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FROM GLOBALIZATION TO REGIONALIZATION: THE MEXICAN CASE

by

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TABLE OF CONTENTS

Summary 9

Preface 11

Introduction 13

THE MAIN TRAITS OF MEXICO'S INTEGRATION INTO THE WORLD ECONOMY 14
An Impetuous Trade Liberalization 14
A New Context for FDI 19

ASYMMETRICAL INTERDEPENDENCE: THE MEXICAN-US RELATIONSHIP 23
Interdependence 24
Asymmetry 25
The Road Toward a Free-Trade Agreement 27

THE LIMITS OF THE JAPANESE CARD 30

FIRM STRATEGY IN THE REGIONAL CONTEXT 34
Mexican Firms as "Raiders" 35
Booming *Maquiladoras* 37

CONCLUSIONS AND PROSPECTS 40

Notes and References 43

Bibliography 55

RÉSUMÉ

De 1983 à 1989, le Mexique s'est lancé dans une stratégie d'intégration dans l'économie mondiale et de limitation de sa dépendance à l'égard de l'économie des Etats-Unis. Des négociations sectorielles bilatérales avec Washington, ainsi que les négociations multilatérales dans le cadre du GATT, ont cherché à assurer la libéralisation de ses échanges dans la réciprocité, tout en essayant d'attirer des investissements étrangers directs (IED) de la part du Japon et de l'Europe. Les réformes économiques s'appuyaient surtout sur de rigoureux ajustements macro-économiques (en particulier, la réduction du déficit budgétaire) qui ont permis de faire passer l'inflation annuelle de 200 à 20 pour cent, et sur une libéralisation des échanges par laquelle le Mexique espérait pouvoir devenir un exportateur de premier plan en matière de produits manufacturés. Entreprises de façon plus progressive et pragmatique, d'autres réformes ont porté sur l'encouragement des IED, la déréglementation dans l'industrie et la privatisation du secteur étatisé.

La stratégie d'intégration à l'économie mondiale a finalement été jugée trop ambitieuse et abandonnée à la mi-1988 pour trois raisons principales : le Mexique a ressenti les accords de libre-échange (FTA) entre les Etats-Unis et le Canada comme une menace ; il a craint que l'évolution de l'Europe de l'Est ne compromette ses chances de bénéficier d'une forte augmentation des IED en provenance de l'Europe occidentale ; enfin, ni les investissements ni les intérêts japonais dans le pays ne se sont développés comme le Mexique l'espérait. Il a donc changé son fusil d'épaule ; passant d'une stratégie de réduction de sa dépendance à l'égard de l'économie américaine à une stratégie d'intégration accélérée en son sein ; sans guère rencontrer d'opposition politique interne, si ce n'est la résistance apparente du monde du travail et de quelques secteurs d'affaires (pour la plupart modestes) aux Etats-Unis.

Dans quelles conditions un accord de libre-échange avec les Etats-Unis a-t-il des chances de voir le jour ? La question reste ouverte dans un pays qui doit créer un million d'emplois par an pour se maintenir tout juste à flot. La santé de l'économie américaine, la stabilité politique au Mexique et l'aptitude du pays à attirer l'investissement étranger seront des éléments déterminants dans cette perspective.

SUMMARY

From 1983 to 1989 Mexico pursued a strategy of integration into the global economy and reducing dependence on the US economy. That strategy was based on bilateral sectoral negotiations with the United States and multilateral negotiations through GATT to obtain recipiocity for Mexico's own trade liberalisation, combined with efforts to attract Japanese and European FDI. Economic reforms included rather harsh macroeconomic adjustments (notably fiscal-deficit reduction), which lowered annual inflation from 200 to 20 per cent, and trade liberalisation, which has helped to make Mexico a leading exporter of manufactures. More gradual and pragmatic reforms were undertaken to promote FDI, deregulate industry and privatise state enterprises.

The globalisation strategy was perceived as too ambitious, however, and abandoned in mid-1989 for three principal reasons: the US-Canada FTA was seen as a threat, changes in Eastern Europe were thought to undermine possibilities for significantly increased FDI from Europe, and Japanese investment and interest in Mexico had not grown as hoped. The strategy shifted from one of reduced dependence on the US economy to one of accelerated integration with it, with virtually no domestic political opposition and the only apparent resistance coming from labour and some (mostly small) business interests in the United States.

How much a free-trade agreement with the United States will actually achieve for Mexico nevertheless remains an open question, given that the country must create a million jobs a year just to stand still. Much will depend on the health of the US economy, on political stability in Mexico, and the ability of the country to attract foreign investment.

PREFACE

The Development Centre has recently embarked on a major research project on Globalisation and Regionalisation as part of its 1990-1992 Work Programme. The Project aims to provide a better understanding of the forces (macroeconomic, microeconomic, political) that are working for, and against, the formation of regional economic groupings in Europe, North America and Pacific Asia, and how those forces interact with the forces (essentially microeconomic) that are driving globalisation. The purpose is to assess their implications for the strategies and policies of various categories of developing countries.

