mexico and more under the administrative control of individual MNCs.

65. Gereffi and Evans, n. 51, p. 42.

66. ibid, p. 33.

67. I am grateful to Gary Gereffi, in my discussions with him, for drawing my attention to these aspects.
In the capital goods sector however, the vertical ISI efforts continued after 1970. President Echeverría continued to push the interests of the local bourgeoisie as also the State sector by expanding the field of mexicanization and reiterating the nationalist stance vis-a-vis DFI. By 1976, when López Portillo entered presidency, the costs of pursuing a nationalist course, were amply evident and the compulsions for a conciliatory stance could scarcely be avoided.

The impact of the new flexibility awarded to foreign investment by the Portillo administration mirrored itself in the sudden spate in US firms' plant and equipment spending in Mexico. Manufacturing again accounted for the greatest gain registering an 85 per cent increase. The sectors within manufacturing that contributed most towards this were food products, machinery and transportation. Thus the significance with regard to the sectoral distribution of US investment in Mexico is not only that it continues to remain in manufacturing but also that it specialized further in only certain areas of this sector and not in others. This is a historical configuration produced by the repertoire of policies followed by the successive Mexican governments and the ensemblage of strategies by the foreign investors to contend with Mexican attempts.

68. 'Costs' refer to, for instance, balance of payments deficit, inflation etc., discussed in the following pages.
The foreign investors' shift from ISI to EP industrialization was a direct result of the governments' concern over the domineering hold that foreign investors began to enjoy in equity capital in Mexican companies. As in the earlier transitions, the balance of payment difficulties caused in part by shifts in the international economy combined with domestic inflation, a lack of capital and technology created pressures for the shift. The direction of change often brought the State policies and the MNCs' global strategies to a remarkable convergence. Consequently, the overall level of dependency scarcely diminished in the later years.

Reviewing the various phases in the process of industrialization and the Mexican responses to US-owned operations, the following observations can be drawn up. First, there was a major difference in the way in which manufacturing investments were seen vis-a-vis the extractive enterprises. There is no doubt that raw material investments by way of their sheer size and visible endeavours became very prominent in the economy. Secondly, the nature of their operations necessitated taking physical command of large tracts of territory. However, these reasons still do not provide sufficient explanation of the lesser hostility in the Mexican response towards US investment in manufacturing facilities.
As it happened, the raw material industries were by and large well entrenched before the First World War whereas manufacturing did not appear on the scene until after the Second World War. Perforce the time lag and the alteration in the perceptions of the Mexican political elite did impinge upon the differentials in the attitudes towards extraction vis-a-vis manufacturing. Yet another difference between the raw material and the manufacturing industries that contributed to the difference in Mexican reactions towards these processes was in the very nature of the investment itself. The production of raw materials did not very much change over time except for occasional enlargements whereas manufacturing was marked by continual change and shifting lines of products. Enterprises that were import replacing in purpose, over time turned to diversified exports. Such aspects provided the leeway for manufacturing to project a renewal in the contributions of the foreign investors. Their projected image more often than not reflected their positive aspects and strengthened the negotiating position of the investors.

In the decades following the Second World War, the process of ISI entailed the mobilization of considerable amounts of capital and the creation of fairly complex organizations such as in chemicals, automobiles, and farm machinery. Very often, having established themselves in the climate of concessions allowed
to them, their commitment to the agreed objectives often changed quite rapidly. Within a few years after the end of the Second World War, pressures were built upon the foreign investors using alternately the carrot and the stick approach -- sometimes threatening to limit or terminate the operations of a subsidiary, sometimes offering added protection and more profits to the subsidiary that complied.

Pressure of the government was not the only factor that brought about industrial integration in Mexico. The problem of quality control and production costs also contributed to the sanction for manufacturing operations through the process of integration. Though some US parent companies saw a problem in placing capital under such conditions and strictures, not much of their capital was actually at stake. Even so, the US government generously insured such ventures at least against non-commercial risks. In addition, US tax laws were quite favourable in their treatment of profits from Mexico. Export promotion however, opened up new problems in the Mexican policy towards US MNCs. For some products it was perfectly feasible to consider developing major export markets without the help of

MNCs. For other products, and the ability to develop exports, the dependence upon MNCs was near total. The crucial differences resided in the actual exports involved. In order to sell some types of products in the world market, Mexican producers had to comply with the international standards and sell at internationally accepted prices. For certain other products that were unstandardized, the reliance on marketing processes and procedures grew enormously. The foreign buyers for such products had to be made familiar with the specifications, quality and availability of these products. The MNCs were best placed to handle these aspects making their services thus indispensable. The MNCs no doubt enjoyed clear advantage in undertaking the export of manufactured goods. They contained within them the necessary web for the transmission of credible information and the necessary networking to link production with the market.

In short, the US MNCs, owing to their obvious advantages, managed to maintain a place for their subsidiaries in Mexico. But in the backdrop of the Mexican response, they were willy nilly forced to undertake a constant change in their investment strategies. This must also reflect the inner organizational resilience in the very structure of the MNCs. When Mexicans believed that the capital, technology and markets the MNCs provided had depreciated in impor-
tance, the MNCs constantly renewed their position by new incentives. As discussed in this chapter, the various strategies of investments were responsive to the real forces operating within Mexico. By no means were MNCs inclined to limit themselves to one set of activities for to do so, would have put their position in the Mexican economy in serious peril. On the contrary, MNCs moved on or were pushed into deeper and more complex production processes covering an array of areas. In the light of the substantive evidence presented in this chapter, it may be stated that US MNCs in Mexico displayed a remarkably high degree of resilience. There was no obstinacy on their part to stick to old lines of production and patterns of marketing. Therefore, the history of direct foreign investment in Mexico and the related Mexican response can scarcely be separated from the manner in which MNCs reckoned with the conditions obtained within Mexico.
### TABLE - 2

**TOTAL & SECTORWISE US DIRECT INVESTMENT IN MEXICO 1897-1980 SELECTED YEARS**  
*(millions of dollars)*

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**A.** The sectors of Trade, Finance & Securities are shown together until 1964.  
**b.** After 1958, sectors of Agriculture and Other Groups are shown together.  
**c.** n.a. indicates information not available.

**SOURCES:**  
1. For the years 1897 and 1908, Cleona Lewis, *America's Stake in International Investments*, (Washington D.C., 1938), pp.609-10.  
2. For the years 1911 and 1914, United Nations Department of Economic and Social Affairs, *External Financing in Latin America* (New York, 1965), Table 14, p.15 and Table 29, p.17.  
TABLE - 3

FOREIGN TRADE IN MEXICO: 1921-1973
(millions of dollars)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>IMPORTS</th>
<th>EXPORTS</th>
<th>BALANCE OF PAYMENTS</th>
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<td>1921-1925</td>
<td>893.0</td>
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<td>852.0</td>
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<td>8784.6</td>
<td>5091.9</td>
<td>0.58</td>
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SOURCES: 1. For the years 1900 - 1949, Secretaría de Industria y Comercio, Dirección General de Estadística, (México D.F., 1951).