CHAPTER IV

PROCESS OF DENATIONALIZATION IN THE MEXICAN ECONOMY
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The preceding chapter examined in detail the *modus operandi* of US MNCs in securing their entry and subsequently their predominant position in the Mexican manufacturing sector. In establishing themselves they played a determinant role in the growth pattern and composition of not only their investments but also in the structure of manufacturing in the Mexican economy.

The foreign investment operation in Mexico discussed earlier, did not involve the simple export of capital from parent to the host country. Investments shifted from traditional to newer modes in burgeoning areas buttressed by the MNCs. These MNCs came to acquire a historical significance in that Mexico was now irreversibly integrated into the orbit of an international market.

The MNCs in the less developed countries are often seen to bring with them, through their operations, the much needed capital and technology which these countries do not possess. In other words, MNCs are hailed as harbingers of productive forces, the unleashing of which is considered a catalyst for economic development. The present chapter seeks to interrogate the
substantivity and examine the veracity of the above position. The reason for this is obvious. The implications of the evaluative argument over MNCs and their operations have a direct bearing on the future of development and its possible trajectory in less developed countries.

The analysis in Chapter III on the impact of US MNCs on the Mexican manufacturing sector indicated that MNCs had an effect that was detrimental in character for the Mexican manufacturing sector especially as indigenous enterprises were taken over and foreign indebtedness incurred. There is undoubtedly, a lack of scholarly consensus over MNCs' contributions to the host economies. Whatever the evaluation of MNC contribution, the companies, at least in Mexico, continued to exert influence irrespective of political or economic impediments. On the strength of substantive evidence gathered in the present study, it is argued that such unchecked and uncontrolled operations by the MNCs created in the host economy a process of denationalization.

THE FRAMEWORK OF ANALYSIS

An attempt is made here to explicate the conceptual framework of analysis of the study wherein denationalization is a critical issue. The analytical value of denationalization as a heuristic device to
conceptualize the complex historical processes in Mexican economy during the period under consideration i.e. post-independence to 1980 (until the debt-trap crisis in 1982) is further elaborated. It is imperative to mention here that the concept of denationalization has a contextual relevance and theoretical adequacy pertaining to the period of study in the Mexican economy. It does not possibly exhaust alternative inferences regarding the role and repercussions of multinational corporations in other areas of the third world nor does it foreclose other ways of analyzing MNCs in particular historical conjunctures. After all MNCs by themselves do not possess any intrinsic economic dispensations for the host countries. The degree of technology transfer, extent of import to the host economy that MNCs purport to offer or are even wooed for is subject to the specific historical, social and political conditions objectively obtained in the countries of operation.

In discussions relating to development, the influence of foreign capital and multinational corporations on third world economies has, no doubt, been debatable. One major approach which has within it several viewpoints, argues that MNCs are historically inevitable harbingers of much needed capital and technology catalyzing the process of economic development in the third world countries. This may be seen as the neoclassica
viewpoint which considers stimulation of economic growth as a key to economic development through the maximum and efficient use of world’s resources.

In this context the transnational perspective generates a specific theory of international development. According to this, as economies of developed nations become more service oriented, and as their labour costs continue to rise, manufacturing migrates to the lesser developed countries. One of the transnational actors, the multinational corporations with their massive resources and mobility of productive facilities are said to have an edge over national economies. Therefore, rather than seeking to control and restrict the operation of multinational corpora-

1. This is best exemplified in the writings of Ragnar Nurkse, _Equilibrium and Growth in the World Economy_ (Cambridge, 1961); Gerald Meier, _The International Economics of Development_ (New York, 1968) and Gottfried Haberler, _International Trade and Economic Development_ (Cairo, 1959).


tions, underdeveloped countries are expected to encourage their growth and expansion. This model of development is largely influenced by the neoclassical approach. The mechanism of development here, emphasizes transfer of capital, technology and managerial skills from developed to the underdeveloped countries. And MNCs are seen as key actors in the process of such transfer. Such a perception however, poses some basic problems. First, it is state action that establishes the global framework within which MNCs have been able to grow. Again, it is state action that is responsible for maintaining situations that are favourable to the continued expansion of the corporations. In fact, periodic interventions of the state are necessary for adjusting and correcting the imbalances of monopoly capitalism.

Secondly, one cannot understand the interests MNCs represent unless one locates these interests within national social structures. The framework of international development as described above, does not attempt to locate it within the social structure of either developed or underdeveloped countries. Third, such a framework may possess limited historical validity and

analytical grounding especially with reference to the Mexican situation. The reason for this is that it tends to uncritically assume that the path of economic development in developed countries is a natural, universal model for underdeveloped countries to emulate. It thus fails to anchor the economic processes of production and distribution in a historically specific social system. At the same time, it avoids an analytic understanding of the national, political and social foundations which are decisive factors for the success of international development itself. It is in this context that the present study devotes a great deal of effort in constructing a socio-political and historical configuration of Mexico since the Porfiriato in Chapters I and II as also the subsequent changes in that configuration.

In contradistinction to the aforementioned neoclassical perspective of international development, is the structuralist approach concerned with the elaboration of structures of dependency and dominance on a global scale. Its intellectual heritage lies in the critique of the developmentalist perspective of neoclassical model of development, articulated in the works of Paul Baran, Andre Gunder Frank, Theotonio Dos
Santos, F.H. Cardoso and Enzo Faletto and other theorists of dependencia. The most significant, distinctive feature of the structuralist theories is that they have never been plagued by the artificial separations of economics and politics. By viewing the world from a standpoint of the underdeveloped nations, they have been consistently sensitive to the intertwining of politics and economics in world affairs.

However, within the structuralist framework there exists a whole range of analyses from the liberal to the radical that have given rise to various theories of dependency. The condition of dependency, it has been argued, encompasses all or most of the following features:


a. From their common historical background (colonization), less developed countries (LDCs) inherited particular structures of production and trade, notable among which was the production of primary commodities (raw materials and foodstuffs) for exports to the developed capitalist economies.

b. They were initially dependent on imports for their requirements of manufactured goods. With the gradual establishment of import-substituting consumer goods industries, they became dependent on imports of intermediate and capital goods.

c. Partly as a result of industrial development, they became heavily dependent on imports of foreign technology. This form of dependency covered many other spheres of economic activity -- agriculture, communications, education, medicine, and so on.

d. The LDCs gradually became deeply embedded by foreign capital, largely through the multinational corporations with its associated patterns of production, technology transfer, marketing, expertise, etc.

e. Because of their inherited structures of production and trade and their penetration by foreign capital, LDCs experienced a drain of surplus, the result of unequal exchange and profit repatriation by MNCs.

f. At a very general level, there exists a condition of cultural, economic, social and political dependence. Nominal political independence, if any, has been gained by all but a few LDCs, but this has not matched with economic independence, a socio-economic condition which was conceptualized in terms of 'neo-colonialism'.[9]

9. In a resolution at the All-African People's Conference, Cairo, 1961, 'neo-colonialism' was first defined as 'the survival of the colonial system in spite of the formal recognition of political independence in emerging countries which became the victims of an indirect and subtle forms of domination by political, economic, social, military or technical means. Quoted in C.Leyes, Underdevelopment in Kenya: The Political Economy of Neo-Colonialism (London, 1975).
Dependency theory has itself originated within the historical experiences of the Latin American and the Caribbean countries. According to Leys:

The mainstream of UDT (underdevelopment and dependency theory) can thus be seen as eventuating in radical structuralism -- i.e. as a structuralist analysis of the obstacles to capitalist development in the Third World in which progressively more and more of what were originally seen as means to structural change -- international manufacturing companies, third world governments and the interests they mostly represent, etc. -- come to be seen as yet further structures which themselves need to be changed.[10]

Dos Santos defines dependence as a 'conditioning situation', in which the economies of one group of countries are conditioned by the development and expansion of others'. That is, dependence is structurally based on an international division of labour which sets into motion two contradictory and diametrically opposed processes. While it allows rapid industrial development to take place in some countries, it restricts the growth of industry in others, 'whose growth is conditioned by and subjected to the power centres of the world'. The causes of dependency however, cannot be viewed as purely external in character.

The concept of dependence must objectively take into account the structural articulation of dominant interests in both the metropolitan centres and the corresponding dependent societies -- domination is only possible when it is supported and indeed legitimized by local groups and fractions of local capital which profit from it. This explanation of dependency and dependent development thereof, marked an analytical break with the approach where a mechanical determination of internal by external structures dominated the explanations offered for instance by the traditional left in Latin America, chartering in particular the well known works of Andre Gunder Frank.

The most influential and sophisticated presentation of dependency as an analytical framework is to be found in the work of Cardoso and Faletto. Their theoretical approach is by its very logic, both 'structural and historical'. They argue that the mechanisms that perpetuate situations of dependency without, and the related processes within the country cannot be analyzed in isolation. The conditions of neocolonialism thus depend, inter alia, on a complex constellation of

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historical forces -- the forms of local economies colonized or otherwise incorporated into the global capitalist system, the response of these economies against their incorporation, their political dynamic and their attempts at pursuing alternative strategies. More importantly they argue:

We conceive the relationship between external and internal forces as forming a complex whole whose structural links are not based on mere external forms of exploitation and coercion, but are rooted in coincidences of interests between local dominant classes and international ones, and on the other side, are challenged by local dominated groups and classes. External domination in situations of national dependency (as opposed to purely colonial situations where the oppression by external agents is more direct) implies the possibility of the 'internalizations of external interests' (emphasis mine), [12].

In their analysis, a system is dependent when the accumulation and possibilities of expansion of capital cannot find its essential dynamic component within the circumscribed limits of the system. The dominant centres of world capitalism possess, by definition, the technological and financial sectors essential to production and capital accumulation. Even the semi-industrial LDCs, however, remain dependent as their capital goods sectors are not strong nor stable enough

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12. Cardoso and Falleto, n.6, p.xvi.
to ensure the "continuous advance of the system, in financial as well as in technological and organizational terms". The development of industrial capitalism in the LDCs thus creates "concrete situations of dependency with features distinct from those of advanced capitalist societies". In particular, there exists a reliance on the manufacture of products which in the centre are mass consumed but which in the periphery are typically luxurious consumption.

Cardoso and Faletto argue that dependent capitalist development is characteristic of those Latin American economies where development produces as it erodes, in a cyclical way, wealth and poverty, accumulation and shortage of capital, employment for some and unemployment for others. Development in this context, means the progress of productive forces, mainly through the import of technology, capital accumulation, penetration of local economies by foreign enterprises, increasing numbers of wage-earning groups, and intensification of social division of labour.

Such a path of development, more often than not, fails to achieve a more egalitarian or just society or solve basic problems for the majority of the populations who may be scarcely integrated into.

13. ibid., p.xxi-xxii.
the corporate sectors of dependent economies. Most of the developing countries (e.g. Mexico, Brazil, Taiwan, Korea etc.) whose industrialization patterns was dominated by foreign investment right from the beginning, may have established a reasonable industrial base along with high growth rates; however the nature of capitalist development and the industrialization pattern in these countries is of a specific historical nature and does not necessarily exhaust the possibility for alternative paths of industrialization.

In this particular pattern of dependency, the nature and scope of development is largely a function of and determined by the rate of capital and technological inflow from abroad. For instance, if there was a sudden break or critical interruption in the rhythm of such inflows, there would be no safeguards against a financial collapse of the economy (the Mexican crisis of 1982 is an apt illustration). An obvious aspect of the financial crisis resulting from the process of dependency is the fact that MNC assets in the host economies are safely transferred to the metropolitan centres abroad while leaving dependent corporate sectors disabled. It is under such circumstances that gearing industrialization to export-led growth, liberalizing imports etc. presuppose embarrassingly large loans through organizations such as the World Bank and IMF. Thus the legacy of dependent capitalist
development becomes *sui generis* wherein dangers of a debt-trap cannot possibly be escaped by merely inviting foreign capital and technology MNCs. It is within the purview of such a dependent development that the broad framework of analysis of the present study on the Mexican economy lay.

The case of Mexico, in this sense, represents a classic example of foreign investments and MNC operations that were associated with the process of post-independent Mexican development. Mexico, as a result of this association, no doubt scaled the ladder of industrial development and economic growth vis-a-vis other third world countries where MNCs were not so actively involved in their economic structures. However, such a process of development eroded all possibilities of being self-determined and self-reliant, at least in the long run. The case of Mexico is nevertheless classic because it went through and actively participated in the various phases of foreign-capital-motivated industrial development strategies. But despite such an economic trajectory, Mexican development continued to be plagued with all the problems that are characteristic of dependent development described above.

One significant implication of the present research is that the specific industrialization pattern linked with foreign investments and MNCs remain limited
in scope and relevance for the domestic needs of the country in terms of development in other priority sectors for instance agriculture, capital goods industries, public services etc. Rather it sets into motion a development pattern, as the case of Mexico illustrates, willy nilly leading to the monopolization of the productive apparatus of Mexico by MNCs and their objective economic needs.

It is here that the concept of "denationalization" of the Mexican economy gains significance. If dependent development is the process wherein the rate and direction of capital accumulation are externally conditioned and necessarily determined by foreign interest and ownership, then denationalization is the causal consequence of dependency and manifests in the extent the host country’s industry and resources as also the productive apparatus of the host country are owned by MNCs. Denationalization therefore refers to the tilt in the existing balance of economic decision-making from national to transnational norms of control.

Such a structural shift is possible because of dependent development whereby local firms are bought out or acquired by foreign firms; preventing the emergence (or destroying the existence) of an entrepreneurial class dedicated to national development and preventing or retarding the emergence of a domestic capi-
tal goods industry with a hierarchy of national priorities and prerogatives. The material presented in the thesis demonstrates that the emphasis of MNC-oriented production remains essentially in the manufacturing/consumer goods sector. Thus dependency and denationalization are not merely causally related but the effect also becomes a cause thus mutually reinforcing each other.

The Mexican experience also demonstrates that denationalization occurs in spite of an entrepreneurial and ideologically developed class committed to the philosophy of positivism and ideals of laissez faire. The penetration of the domestic economy by foreign interest is but seldom restricted in any tangible way by the domestic bourgeoisie. And in turn denationalization prevents the emergence of any social group which places priority on national ownership and control to achieve national developmental objectives. The consequences of denationalization permeate to other levels affecting social classes and groups. (Of equal importance to the articulated structure of production are the economic and social consequences of technological transfer and the impact on cultural and ideological values and attitudes).

14. According to Helio Jaguaribe, denationalization can be economic, political, military or cultural and one form leads to another form. See his Political Development: A General Theory and a Latin American Case Study (New York. 1973).
This process incorporates into the new institutions and structures those individuals and groups that possess the required competencies and skills to fit into them, just as it expels others who are unskilled and are engaged in traditional sectors of the economy. Therefore, dependency leaves behind a large cross-section of populations who have but a marginal place in the economic order and can scarcely adapt to the more productive sectors. Sunkel calls this the process of 'marginalization of social classes' within LDCs. Within the dependent economy which remains on the periphery of the world economic order there develops an internal syndrome of centre-periphery -- as if the economy-at-large mirrors its own image in the domestic front perpetuating its legacy.

Such a legacy while bringing about rapid transformations in selected sectors leaves the rest of the economy to stagnate. Thereby certain groups or classes are incorporated into the new international industrial system being built largely by MNCs, whilst, as within the domestic economy, others are excluded. The resulting impoverishment and pauperization manifest in the plight of the ever expanding informal sector. It goes without saying that the relationship between the corporate and the informal sector deserves a study in its own right. At a broader level, Sunkel however refers
to this historical process as 'transnational integration,' which creates by the logic of its own integration an opposite and equally negative tendency -- 'national disintegration,' metaphorically suggesting a conceptualization similar to 'denationalization.'

In the present study, the Mexican case demonstrates that external relations alone do not determine the nature and course of industrialization. But the logic of that process cannot be deciphered unless the external factors are adequately analyzed. This is not to deny the relevance and importance of the structures of internal relations obtained within the domestic economy as also the historical experience of the dependent country. Indeed, it is precisely such a theoretical frame of reference which necessitated a detailed historical analysis of the successive periods in the Mexican economy and the structural analysis of political history in the earlier sections of this study. Dependence is therefore a product of both external and internal relations of production and the process of economic affiliations. As Cardoso and Faletto rightly explain:

there is no metaphysical relation of dependence between one nation and another, between one state and another. These relations are made possible through a network of interests and coercions that bind some social groups to others, some classes to others. This being the case, it is necessary to
determine the way in which state, class, and productions are related in each basic situation of dependence.[15]

Thus the situation of dependency, as it has been analyzed in the case of Mexico, reveals that it is a combined function of the extent to which class interests in the third world countries align within the domestic system and with those of the international capitalist production system. For the consolidation of the internal market and the "internationalization" of the domestic market an alliance of this kind, in its particular and unique form becomes imperative. It has already been argued in the thesis that this unique form as it was forged in the case of Mexico is provided by a "triple alliance" between the national bourgeoisie, the state and the international bourgeoisie.

In order to examine this process, first a comprehensive and conceptual definition of MNCs is essential. Within the specific problematic of the present study, a MNC may be defined as a company in which foreign capital participation reaches a marked threshold, where the foreigners exercise an effective control over the management, decision making and policies of the established concern in the host country. It is necessary to specify the actual degree of this participation. The

15. Cardoso and Falleto, n.6, p.173.
"critical" level of participation has generally been placed at 25 per cent. In reality however, a majority of MNCs represent levels of participation significantly higher than this. From the available data it is evident that while 2.3 per cent of the companies in Mexico had foreign capital participation between 15-20 per cent, 18.9 were in the range of 25-50 per cent. Out of the total number of MNCs, about 64.4 per cent of the companies accounted for 74.2 per cent of foreign participation.

The level of foreign capital participation however, is a necessary but not a sufficient parameter in the conceptual definition of MNCs. There are other significant indicators to be considered. The legitimacy to interfere and influence decisions concerning the production pattern, price structure and management methods of the company do emanate from juridical and political prerogatives. A certain contract with a foreign company for instance on the transfer of technology involving technical assistance, basic engineering, licences or patents provides the supplier of technology an advantageous position to exercise such power. The level of control asserted by MNCs thus may


17. ibid.
not entirely be determined by their measure of capital participation in the company. Among other considerations as indicated, it is necessary to broaden the range of indices including for instance, the acquisition of resources locally available or produced by local companies, provision of technical personnel, financial aid or loans, etc. The size of the foreign company in the international market also determines the influence that the MNC commands in the host country. Given the same level of shareholding, a company with a larger size and controlling resources both nationally as well as internationally enjoys a vantage position to assert greater control over local enterprises and local participants. The degree of control of MNCs over the host economy, not to speak of local firms, is therefore more complex than what the level of capital participation actually suggests. No wonder then that MNCs have often concentrated their energies to wield power through negotiations and contractual controls.

For the purpose of explanation here, Raymond Vernon's description of MNCs is an apt point of departure. He defines MNCs as companies that carry out their activities on an international scale, as though there were no national boundaries, on the basis of a common strategy directed from a corporate centre. Their affiliates are generally locked together in an
integrated process and their policies are determined by the corporate centre in terms of decisions relating to production, plant location, product mix, marketing, financing, etc.

This is still only a partial picture. There remains the need to probe the reason behind foreign investment operations shifting from the direct export of capital to establishment of firms in the host country. If, for instance, in Mexico domestic policies were responsible for causing a sectoral shift of foreign capital, this does not explain adequately why foreign business interests began to establish firms in host countries rather than simply divert the export of capital from the traditional to the newly discovered sectors. Moreover, why for instance, should a corporation choose to incur the added costs of manufacturing overseas when it could more easily, and perhaps at higher profits, export products or licence patents to a foreign manufacturer? And how have US MNCs managed to sustain their subsidiaries in host countries. According to Stephen Hymer, the central motive behind their activities abroad is the desire to control operations, to determine "not only the prudent use of assets but as a strategic move to eliminate competition between the

investing enterprise and the enterprises in other countries". This aspect is one of the most crucial features explaining the logic of MNC operations abroad.

A certain measure of control, he argues, is necessary for MNCs in order to appropriate fully the returns on certain skills and abilities that the investing enterprises possess. The aspect of control, as mentioned by Stephen Hymer, has to be emphasized because there is a direct relationship between the power and control of a MNC and denationalization of the host country. That is, the greater the control levied by MNCs the higher the degree of denationalization of the Mexican economy.

It is important to understand why American MNCs gained precedence over MNCs of other countries in Mexico. The rapid growth of Europe and Japan in the fifties had threatened the dominant position of American corporations. US firms, confined to the domestic market, found themselves lagging behind in the competitive race and losing ground to European and Japanese firms which were growing rapidly because of the expansion of their markets. US corporations were confronted with a serious "non-American" challenge. To establish production in foreign territories, American MNCs re-

sponded with an outward thrust. As Stephen Hymer put it squarely: "Growth of foreign markets and labour supply made it attractive to invest abroad; growth of European and Japanese firms made it necessary".

American MNCs were undoubtedly far superior in organization, technology, access to capital and product differentiation. With the recovery of Europe and Japan, they could see their own expansion being thwarted by the formation and growth of capital in other countries. They realized that "their advantages would be shortlived if they did not undertake foreign investment to preserve them".

It was precisely at this juncture that Mexico decided to allow the MNCs to participate directly in its economy. US MNCs moved into Mexico, to capture Mexican markets through production of goods in which they specialized and to utilize cheap labour (productivity divided by wage) along with a range of fiscal and monetary incentives offered by the Mexican State. It was not only profitable to produce in Mexico but also to expand faster than other foreign competitors as establishing a production base in Mexico undoubtedly contributed to an increase in the share of the world market of US MNCs.

20. ibid, p.80.
21. ibid.
US MNCs IN MEXICO AND THEIR GLOBAL STRATEGIES

US MNCs in Mexican manufacturing sector and their activities were part of a global network of American MNC operations abroad. With few exceptions that may be country-specific, US MNCs in Mexico have had the same priorities, mode of operation, selectivity of sectors, etc. as in Brazil, Argentina, Nigeria, India or Taiwan, each country being a microcosm in the MNCs network of activities that are essentially transnational. Hence an understanding of the impact of US MNCs on Mexican manufacturing sector necessitates an understanding of their global processes and vice versa.

An in-depth study of world trade, production and competitive conditions in which US MNCs had manufacturing facilities abroad, revealed that nine industries accounted for over 90 per cent of US foreign direct investment in manufacturing. These were i) food products ii) paper and allied products iii) chemicals and allied products iv) petroleum refining v) rubber products vi) primary and fabricated metals vii) non-electrical machinery viii) electrical machinery

and ix) transportation equipment. It is therefore, no coincidence that US investments in Mexican manufacturing were in these very same sectors.

It is often argued that US MNCs in Mexico were a response to its growing needs and development requirements. Trends of US foreign direct investment have also been attributed to Mexico's changing regulations and policies on foreign investment. While all these may have affected MNC operations in Mexico, it is important to note that most of the host country reactions to MNCs were also directly or indirectly moulded and influenced by trends adopted by parent companies.

Thus the US, because of its high per capita income became the world's largest market for most new products. These manufacturers located their initial plants in the US in order to minimize communication costs within the firm during the time the product was non-standardised and production techniques likely to change rapidly. As a result of this pattern, the US became the leader in new product development. US firms subsequently began exporting these products. At this stage of the industry's development the US had 100 per cent of the world's production and exports.

Later sensing a threat to their external market, production began in other major industrial nations, sometimes by indigenous firms and sometimes by US
firms. As countries abroad began to export, the share of world exports made in the US began to decline. This period coincided with that of ISI in Mexico when local firms began their own production of goods formerly imported into Mexico from the US.

With the rise of other developed countries in the international market, in particular Japan, competition became very keen in the product and industry cycle. Japan and countries in Europe began to penetrate markets in less developed countries with not only capital but also technology, at very competitive prices, breaking the monopoly held hitherto by the United States in the host countries.

To counteract this, US firms commenced manufacturing goods in the host countries which up until now were imported from the US. Cost consideration became an important factor to waive competition from other developed countries. Manufacturing thus began there, making use of low cost production inputs such as cheap labour and raw materials. US firms gained their equilibrium once again not only in the international export market (as goods manufactured by them in host countries were exported) but also their position in the international economy. Had US firms not invested abroad, they
would have retained less of the world market than they did by shifting their zone of production resulting in the phase of export promotion industrialization in host countries.

The impact of this on the local and indigenous manufacturing industry was enormous. Mexican enterprises engaged in import substitution industrialization could not now compete with the MNCs. Local manufacturing firms were no match in their production of goods both qualitatively as well as quantitatively to MNCs, given their easy access to capital and superior technology as well as technical personnel. The local firms that had gained credibility during the ISI phase now saw themselves on the verge of collapse. The option open to them was either to close down or form joint ventures. Most Mexican firms, in particular small and medium sized, faced closures. The larger firms formed joint ventures, those that were endowed with large capital assets and promised to be going concerns for the US MNCs in terms of their productive facilities and produced in particular, those kinds of goods that were in demand by the international market. Other local firms declared themselves 'sick' so that they could be bought over by foreign subsidiaries under absentee ownership, more commonly known as prestanombres.
With US firms involved in production of manufactured goods in Mexico, the orientation and organization of this sector took a turn that was far removed from the earlier goals followed by the indigenous industry. Whereas local industry was greatly diversified in goods, the establishment of US MNCs in the Mexican manufacturing brought this sector under the umbrella of a few highly specialized industries, having large foreign stakes. Thus the Mexican manufacturing sector became skewed in the direction of industries such as chemicals, machinery, food products, transportation equipment, etc. that were capital intensive, requiring a high degree of technology and technical personnel and the products of which were meant not for the Mexican market but for export to the international market. All manufacturing activities in Mexico concentrated around these industries appropriating the best of whatever was available - indigenous skills, resources, infrastructural facilities and even Mexican capital.

Besides, US MNCs wielded considerable control over major investment decisions. Also, as will be seen in the next section, the indigenous manufacturing sector was subjugated to the pattern laid by foreign investment and MNCs. Their growth became stunted while government patronage whatever the nature of regulations, continued to remain with foreign capital and MNCs.
The motivation behind US MNCs in their investment operations in Mexico has scarcely contributed to a mutual relationship of benefits. In the study conducted by the US Department of Commerce, it was pointed out that most US direct foreign investments were defensive, in the sense that they were trying to secure their position in the world market. If US firms had continued to operate only within the US, they would have lost their markets to foreign firms, usually large enterprises from Europe and Japan. According to the study, US investors were forced to invest abroad to preserve their markets. Where local firms were not able to invest to lead the market, an aspirant foreign firm would quickly cash in. If foreign direct investment performed the function of serving the foreign market more than the market in the US, the underlying rationale was to prevent foreign producers from eroding the US market position. Moreover, if such investment opportunities did not exist, there was the danger of US exports to fall.

The defensive theory of US DFI, part of the organic theory of investment is however questionable in view of the fact that MNC activities in the host econ-

24. ibid.

my seldom seemed defensive. In fact, US MNCs in search for higher profits, disregarded the boundaries of the home nation in favour of other lucrative regions. In their drive for profit maximization, US MNCs sought other regions for investment of technology and finance, keeping their power centralized at the same time in the home countries.

Less developed countries became vulnerable to foreign investment in view of their lack of capital, skilled labour and technology, as well as a mature and developed economic and political structure that would protect them from foreign encroachment. Thus developing countries became entirely dependent on foreign sources confined to a few MNCs. In the process, domestic firms could not compete with imposed foreign technology which was reinforced by MNC funds for development and research. Domestic firms were thus absorbed or licensed and restricted in their growth by the powerful MNCs.

Though at times, the initial motivation of US MNCs appeared defensive, once they stepped into the host countries, the activities were far from this. They captured a significant portion of the domestic capital,

channeled domestic savings for their own purposes and repatriated most of their profits. In the light of increasing regulations in Mexico, there was a decline in the percentage of profit repatriation. These profits however remained with the MNCs. They reinvested in the same sectors or began operations in related ones, maintaining throughout a monopoly position as also industrial concentration in selected industries of the manufacturing sector.

Mexico, having turned into a sourcing base for the US MNCs not only in terms of labour or raw materials but also in terms of capital, suffered number of financial crises, the last one being in 1982. Mexico's indigenous capital and savings, originally allocated for domestic development, were invariably demanded by MNCs through both private and public banks. So great was this demand by the capital guzzling MNCs (an indication of the lucrative grounds that Mexico possessed for their activities) that demand for investment resources steadily and rapidly outstripped the available supply of domestic savings. The coffers of the national economy were being depleted many times faster than they could be replenished.

Savings in Mexico were also undermined by its negative balance of payments situation, resulting in an increased out-flow of foreign exchange and aggravating the financial situation. Backed by a global network,
US MNCs faced no problems to get easy credit from domestic banks where local firms could not. In short, the global strategies of US MNCs had far reaching ramifications on the Mexican manufacturing sector.

DENATIONALIZATION OF MEXICAN ECONOMY: A BALANCE SHEET

The influence exerted by industrially advanced countries on the developing countries in general and Latin America in particular, (primarily upon their socio-economic structures) assumed considerable significance. The transfer of capital and technology from the advanced to the developing countries acquired certain prominence due to the global strategies of the MNCs.

There can, however, be no monocausal relationship established to account for the process of denationalization. The problem is indeed a very complex one and its causes manifold. The social scientist can possibly select and isolate variables for meaningful analysis only within a microcosm, which can considerably contribute towards a broader understanding of the larger phenomenon. A modest attempt is made here within the parameter of this thesis, to try to understand denationalization and substantiate the process in the context of a triple alliance between MNCs, local capital and the Mexican State. On the strength of the
evidence available, this section examines the proposition that foreign investment as an external force exerted an impact on the indigenous economy. Such an impact, it will be argued, instead of propelling the economy towards its self sufficient and autonomous development, lead instead, to what may be termed as its 'denationalization'.

An explanation of this term has been attempted by the Brazilian social scientist - Helio Jaguaribe, who defines denationalization as the:

actual transference of control over relevant decisions or factors, and conditions affecting them, from actors loyal or favourable to a nation, to actors loyal or favourable to another nation. (It is) the effective exercise of control ... that the agents of (such) control are loyal to another nation and/or proceed in a way that actually tends to favour that nation [27].

The present study is concerned with the process of economic denationalization in order to understand the activities of MNCs and their impact on the development process of the host country. As Newfarmer and Mueller also point out, denationalization may be understood as the transfer of economic decision-making in the share of host country's industry and resources owned by MNCs, from national to foreign hands or cen-

27. n. 14, p. 411.
tres. It is an influential element in generating negative effects on the market structure of the host country wherever MNCs operate. This is not to suggest that MNC operations and orientations necessarily produce denationalizing effects at all times and in all contexts. The regulatory structure of host countries should normatively speaking, monitor the MNCs and their practices. In reality, however, hardly any of the countries especially Mexico with huge foreign ownership, have approximated such a regulatory structure.

There are different forms in which the process of denationalization may historically manifest itself. It may involve the replacement of local industries when the foreign investors enter a sector of production in which domestic industries are already established with the result of pushing the latter out of the market. MNCs and especially foreign manufacturing capital "play(s) the role of the cuckoo, laying its eggs in nests constructed by others. Local capital having gotten industrialization going is pushed aside by the more powerful outsiders".


29. ibid.

Denationalization however, does not necessarily presume the existence of a *national* industry prior to the entry of foreign capital. For it depends on how the term 'national' is defined. Often, instead of companies being formed by local industrialists of the host country, foreign or immigrant entrepreneurs form and organize them. From this point of view the significance of denationalization lies "in the shift from national to transnational norms of control as a result of direct investment by MNCs, rather than the mere fact of foreign ownership per se".\(^{31}\)

Denationalization can as well occur when firms originally having 100 per cent national ownership enter into joint ventures with foreign firms or MNCs having majority or minority positions in the ventures. In this case, denationalization implies that decisions regarding the firms production and performance (such as nature of products manufactured, their volume, prices, markets, etc.) would now be made according to forces of the world market rather than national demands.

One important and to some extent reliable variable to assess denationalization is the flow of capital from one country to another and the control such capital

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exercises over the recipient country. It has been argued that MNCs, through foreign investment, exert considerable power to dominate the host countries’ economies. Their economic power stems largely from the sectors that they generally control. Once entrenched with their capital and sophisticated technology, producing for a market which is normally located outside the national boundaries of the host countries, MNCs tend to deny indigenous capital or enterprises to compete and establish themselves in those sectors. This generates the process of denationalization.

Besides the change in ownership patterns through acquisitions or joint ventures, MNCs also rely heavily on local sources consequently causing a drain of internal savings as well as precious resources. Such a drain starves the more critical sectors of the much needed resources and inputs. Furthermore, most economies have to incur considerable expenditure in providing tax and other concessions such as infrastructural facilities. They are also compelled to incur debts and pay substantial rates of interest on loans from both public and private external sources, to satiate the

ever-growing capital requirements of MNCs. It may be pointed out that in the last two decades as will be demonstrated later, MNCs have increasingly begun to rely on local capital sources, rather than import them from home countries.

It is not merely coincidental that in most of the host economies, there is a deficit in the balance of payments. It is of course clear, that apart from other factors, the MNCs and their related activities must account for such deficit. This is yet another form of denationalization of the economy. The balance between capital account inflows and current account outflows, both visible and invisible, varies over time, both for individual MNC subsidiaries and with respect to the operations of all foreign direct investment located within a particular economy. Lall and Streeton concluded that the net impact of their sample firms' activities on the overall balance of payments was negative in five of the seven countries analyzed (Jamaica, India, Iran, Colombia and Malaysia). On the whole, the sample foreign firms seemed to be "taking more out than they were putting in". Much of this empirical evidence is consistent with the view that foreign capital leads to denationalization of the third world economies.

The host country may attempt to alleviate the burden imposed on the balance of payments through profit repatriation by encouraging MNCs to reinvest a greater proportion of their profits locally. But if the rate of return on foreign capital (after tax and depreciation) is greater than the rate of growth of national income and assuming that these profits are reinvested locally, then foreign capital ownership grows at a faster rate than national income. Assuming a constant capital-output ratio, foreign capital grows at a faster rate than domestic capital and an ever increasing proportion of the domestic capital stock is owned by foreigners. The latter, of course may be a limiting case, and unlikely to be a widespread practice. Nevertheless, it illustrates the serious dynamic tendencies at work. Streeton summarizes the dilemma faced by third world host countries:

... either they permit or even encourage this growth of foreign capital, in which case they are faced with growing foreign ownership of their capital stock. Or else they limit this process of alienation, in which case a part of their export earnings will be mortgaged to remitting profits and repatriating capital. It is small wonder that this ineluctable dilemma has led to ambivalence and hostility towards foreign investment [35].

Even the strategy of ISI in many host countries is questionable. More often than not, ISI has confined itself to the manufacturing sector only, thus causing a concentration of productive resources in this sector at the cost and neglect of other, more vital sectors of the economy. Even the strategy of ISI in many host countries is questionable. More often than not, ISI has confined itself to the manufacturing sector only, thus causing a concentration of productive resources in this sector at the cost and neglect of other, more vital sectors of the economy. Besides, MNCs constitute by their inner logic a configuration of oligopoly in the industry so that a major part of production is generated through restricting the number of establishments. Another vital area of the economy that suffers denationalization is the organization of labour force and related employment structure. Labour, especially skilled, necessary for the critical sectors of the economy, siphons off to other less critical sectors, e.g., manufacturing.

Therefore, its necessary first, to examine denationalization in the context of the replacement of local capital or enterprises with the foreign. To address this issue a look at the specific manner in which MNCs secured entry into the Mexican economy will be useful. The preceding Chapter had dealt at some length with the trajectory of the MNCs including acqui-
sitions and formations of US MNCs in the Mexican manufacturing sector. It may be recollected that a newly formed subsidiary was more likely to represent an expansion of the internal division of labour. Entry of foreign companies by acquisition was an indication of direct displacement of local capital. It was shown that displacement of local capital and business became an increasingly important feature of US MNC expansion after the Second World War.

The proportion of national to foreign ownership of companies in Mexico steadily increased in favour of foreign ownership either through an increasing control of the capital structure or through outright purchase of already established firms. The changes in the proportion of national foreign ownership for instance of 118 firms in 1970 in relation to what it was at their inception, is illustrated in Table 15.

Table 15 shows that while only 1.7 per cent of the companies became 100 per cent national, 62.7 per cent remained grounded as MNCs. At the same time, while the decrease in foreign ownership was by 13.5 per cent, the proportion of increase was far greater, standing at 19.5 per cent.
A study of 187 most important US manufacturing companies in Mexico demonstrates that 162 of these did establish 411 subsidiaries in Mexico until 1967 (i.e. 58.4 per cent between 1958-1967). Of these, only 42.1 per cent i.e. 173 subsidiaries were newly established. Another 177 subsidiaries (43.1 per cent) were established Mexican companies that were purchased by the US MNCs. Thirty five (8.5 per cent) were created as a result of mergers or expansions of other subsidiaries and the rest 26 (6.3 per cent) were of unknown origin. The practice of MNCs to introduce themselves into the Mexican economy through acquisition of already well established companies is thus clearly visible. It is also observed that such a trend had a steady progression towards an increasing percentage of acquisitions. Only 9 per cent of the US subsidiaries established before 1945 were acquisitions of established Mexican firms (See Table 16). This figure jumped from 39 per cent to 64 per cent from 1956-1970 and to 75 per cent from 1971-1972. And the acquired companies were not only without any financial problems, they were firmly entrenched enterprises with high rates of profit.


During the vertical ISI period, acquisition gradually emerged as the predominant mode of entry into Mexico and by the beginning of the diversified export promotion phase it was clearly the "preferred strategy" for US MNCs trying to break into the Mexican market. It may be recalled that the two phases of ISI and EP took place during the years 1955-70 and 1970 onwards respectively. Table 16 demonstrates the trend of acquisitions by US MNCs in Mexico during these phases.

It is generally assumed that acquisitions take place of firms that are losing concerns or have become 'sick' business enterprises. With regard to acquisitions of Mexican firms by US affiliates, the opposite case exists. Newfarmer and Mueller argue that all the acquired firms were profitable prior to acquisition and would have continued to grow if not acquired. It is clear that 20 per cent of the growth in assets of US affiliates in Mexico between 1960-72 was derived from acquisitions of Mexican firms. Of all assets acquired, 81 per cent were Mexican owned prior to acquisition indicating American MNCs' preference for taking over only healthy firms that were not going to be losing concerns. Moreover, four-fifths of the acquired firms

were formerly owned by Mexicans. Acquisitions of the Mexican-owned firms accounted for about 16 per cent of the total growth of US affiliates during the period. Thus, acquisitions were largely responsible for the increasing US share of Mexican manufacturing between 1960-1972. The number of acquisitions actually far exceeded those made by the firms.

It is also evident that the Mexican owned firms acquired by US MNCs figured prominently among the 500 largest non-financial firms in Mexico during this period. Table 17 demonstrates the number and size of these firms acquired by US MNCs between 1960-72.

The value of assets of these firms ranged from $500,000 to $1 million at the minimum, to $15 million. As seen in Table 17 the number of small firms with assets less than $5 million was much larger than that of the large firms -- almost 90 per cent. It could perforce be said that in spite of the large number, the denationalizing influence on these firms would not be as great as on the larger firms. However, a look at the list of the five hundred largest firms operating in Mexico in this twelve-year period, shows that the smallest firms ranged from an estimated $1 million in

assets in 1960 to $3.2 million in 1972. By this measure, practically all acquisitions above $2 million would have ranked among the largest 500 Mexican firms at the time they were acquired. Thirty-three acquisitions of Mexican owned firms possessed assets of $2 million or more, accounting for $236 million of assets which was 80 per cent of all assets acquired from Mexicans. Had the Mexican-acquired firms remained in operation in 1972, there would have been 33, or 12 per cent more Mexican-owned firms that would be as large in size as the 500th largest corporations operating in Mexico in 1972. The denationalizing influence was even greater within the Mexican manufacturing sector. It is estimated that at the time of the acquisitions, 29 large Mexican-owned firms above $2 million would have ranked among the 300 largest enterprises while 20 firms acquired in the range of $1 to $2 million would have grown into large firms and constituted over a third more of privately owned Mexican firms than what existed at the time. That is, instead of 124 private Mexican-owned firms, there would have been 165 or more.

Within the manufacturing sector, control of assets by American MNCs increased precisely in such industries in which foreign capital saw substantial future potential. While the total assets in this sector as a whole

40. ibid, p.72.
increased from less than $500,000 to over $2 million in 1972, the industries that accounted for the maximum of assets to be acquired in Mexico were chemicals, machinery (both electrical and non-electrical) and food and food processing. The chemical industries marked a five-fold increase, while the machinery and food industries increased ten-fold.

Participation of US MNCs among the largest firms in Mexico is another contributing factor towards denationalization of the Mexican industry. As discussed in Chapter III, in manufacturing, foreign penetration among the largest firms was substantially greater, with the US firms leading the way. Table 18 demonstrates that in 1972, one-half of the largest 300 firms were foreign controlled, with two-thirds of these US based. Among the largest hundred firms 39 were owned by US while Mexican private and state enterprises put together stood at another 39. It may also be observed that Mexican owned firms were least in this bracket and grew in number as the size of the firms diminished. While there were only 27 US owned firms in the largest 200-300 firms, the total of Mexican owned were 57. Privately owned Mexican firms were less important among the 100 largest firms and state enterprises least important in the manufacturing sector.

41. ibid, p.67.
It is evident from the data above that with MNCs dominating the largest firms in the Mexican manufacturing sector, this in itself, created a kind of buffer for national firms which were prevented from being at the top. Moreover, it generated an enormous disparity in the market -- an oligopolistic structure. Such a situation lead to an imbalance in the Mexican industry whereby the largest firms due to their enormous corporate power and strength were able to control the market forces and maintain them in their favour while the smaller ones led by majority locally owned firms had to remain content in a subordinate status.

The denationalizing influence of MNCs was also a consequence of their oligopolistic tendency -- their single most important structural characteristic. The oligopolistic tendency of MNCs emanated from monopoly conditions in an industry when it was usual to find out not one but several dominant companies. It followed that when one of the leading firms invested in a foreign country, competing giants in the same industry were promoted to follow suit to make sure that they got their 'proper share of the local market'.

This behaviour is also termed seller concentration measured by the number and size distribution of sellers, as well as the percentage share of sales accounted for by the largest four firms in a given product market. Firms set their prices and quantities at a level that guarantees them an above normal profit (normal being the rate attainable under conditions of effective competition). The firms' conduct will be generally less socially efficient because output will be restricted and unit costs to consumers will be higher than under effectively competitive conditions.

In the case of Mexico, the denationalizing aspect of oligopoly/seller concentration was the ownership of almost all leading plants in the manufacturing industry by MNCs. Again in terms of industrial concentration, the most concentrated industries in the manufacturing sector were invariably foreign dominated being strongest in the consumer durables (See Chapter III). This position of advantage of MNCs vis-a-vis the Mexican firms in both leading industries as well as in industrial concentration can be judged from the figures in Table-19.

As indicated in this Table, MNCs' share of production was highest in markets with 50-75 per cent concen-

tration while the share of Mexican firms was very low in this bracket and minimal in the over 75 per cent group. Production of consumer durables and intermediate goods within the manufacturing sector was dominated by MNCs in these two brackets. It may thus be observed that the product markets in Mexico were generally quite concentrated revealing greater concentration at the plant level in Mexico than what would exist at the firm level in the US. With over three-quarters of manufacturing production generated in industries where one or more of the leading producers was an MNC, there seems to be a high correlation between the presence of MNCs and their overall concentration.

This testifies the considerable power over the market that MNCs possessed. For it is this power that provided the MNCs enormous strength to maintain their positions while manipulating all regulations and public policies in the host country's market. In Mexico, an enormous degree of concentration existed in its manufacturing sector indicating that a major part of the production was generated through decreasing number of industrial establishment, thus augmenting the denationalizing process.

44. Fajnzylber and Tarrago, n.16.
It is this market power of MNCs that considerably debilitated the productive apparatus of Mexico. The productive apparatus, that is the physical and human resources (raw materials, capital assets both movable and immovable and labour) along with technology, underwent a corresponding and systematic process of denationalization. In Mexico, since MNCs had always concentrated in the fastest growing industries and within these, in usually the leading firms, their conduct and performance had a considerable impact on the Mexican productive apparatus creating conditions where the objectives of MNC-dominated industries subordinated national goals to those of the foreigners.

In order to illustrate this, the case of one particular industry - the steroid hormone industry in the manufacturing sector of Mexico’s chemicals -- an industry dominated by MNCs, is an appropriate case for examination. It may be pointed out that the denationalization of the productive apparatus is not just the transfer of ownership from national to foreign hands. More than that, it involves the shift from national to transnational norms of control. The case

45. Information on this case has been relied upon an excellent study on the industry conducted by Gary Gereffi, "Drug Firms and Dependency in Mexico: the Case of the Steroid Hormone Industry, International Organization", vol.32, no.1, Winter 1978, pp.237-86.
of the steroid hormone industry in Mexico precisely mirrors this.

Steroid hormone, an indispensable ingredient used in contraceptive pills and as cortisone for rheumatoid arthritis and an array of important drug preparations, occupied the highest position in terms of the demand in the international pharmaceutical market. The steroid hormone industry in Mexico was originally established by a European cartel of drug companies -- Schering AG of Germany, Ciba of Switzerland and Organon of Holland in the 1930s.

This was followed by Parke-Davis of America, independently launching its industrial operations. However, it was not until the mid 1940s that a Mexican firm Syntex, discovered that a widely growing Mexican plant, barbasco was a rich source of steroids.

Syntex, through its easy access to cheap and efficient raw materials was able to squeeze out the foreign firms despite the latter's technological lead in the industry. Mexico soon became the world's largest producer of bulk quantities of steroid hormones. This was possible because Mexican barbasco proved to be a first rate raw material being able to manufacture cortisone and its derivatives for large scale production. By the end of the seventies steroid accounted for 60 per cent of all chemical exports from Mexico.
The credit for this industrial accomplishment naturally rested with the Mexican firm -- Syntex.

Research in the US at the same time discovered immense uses of the drug cortisone. This drug was being produced in the US through a very laborious process. The US company, Upjohn discovered in 1951 that diosgenin was an essential intermediate material for the production of cortisone and its derivatives. This base material was already being produced from barbasco by Syntex. After the discovery, demand for diosgenin grew tremendously. Since Syntex, having close access to large reserves of barbasco could produce vast quantities of diosgenin, it began to produce it on a large scale for export. As a result, prices of diosgenin came hurtling down in the international market. As for Syntex, it found a mass market while at the same time throwing its international competitors and rivals almost completely out of business.

However, this monopoly of Syntex was not to last for long. It had sought the protection and direct support of the Mexican government through executive decrees that placed prohibitive export tariffs on the main products manufactured by the other firms and a denial to grant Syntex's competitors the forestry permits needed to gather and transport the barbasco root. It also got prohibitive taxes placed on the export of barbasco and diosgenin. However, by mid
1950s, US companies which were till now buying the Mexican steroids urged the US government to exert pressure on the Mexican government to have Syntex's monopoly broken in order to gain free access into the Mexican production of the material. The US government, keen to break Syntex's monopoly, pointed out a clause in a licensing agreement over patents that Syntex had made with a US subsidiary of Schering. According to the clause, no company could form monopolies or cartels, or engage in the restraint of trade. Since Syntex had formed a monopoly in Mexico, this was an adequate excuse for the US government to charge it for alleged patent violations.

Consequently, Syntex was forced out and the company sold to Ogden Corporation, a US concern. Syntex was compelled to sign a consent decree with the US Justice Department in which the company without admitting, promised not to restrain trade. Mexico's steroid hormone industry was now available for MNCs to take over. By 1963, not a single Mexican firm (there were six independent ones) survived. They were all purchased by subsidiaries of US and later European companies. The nature of Mexican steroid hormone industry now changed irretrievably. While Syntex had carried out all the processes itself, from the collection of the raw material to the manufacture of the final product, US MNCs were only interested in collecting the
raw material and supplying it to the parent companies for final processing. The character of the Mexican steroid industry was thus transformed to a vertically integrated one. This change illustrates in a graphic way the denationalization of an industry.

The first strategy for the MNCs was to reduce their reliance on Mexico. This was achieved in two different ways. One group of MNCs felt the need to control the source of supply of the raw material, barbasco. This led them to establish wholly-owned subsidiaries. By doing so, it was possible for these companies to capture the raw material sources and even control the rate of production. A second group of companies, in order to minimize risk as well as dependence started developing alternatives to barbasco, while at the same time importing large quantities of diosgenin from Mexico. As of course these companies did not invest in Mexico. The result of such a diversification strategy was that, Mexico which produced 80-90 per cent share of world steroid, could no longer maintain it. With the industry in the hands of MNCs now, Mexico's share of world production in this drug dropped rapidly.

Having acquired control over the industry the strategy of the MNCs was to minimize its taxes while at the same time maintain their oligopolistic position. Most often they manipulated this through transfer
prices. Since taxes were high, the companies showed low profits which is not very difficult to do in a vertically integrated industry. For Mexico this involved a two-fold loss, first on the price front as it lost all control over its determination and second on the gains from the sales which were now the prerogative of the MNCs.

Moreover, now with wholly-owned American subsidiaries operating in the steroid industry, these companies held full rights over their patents and trademarks not to speak of research and development in the field of steroid hormones which were kept as closely guarded secrets. Mexico thus, despite having the capabilities to manufacture a potent drug as well as having an abundant supply of the raw material, was denied the opportunity of advancement in technology. Also, "the ability of Mexico to lessen this asymmetry by bargaining on the strength of 'bilateral monopoly' (access to raw materials vis-a-vis access to technology) was limited by the existence of alternative sources of supply".

The trajectory of Syntex demonstrates that the Mexican company carried out original research of the highest quality which was totally lost once it was

46. ibid, pp. 258-59.
sold to the US company. Syntex's, and in turn, Mexico's strong position in the international industry was lost. A director of Syntex described the company's research achievements thus:

By 1959, more scientific publications in steroid chemistry had emanated from Syntex in Mexico than from any other academic or industrial organization in the world... In a matter of ten years, Mexico -- a country in which no basic chemical research had been performed previously -- had become one of the world centres in one specialized branch of chemistry [47].

A multi-level denationalization of the Mexican industry thus occurred. First it manifested in the usurpation of Syntex's capabilities for scientific knowledge and advancement in the industry. Mexican intermediate producers were compelled to become affiliated with finished products manufacturers. As a result, Mexico was converted from a major producer of original research in the steroid industry to a consumer of it. Also Mexican national firms had offered high quality steroid products at lowest prices in the world. This in turn had benefited the general consumer as well.

Once the MNCs penetrated, prices of the same products multiplied several fold with a simultaneous decline in quality taking it out of reach of the general consumer. Moreover, the enormous profits that were generated out of the sale of the steroid hormones at such exorbitant prices, were now channelized into the coffers of the MNCs thus entailing a loss of income to the national firms. The local industry's denationalization by MNCs took the form of displacement of successful national firms, a sharp decline in the prices for Mexican products and the demise of significant local research and development. Most of all, the situation revealed the doubtful character of the much propounded Mexican laws restricting foreign investment when government protection was seriously lacking in according protection to the locally established firms as the steroid hormone industry.

The steroid hormone industry with 95-98 per cent of production for an export market now began to cater almost entirely to a foreign market which determined the nature of products to be manufactured. The greater the sales abroad, the greater was the influence of the foreign buyers on the industry. The denationalization of the steroid hormone industry in Mexico manifested itself in the acquisition of a local industry by MNCs contributing neither to the growth of the local economy nor catering to the local market. Local firms were
deprived of their position in the industry. MNCs while making use of all the local resources as well as indigenous facilities, did not produce for the local market. It is possible then, to say that the takeover by the MNCs of this industry resulted in a drain on the country's valuable resources, starving the local market of the goods produced, the country of the profits and the local consumers of the products.

MNCs may have promoted development in Mexico's steroid industry, but such a development served international requirements more than national needs. Since the industry was vertically integrated with parent firms, it became extremely difficult for the host country to influence the nature of operations of the MNCs. For instance, the steroid hormone industry may have generated Mexico's exports, but these were only intermediate products. Had Mexico been able to produce the finished products, it would have partaken in much higher rates of profits than what the MNCs doled out to their Mexican partners.

To sum up the preceding discussion, denationalization of the Mexican economy was not so much constituted in foreign investments per se but in the manner in which US foreign investments penetrated through the sectoral distribution and shift in strategies of industrialization (e.g. ISI, EP etc.) and above all, through
the nature of their own priorities and changing preferences.

Denationalization thus, is a socio-historical process that acts as a drain on the overall economic resources of the country. It is inherent in the fact that capital is directly, or indirectly pumped out of the country irrespective of considerations of national priorities. By their very definition, MNCs have a logic that does not regard national allegiances. It is only marginally that national considerations influence their investment and management decisions. Their policies are practised within a national economy but willy-nilly geared to the international market forces.

Denationalization then represents the systematic lack of national needs and concerns on the agenda of the MNCs. Essentially supranational in character and constitution, their policies in the ultimate analysis reflect the character of their organizations. Investment in host economies is often an initial step and consequently culminates in the capture of larger markets. A Mexican entrepreneur in the automobile industry (interviewed during the course of the field work) referred to the case of several foreign companies such as Volkswagen, Sunbeam and Osterize which had set up plants in Mexico, geared almost exclusively to exports. As he put it:
...the board of directors of the parent company (Sunbeam) decided that the shaving machines which were being manufactured in Mexico should in future be produced in Japan... Thus Mexico's balance of trade was affected... (Moreover) the purchase of all kinds of Mexican business firms by American capital is certainly a calculated policy. When Americans have acquired as many concerns as possible in Mexico, they will go all out to bring the Latin American common market into being and will then flood Latin America with goods made in Mexico.

This may well be seen as a streak of nationalist sentiment. However, such sentiments require dispassionate analysis. The very forces that often lamented the activities of the MNCs indeed created the conditions for the denationalization of the economy. There is no doubt that the MNCs on their own could not have continued to perpetrate their interests without an effective alliance with local forces and more importantly the Mexican State. When the MNCs, for instance, decided to curtail production in one country due to over-production of the same product in another country, the closures stirred sharp reactions from nationalist forces. But the actions of these forces were themselves responsible for providing the possibility of denationalization and its related consequences.

ECONOMIC DENATIONALIZATION IN THE CONTEXT OF THE TRIPLE ALLIANCE

In the process of economic denationalization in Mexico, the US MNCs no doubt played the major role by
being prompted by their global pressures which inevitably superceded local and regional considerations. Yet, the onus of denationalization and its detrimental consequences upon Mexican economy cannot entirely be placed on the activities of US MNCs. An objective assessment of the process, as it unfolded through its various phases to which the present thesis has been addressed to, reveals a holistic context without which denationalization would not have been possible. This context in which the process came about is clearly that of the triple alliance between the US MNCs, the Mexican State and the local bourgeoisie.

In order then to understand the phenomenon of denationalization in the Mexican economy, the role of US MNCs must be approached in the context of the triple alliance. This alliance however was not a monolith. It was a conscious confluence of interests wherein each of the allies participated in the Mexican industrialization with differing strengths and sets of priorities.

It was not inspite but because of these differences that there was an implicit consensus among members of the alliance to benefit from the accumulation of industrial capital within Mexico. In terms of the benefits derived, it is worth noting here that the partners in the alliance were by no means symmetrically placed. The MNCs were privy to benefits that far superceded that of the State's or the local bour-
geoisie's. This basic asymmetry cannot be understood without necessarily appreciating the real interests represented by the individual partners in the alliance.

The most crucial partner in this -- the MNC was by no means a mere profit-making capitalist firm. It was in reality, the organizational embodiment of international capital. The strategic decisions concerning it were often enough made in the centre. These corporations were guided as already discussed earlier, by global strategies for maximizing their profits. While certain operational decisions were locally taken, local considerations were of minimal consequence. Given, the logic of their rationality, it is possible to understand why the foreign investors did not spontaneously start manufacturing operations in the host countries during the earlier periods. As a matter of fact, the entrepreneurial role of MNCs in the host economy was always subordinated to their global strategies for profit maximization.

48. The triple alliance has preoccupied some Latin Americanists who have paid attention to the political economy of underdevelopment. However, there is some scholarly consensus over the historical significance of such an alliance. For a lucid discussion on this, in the context of the Brazilian economy, see Peter Evans, Dependent Development (New Jersey, 1979).
The ability of the MNCs to produce such products as those that could not possibly be replicated by other firms remained a major source of MNC profits. Their motive force for innovation was very closely tied up to their business interests. Very rarely indeed the industrialization of the host economy entered their business optics. The new technology for which they had gained some renown, was mainly generated in the centre countries and under conditions that were specific to the home economies. If anything, such technology was only assimilated, rather transplanted onto the periphery. In fact, the MNCs had a vested interest in persuading the consumers in the periphery to imitate the patterns of consumer behaviour prevalent in the centre. The spread of such behaviour, ideas and values was directly related to their profits. Most of the products offered by the MNCs owing to their origins in the affluent consumer culture at the centre found their market primarily among the upper crust of the host society. Logically therefore, MNC interest centred around income concentration. While keeping the wages low in order to augment profit, the MNCs indeed had a vested interest in perpetuating the class polarization. It was in such a class system that their very market

was structured. And therefore, they had a vested interest in protecting the class position of the bourgeoisie vis-a-vis the subordinate classes.

The Local Bourgeoisie

The local bourgeoisie -- the domestic partner in the alliance, was located under conditions disadvantageous to its objective interests. Its own economic inability to compete with international forces and at the same time the inadequacies for consolidating itself into a powerful local class, placed it as a junior partner in the alliance. The pattern of industrialization in Mexico, left the national industrial bourgeoisie with a constitution that was fiscally frail. As an economic class in the making, it was precariously dependent upon the alliance to pursue its own interests. As a matter of fact its positions and privileges were more or less contingent on its ability to join hands with other elite groups. However, an inability to obtain a hegemonic position on the part of the local bourgeoisie, could not be mistaken for passivity or


51. F.H. Cardoso and E.F. Faletto, n. 6, p.140.
lack of entrepreneurship. It has been very easily argued by some scholars that the local bourgeoisie would inevitably disappear as the alliance with international capital subordinated local interests to the interests of the foreigners. Another reason for the imminent disappearance of local bourgeoisie as a class was advanced on the grounds that the independent local capital did not stand a chance of survival. Such assumptions considerably undermine the state and status of the local bourgeoisie.

Despite the ties with international capital and the alliances therein, the local bourgeoisie continued to pursue an entrenched interest in local accumulation. Such an interest in domestic accumulation remained a long standing and durable economic goal. Very seldom could the local bourgeoisie afford to relinquish nationalism even if international capital remained its principal ally. Describing the ambiguity in the position of the local bourgeoisie in the context of Latin

52. At least in cases like that of Brazil, economic historians uniformly emphasize the role of local industrialists in embarking on new activities and contributing to accumulation at local level. See for instance R. Graham, *Britain and Modernization in Brazil: 1850 - 1914* (Cambridge, 1968).

America, Fernandes imputes it a status "in part mediator and in part free". According to Fernandes, such a durable, dual status was the fulcrum upon which the local bourgeoisie conducted its play of power. While in certain sectors there was a squeezing of local capital leading to the disappearance of local firms from the scene, the local bourgeoisie did, however, enjoy comparative advantage in certain other industries. It performed a definite role in the process of local accumulation. Precisely for this reason, did the MNCs find it a viable vehicle to carry forward their own business interests. Within the alliance, the local bourgeoisie had a lowly status vis-a-vis the other partners but there was no doubt that it remained an indispensable ally.

At the same time, the subordinate position of local capital was not to be taken for granted. As a matter of fact, the local industrial bourgeoisie by virtue of its origins enjoyed certain economic and political advantage. Such advantages could be used as a leverage in its bargaining with MNCs. However, each of the partners within the alliance enjoyed their own positions of advantage vis-a-vis one another.

54. F. Fernandes, n.50, p.326.
The local bourgeoisie, because of its origins in the local social structure could perform certain integrative tasks better than the MNCs. One component of the political advantage of the local bourgeoisie was to do with the existence of personal ties to the state apparatus. Local capital had a legitimacy that the MNCs could not match. It was for this reason more than any other, that the MNCs were compelled to share control of their enterprises. Sometimes the MNCs found sharing control justified, not so much by any immediate political or economic threat, as by their experience of the domestic situation in Mexico. It may be said that the local bourgeoisie enjoyed political advantage while the MNCs enjoyed technological and economic superiority. In order to retain an upper hand in the bargaining, the MNCs prevented the free dispersion of their R & D operations.

The joint ventures with the large, local economic groups did not threaten the MNCs' control over these enterprises. The consequence of shared control was the creation of a 'buffer zone' of mixed enterprises located in areas of the economy that were of interest to the MNCs but where their bargaining power was weak. The creation of joint ventures led to the integration of the strongest local economic groups into the networks of international capital. But this did not erode the autonomy of the MNCs.
The effect of denationalization was not to eliminate local participation in the market but to transform it. Local capital gradually became relegated to relatively small firms that survived by their commercial acumen, rather than by industrial or technological innovation. Local capital no longer threatened even vaguely, the most important source of profits of the MNCs (their monopoly on technological innovation). The role of local capital thus became ever more complementary to the role of foreign capital.

Participation of the local, private sector in alliances with MNCs was limited primarily to a few large, sophisticated 'grupos economicos'. Bennett and Sharpe have argued that the primary effect of Mexicанизation was to increase the concentration of economic power of MNCs at the local level. Most of local private sector could not raise the capital necessary to participate in the process of Mexicанизation. The largest local companies participated in multiple partnerships with a variety of multinational partners. Bennett and Sharpe suggest that a dozen or so of the largest "grupos" are the prime beneficiaries of "Mexicанизation" and point out the diversity of the al-

liances that bind these companies to multinationals. One example is the group around Bruno Pugliai, which has joint ventures with Alcoa, Hughes Tool, Taylor Forge and Pipe, Yamaha, SKF, and Renault. A second is built around the Banco Nacional and has alliances with Westinghouse, Celanese, Union Carbide, Kimberley Clark, Scott Paper and Rolls Royce. Those groups are not simply "junior partners". They are participants in the networks that bind international capital together. Their participation in these networks separates them from the vast majority of local capitalists.

In Mexico, the MNCs found the formation of alliances with elite local capital generally advantageous. For instance, the company Kimberley Clark "felt that its very success in Mexico argued for a majority local ownership as an appropriate way to guarantee a clear road for continued expansion and diversification". Westinghouse found its joint venture with the private Banco Nacional and the state-owned Nacional Financeira a very successful vehicle for expansion into a diversified set of electrical equipment and component manufacturing ventures. Monsanto's Mexican partner also had joint ventures with Phillips and Dana Corpora-

tion and both companies were earning 24 percent return on investment. The genesis and nature of these alliances was discussed at length in Chapter II. The discussion dealt with the vertical ISI phase of Mexico and the processes of joint venture formations and acquisitions. This was further substantiated in Chapter III.

In Mexico, alliances between multinationals and a restricted number of the largest economic groups was possible with the characteristic involvement of the Mexican state (as also the state-owned corporations). It may be said however, that compensating for Mexico's economic dependence on the United States was its success in the institutionalization of a stable, centralized and politically active state. Out of the convulsions of the Mexican revolution was born a political structure remarkably well suited to the needs of capital accumulation. During the forties, fifties and sixties, the Partido Revolucionaria Institucional (PRI) was able to maintain control and limit redistribution.


and at the same time provide institutionalized political access for most of the local bourgeoisie and some representatives of the organized working class. If the local Mexican bourgeoisie was well established, it owed its position to the political apparatus created by the PRI.

The Mexican State

The third partner in the alliance, the Mexican State played a very important part in enforcing the priority for local accumulation. The State had taken upon itself the role of the most effective sponsorship for a rapid industrialization of the domestic economy. The involvement of the MNCs in that process of industrialization had added a new dimension to traditional statecraft. Every deal with an external ally now came to gain an immediate internal urgency. In steering the economy of the country, the State could scarcely exercise its political hegemony without taking into confidence the confluence of interests consciously forged in the alliance. So that the State now had an enormous, yet delicate task of embracing an ally that played a very crucial role in influencing State policies. The problem was of particular significance when the global rationality of the MNC willy nilly conflicted the necessities of local accumulation.
It has been adequately demonstrated by substantive studies that there was a secular shift over the course of the last fifty years in the direction of an improved bargaining position for the State. Such a shift seems to be rooted in the gradual process of learning within the State apparatus itself. It has been argued quite effectively that the State combined incentives and threats to consolidate for itself a greater share of the returns. Such studies suggest that the State stood the best chance of improving its bargaining position in industries involving extraction of raw materials where technology was stable and fixed investments large.

On the other hand where capital was intangible and continual product innovation indispensable as for instance in manufacturing industries, the MNCs enjoyed a stronger position vis-a-vis State. Therefore, the relative supremacy of an ally in the triple alliance and the related edge in the bargaining power varied through the spectrum of industries. However, the overall capacities and the resource of the State had a direct bearing in the bargaining between the State and the MNCs. Where the State failed to convince the MNCs

to undertake a new venture, it had no other option except to take over the industry in question. Such enterprise on the part of the State was a product of the force of circumstances rather than an international attribute of its apparatus.

Be it as may, the State enterprise always added a new dimension to State multinational bargaining. The Mexican State, however, could not be seen as a replacement for the national bourgeoisie. The bureaucracy and the military that ran the apparatus of the State could be considered as class fractions in that they participated in a common project both with the MNCs and local private capital. It is a fact that each of the allies viewed the common project as subject to different constraints. At the same time, in the perception of each, particular interests could contradict those of the others. Such contradictions were however, overshadowed by the larger interest of the entire alliance in a high rate of accumulation at the local level.

The Alliance and Denationalization

By and large the MNCs had discovered fairly early that it was highly advantageous for them to form the necessary alliance with the local bourgeoisie and the State. Some companies clearly felt that their very success in Mexico required a majority local ownership as an appropriate way to guarantee their continued
expansion and diversification. The case of the American chemical firm Monsanto in Mexico provides a good illustration. Monsanto's local position did not seem commensurate with its global strength. Its wholly-owned subsidiary was not growing and Monsanto's lack of alliances was part of the reason. Monsanto's response to the situation was as follows:

Without government cooperation, growth was impossible. So Monsanto's did what the government hoped it would do -- it "mexicanized". In a sense it joined forces with Mexican investors to form a new company, 38 percent owned by Monsanto, controlled by a Mexican holding company called DESC. Since Monsanto took on its Mexican partners doors have been opening. And in just three years, profit of the concern have soared over 200 percent [61].

For the long term opportunities and future profits, the MNCs were prepared to contend with temporary compromises. The nationalist logic of the State often enough superceded the global perspective of the MNCs. With a few elite members of the local bourgeoisie, the MNCs had to share control of the companies and the returns.

60. For instance the company Kimberly Clark declared its direct interest in local ownership. See Business Latin America, 1973, p.155.

The bargaining between the MNCs and the State did often tilt towards the Mexican State, especially in situations where Mexico enjoyed monopoly over the raw material. The MNCs on the other hand retained their control in whichever form possible, over channels of export marketing. It is this control over the structure of marketing that provided the MNCs with an incredible armoury to withstand the demand for nationalization. When such demands from domestic forces pushed the MNCs to the outer limits threatening their profit margins, the MNCs heavily relied on rallying their allies. At points of crisis in the legitimacy for MNC participation, the alliance proved to be indispensable. The alliance symbolized a viable vehicle for the MNCs to negotiate the quagmire of difficulties in the host economy. Where they managed to outmanoeuvre the hostile forces, the compromises struck owned their plausibility to the political efficacy of the alliance.

The centrality of the Mexican State could scarcely be undermined in steering the course of the economy, wittingly or unwittingly, towards denationalization. The penetration of the local economy by the MNCs could be seen in the context of the State's role in dealing with the external environment which had had serious internal economic dimensions. The real problem was to redirect the global rationality of the MNCs when it clashed with the necessities of local accumulation.
The State could not ably coerce or cajole the MNCs into undertaking roles that they otherwise abdicated. The power and flexibility of the MNCs suggested that making the returns to desired local investments was highly problematic. It was at the expense of either the national bourgeoisie or the State itself that local surplus usually shifted to the MNCs. Relying too heavily on coercing MNCs could prove to be both costly and risky. Not only were MNCs likely to withdraw from entrepreneurial ventures, but they were also likely to try to mobilize political opposition both internally and externally. Achieving an effective blend of coercion and incentive on the part of the State was not at all easy.

Foreign manufacturing capital thus played the 'role of the cuckoo. Local capital having endorsed industrialization of a certain kind was then pushed aside by the more powerful outsiders who were invitees in the very first place. To see the role of foreign capital in terms of denationalization is to acknowledge the objective dominance of the foreigners in this politically constructed alliance.

As one scans through the history of the alliance, the national bourgeoisie comes through as being a self-conscious class fully aware of the advantages in appearing nationalistic. Where the issue was posed in
terms of peasants vs. MNCs, the national bourgeoisie had very little choice except to side with the MNCs jealously defending what Gary Gereffi has termed as "social tranquility". There was hardly any doubt that the local capital was "nationalistic" as long as nationalism meant putting primacy on local rather than global accumulation. Where nationalism took on a broader meaning, the common interest of local capital and the MNCs in accumulation showed up their differences. These differences rendered the exact strategy of accumulation relatively unimportant.

The alliance of international and Mexican capital (both state and local) was therefore a necessary precondition to denationalization. Denationalization then entailed a certain external relationship of the Mexican economy with world capitalism. Such a relationship depended upon the nature of capital accumulation within Mexico which in turn, was based on the triple alliance. It is the three partners and their inter-relationship that constituted the structural basis of denationalization.

Owing to the popular pressures upon the Mexican State and its policies, the definition of nationalism which the State put into practice often clashed with

that of its allies. The State's definition of nationalism placed more weight on distribution and welfare programmes, while the alliance was reluctant to commit itself to such programmes. In situations where the State was compelled to step out of line in keeping with its compulsions, its allies especially the foreigners lost no time in reminding their domestic partner of the limits in stretching the rules. When the domestic circumstances and compulsions of local accumulation pressed for an uncompromising nationalism in excess of the accepted proportion, the foreign partner intervened to arrest such excesses. The case of the steroid hormone industry in Mexico indeed substantiates in a graphic manner such internal pressures exerted by the alliance.

The course of nationalist pressures and MNC responses in the field of research and development as illustrated by the pharmaceutical industry points to three conclusions. First, it is clear that a surprisingly large amount of political pressure was required to produce changes that were merely marginal in MNC behaviour. Secondly, however modest such changes, from the nationalist point of view these were successes. Such successes were indispensable in that they provided the base upon which future changes could be built incrementally. Thirdly, the positive gains for nationalist pressure varied not only from firm to firm but
also issue to issue. The issue of backward integration demonstrates this fact.

There is no doubt that the pharmaceutical raw materials were an expensive item in Mexico's balance of payments. The government in its willingness to provide attractive fiscal benefits to those who produced them locally, introduced preferential treatment through import licenses and other formalities. When those who produced such raw material declined in number, there was, nevertheless, the potential threat of duty free, government sponsored importation at the competitive international price rather than the parent subsidiary price. Pressurizing MNCs into backward integration was easier than urging them into research and development. The reason for this was obvious. The latter invariably put the MNC profits clearly in jeopardy. Research and development no doubt offered potential, long run gain but a reduction in the bill for imported pharmaceutical inputs was clear cut immediate gain. Moreover, the pressures of oligopolistic competition could easily be brought into play.

It was always difficult to push MNCs in the direction of investing in local product innovation. Still difficult was shaping the content of that innovation in

directions other than those indicated by profitability. Nationalist gains resulted in the expansion and diversification of the productive resources located in the periphery. The appropriateness of those productive resources to the satisfaction of indigenous needs was however, another question all together. The resulting process of denationalization left the local bourgeoisie as in the case of the pharmaceuticals, largely marginalized. Consequently, there was no possibility of the alliance taking place within the industry itself.

The discussion on the triple alliance is valid only to the extent of explicating and making deductions from the central argument of the study -- denationalization, towards a broader, conceptual analysis of industrialization. To that extent, the substantive data provided on denationalization formed the basis for deducing the category of the triple alliance.

In the distribution however, of multinational, state and local capital by sectors in Mexico, capital of different origins that gravitated towards different branches of industry is shown in the Table 20. There is no doubt that scale, technology and commercial strategy may have operated to separate MNCs and local capital in Mexico. State capital was dispersed with the highest proportion of this in primary metals, followed by chemicals, petroleum exploration and refining. However, when it came to integration of the three
kinds of capital, Mexico was considerably advanced. In at least three sectors (paper, transportation and non-metallic minerals) there were significantly high proportion of joint ventures. Overall, the proportion of US affiliates that were joint ventures in Mexico, were high as the Mexican state was publicly advocating "Mexicanization".

The shape of the compromise between the nationalist logic of the state and the global perspective of the MNCs was characteristic of Mexico. The MNCs were given generous incentives and extraordinary opportunities for augmenting their profits. In return, the MNCs shared control and returns with a few elite members of the local bourgeoisie. The Mexican state on its part tried to push the MNCs into doing local research and development by creating a National Registry for Transfer of Technology in 1973. The case of the steroid-hormone industry, discussed in this chapter, provide an apt instance of the alliance wherein the objective interests of the three actors seemed compatible. Some further elaboration is provided here to describe the modalities by which this alliance worked.

The Mexican state had some leverage in steroid production because the raw material base, Barbasco root, was found on Mexican soil. But the MNCs had crucial control over channels of export marketing.
When the state-owned corporation, Proquivemex, tried to force a substantial increase in the price paid by the MNCs for Barbasco, the MNCs responded by relying on stockpiles, leaving Proquivemex without buyers. Proquivemex in turn organized the peasants, who collected Barbasco and sold it to the state firm, as a collective mobilization to back the demand for nationalization of the steroid hormone industry. The MNCs rallied allies of their own. Cocamin, the National Industrial Confederation, came out in opposition to the state corporation's tactics, which it claimed "put social tranquility in danger". At the same time the National Chamber of Chemical and Pharmaceutical Firms attacked Proquivemex for its production of finished commodities, which they claimed could displace private local production. This brings to sharp resolution the manner in which the state corporation was outmanoeuvered. Other segments of the state apparatus stepped in and began trying to work out a compromise acceptable to the MNCs.

It can be said that the possibilities for confrontation between the state and MNCs on the one hand and the popular mobilization on the other, created greater impetus for alliances between local companies and MNCs. The Mexican local bourgeoisie was aware of the advan-

64. G. Gereffi, n. 45, p. 282.
tages of appearing nationalistic, but, when a state corporation posed the issue in terms of peasants versus MNCs, local capital had little choice. "Social tranquility" had to be defended and therefore the local bourgeoisie had very little option except to side with the MNCs.

The conflict between Proquivemex and MNCs illustrated the possible consequences of trying to include non-elite participants in the bargaining process. As long as participation was limited to elite local companies and the state, nationalism meant maximizing local accumulation. With broader participation, questions of distribution and welfare were more likely to come to the fore. Local capital was "nationalistic" as long as "nationalism" meant putting primacy on local rather than global accumulation. If nationalism took on a broader meaning, then the common interests of local capital and the multinationals diverged over the exact strategies of accumulation.

The Proquivemex case was interesting because it suggested that state capital in Mexico was willing to entertain definitions of nationalism that placed more weight on distribution and welfare. At the same time, the inability of the triple alliance to address to issues of welfare and redistribution was thoroughly reconfirmed by this example. If the state bourgeoisie
was tempted to step out of line, their private partners combined to remind them of the "rules".

In conclusion, it is necessary to highlight the central arguments around the thesis of denationalization as they have developed in the present chapter. It is evident from the analysis of the role of MNCs in the Mexican manufacturing sector that the condition for denationalization is created with the gearing of an industry towards ISI backed by the local availability of raw materials, capital and R & D.

The close examination of one case, that of the steroid hormone industry aptly demonstrates the inner logic of this process as it unfolds through the ISI and the subsequent EP phase. It has been argued that the process of denationalization is a direct consequence of the global trend of MNCs to invest in the lucrative industries of the manufacturing sector. However, what augments the inner efficacy of this process is the so-called triple alliance with MNCs occupying the dominant position vis-a-vis local capital and the State in Mexico.

Perforce, the historic configuration in which denationalization possibly occurs is the inability of the State and the local capital to strike a balanced bargain with the MNCs. The inherent asymmetries in the alliance have also been discussed. Such asymmetries
which account for the giving away of internal interests to external considerations arise from a host of factors relating to capital and technology. Taking a holistic approach, the present chapter has attempted to establish that there is no monocausal explanation of denationalization possible. Neither an economic determinism that places full onus of denationalization on the economic and technological superiority of the MNCs nor a political explanation suggesting the subordinate status of the Mexican State to the international forces, can adequately account for the process. The process occurs in a complex configuration of economic, political and even cultural modes where each aids the other and reinforces its overall character.

Having explored in some detail economic denationalization, it was necessary to examine the manner in which the MNCs within the context of the triple alliance, harnessed the political and cultural institutions in order to perpetuate and buttress their interests. In the political sphere, it may be mentioned that an aggressive ideological stance in defence of free enterprise was expressed through the American Chamber of Commerce in Mexico. Beneath the professional and managerial packages that were beamed at the various echelons of company executives, proprietors and key personnel, there was an implicit ideological inter-
analysis, that such an ideological intervention to influence political decision-making, was a resolute response to the socialist and nationalist aspirations in Mexico, especially after the successful revolutionary movement in Cuba. The ideological activities of MNCs created the condition for economic denationalization to continue unabated while, at the same time, thwarting the growth and development of indigenous institutions in the Mexican superstructure. This process was further aided by the informal constitution of the triple alliance between MNCs, the Mexican state and local private capital.
TABLE - 15

MEXICO: OWNERSHIP PATTERN OF FOREIGN COMPANIES
(in percentage)

<table>
<thead>
<tr>
<th>Decrease in foreign ownership</th>
<th>13.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 90% or more to 50-89%</td>
<td>4.2</td>
</tr>
<tr>
<td>From 90% or more to 49 or less</td>
<td>4.2</td>
</tr>
<tr>
<td>50-89% to 49% or less</td>
<td>3.4</td>
</tr>
<tr>
<td>Complete mexicanization</td>
<td>1.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increase in foreign ownership</th>
<th>19.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>50-89% to 90% or more</td>
<td>1.7</td>
</tr>
<tr>
<td>49% or less to 90% or more</td>
<td>2.6</td>
</tr>
<tr>
<td>49% or less to 50-89%</td>
<td>11.0</td>
</tr>
<tr>
<td>0-10% (without change of &quot;groups&quot;)</td>
<td>4.2</td>
</tr>
<tr>
<td>Maintaining the proportion</td>
<td>62.7</td>
</tr>
</tbody>
</table>

TABLE - 17
NUMBER AND SIZE OF LOCALLY OWNED FIRMS ACQUIRED IN MEXICO BY US MNCs, 1960-1972

<table>
<thead>
<tr>
<th>Size of Firm</th>
<th>No. of firms</th>
<th>Value of Assets*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>Large Firms**</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Small Firms</td>
<td>115</td>
<td>90</td>
</tr>
<tr>
<td>Total</td>
<td>128</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: * Millions of US dollars

** Large firms are those with assets greater than $5 million.

2. Gereffi and Evans, 1979, p.47.
### Table 18

**Mexico: Ownership Distribution of 300 Largest Manufacturers, 1972**

*(number and per cent)*

<table>
<thead>
<tr>
<th>Size Class</th>
<th>Foreign</th>
<th>Other</th>
<th>Total</th>
<th>Mexican</th>
<th>State</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 100</td>
<td>39</td>
<td>22</td>
<td>61</td>
<td>27</td>
<td>12</td>
<td>39</td>
</tr>
<tr>
<td>101-200</td>
<td>31</td>
<td>15</td>
<td>46</td>
<td>43</td>
<td>11</td>
<td>54</td>
</tr>
<tr>
<td>201-300</td>
<td>37</td>
<td>16</td>
<td>53</td>
<td>54</td>
<td>3</td>
<td>57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>97</td>
<td>53</td>
<td>150</td>
<td>124</td>
<td>26</td>
<td>150</td>
</tr>
<tr>
<td><strong>Per cent</strong></td>
<td>32</td>
<td>18</td>
<td>50</td>
<td>41</td>
<td>9</td>
<td>50</td>
</tr>
<tr>
<td><strong>Average size</strong></td>
<td>142.3</td>
<td>115.2</td>
<td>132.8</td>
<td>98.9</td>
<td>235.4</td>
<td>122.6</td>
</tr>
</tbody>
</table>

*Note: * millions of pesos.

**Source:** Newfarmer and Mueller, 1975, p.54.
# TABLE - 19

**MEXICO: MNC AND MEXICAN ENTERPRISE SHARE OF PRODUCTION BY DEGREE OF MARKET CONCENTRATION, 1970**

<table>
<thead>
<tr>
<th>Industries where 4 largest plants produced</th>
<th>75% or more</th>
<th>50-75%</th>
<th>25-50%</th>
<th>Less than 25%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All Manufacturing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>MNCs</td>
<td>21.2</td>
<td>39.7</td>
<td>30.1</td>
<td>9.1</td>
<td></td>
</tr>
<tr>
<td>Mexican Enterprises</td>
<td>4.7</td>
<td>24.1</td>
<td>38.1</td>
<td>33.1</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10.5</td>
<td>29.6</td>
<td>35.3</td>
<td>24.7</td>
<td>100</td>
</tr>
<tr>
<td><strong>Consumer Goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>MNCs</td>
<td>22.0</td>
<td>31.5</td>
<td>24.9</td>
<td>21.6</td>
<td></td>
</tr>
<tr>
<td>Mexican Enterprises</td>
<td>2.8</td>
<td>15.1</td>
<td>38.2</td>
<td>43.9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8.5</td>
<td>20.1</td>
<td>34.2</td>
<td>37.2</td>
<td>100</td>
</tr>
<tr>
<td><strong>Intermediate Goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>MNCs</td>
<td>20.9</td>
<td>46.9</td>
<td>29.2</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>Mexican Enterprises</td>
<td>5.0</td>
<td>34.2</td>
<td>31.9</td>
<td>28.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10.0</td>
<td>38.3</td>
<td>31.0</td>
<td>20.5</td>
<td>100</td>
</tr>
<tr>
<td><strong>Consumer Durables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>MNCs</td>
<td>25.9</td>
<td>48.1</td>
<td>25.4</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Mexican Enterprises</td>
<td>12.3</td>
<td>32.2</td>
<td>34.5</td>
<td>20.6</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20.7</td>
<td>42.1</td>
<td>28.9</td>
<td>8.3</td>
<td>100</td>
</tr>
<tr>
<td><strong>Capital Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>MNCs</td>
<td>11.1</td>
<td>26.0</td>
<td>58.3</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Mexican Enterprises</td>
<td>7.0</td>
<td>15.0</td>
<td>65.4</td>
<td>12.6</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8.4</td>
<td>18.9</td>
<td>62.9</td>
<td>9.7</td>
<td>100</td>
</tr>
</tbody>
</table>

TABLE - 20
THE SHARE OF INVESTMENT IN MEXICO,

% of Assets among the Top 300

<table>
<thead>
<tr>
<th>Industry</th>
<th>Foreign</th>
<th>State</th>
<th>Local</th>
<th>Private</th>
<th>% of Joint Ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>U.S.</td>
<td>Multinational</td>
</tr>
<tr>
<td></td>
<td>U.S.</td>
<td>MNC.</td>
<td></td>
<td></td>
<td>affiliates</td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>37</td>
</tr>
<tr>
<td>Textiles</td>
<td>26</td>
<td>7</td>
<td>67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper</td>
<td>51</td>
<td>22</td>
<td>73</td>
<td>39</td>
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* Firms that are less than 90 percent owned by the U.S. MNC.