In North America, one major step in the regionalisation process was the free-trade agreement recently signed between Canada and the United States. Even more recently, and much more surprisingly, it appears that Mexico is likely to enter a free-trade agreement with the United States. This marks a radical shift in Mexico's long-term development strategy -- and in its historical relationship with the United States.

Following the 1982 explosion of the debt crisis and through the first half of 1989, Mexico was pursuing a strategy of increased integration into the global economy and reduced dependence on the US economy. By mid-1989, however, the Salinas administration perceived that strategy as too ambitious and abandoned it in favour of regional integration with the US economy. While Mexico has participated in Latin America's "silent revolution" of the 1980s in moving from inward to outward oriented development policies, in the last year it has turned its economic back on Latin America: its "silent integration" with the United States has become a "roaring process" since mid-1989.

In providing a comprehensive, well-documented and forward-looking account of Mexico's remarkable shift in strategy and policy-direction, this Paper constitutes an important contribution to the Centre's ongoing research project on globalisation and regionalisation.

Louis Emmerij
President
OECD Development Centre
August 1990

INTRODUCTION *

When on March 27, 1990, the Bush administration announced that Mexico and the United States had begun "preliminary discussions" that could lead to a free-trade agreement similar to the one signed with Canada, even the Mexican embassy's press release stating that "it can not be confirmed that such an agreement will be established between both countries" was not enough to prevent the widespread feeling that we are reaching the end of the beginning of the process toward a common North American economic space[1].

For more than seven years, since early 1983, two Mexican administrations have followed economic and trade policies aimed at structural changes that would eventually lead to a better integration of the country into the world economy. The scope and the horizon of that integration were never explicitly defined; however, a broad goal of combining integration in the international marketplace with a reduction of the country's dependence on the US economy has always been present[2].

Mexico, although stagnant from 1982 to 1989, experienced radical structural changes during those years. New policies, combined with changes in firm strategies, transformed the country's economy to such a point that the so-called "silent integration" with the US market became the predominant driving force of growth for the industrial sectors that were able to respond promptly to the new set of incentives.

In such a framework, forces pushing toward the regionalization of the Mexican economy were much stronger than the aims of internationalizing it by means of going truly global[3]. The experience of Mexico is particularly relevant for studying potential conflicts between globalization and regionalization because this country, after pursuing a stable policy aimed at integrating its economy in the global marketplace, eventually had to reformulate that policy and seek a more feasible integration in the North American economic region.

The study of the nature and the extent of this apparent contradiction between goals and economic realities is the core of this research. In order to advance in the understanding of Mexico's current course toward regionalization and its prospect in the medium term, this paper is divided into five main sections.

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In the first one, we present the main characteristics of Mexico's integration into the US marketplace and we review the most recent policy changes in that country, which show its government's commitment to further structural changes as a means to recover a stable growth pattern. As such changes, which were oriented mainly toward the globalization of Mexico's economy, demanded a much closer relationship both with the United States and Japan, in sections two and three, we study the current situation of, and the prospects for, those relations.

In the fourth section, we go more deeply into the microeconomic effects of the structural change and we analyze the most important modifications that have taken place at the level of firm strategy. Two sets of issues are studied in this section: first, the recent take-overs of American corporations by Mexican firms that are actually going global, and second, the boom of the *maquiladora* (in-bond) industry in Northern Mexico. Finally, in section five, we spell out conclusions and present suggestions regarding the prospects for Mexico's regionalization.

THE MAIN TRAITS OF MEXICO'S INTEGRATION INTO THE WORLD ECONOMY

Mexico's far-reaching program of economic reforms consists of five major components[4]:

1. Macroeconomic adjustment, which implied a substantial reduction of the fiscal deficit as a means to decrease inflation[5];

2. Trade liberalization;

3. Foreign direct investment (FDI) promotion;

4. Deregulation of domestic economic activities; and

5. Privatization of state-owned enterprises, especially service companies, commercial banks, and small- and medium-sized industrial firms.

Although this set of policy measures, which reflects quite an orthodox approach to economic policy-making by the Mexican government, is closely intertwined, we will focus our attention into the two issues most relevant for the purpose of the present study: trade liberalization and FDI promotion.

An Impetuous Trade Liberalization

Mexico, as did other large Latin American countries, adopted an inward-looking pattern of economic development during most of the five decades prior to the 1980s. Although export promotion was part of the industrial strategies followed during the 1970s, the country's trade regime was characterized by widespread protection of domestic industrial production, especially of modern consumer goods. Protection was provided to local producers (both Mexican firms and affiliates of multinational corporations) through a variety of instruments: tariffs, official import reference prices,

and most importantly, imports licenses. Even though protection levels varied significantly in the long term[6], the general trend was toward its increase, especially during periods of balance of payments difficulties.

Although protectionism promoted the creation of a relatively large industrial base in the country, it also implied a sharp reduction of the relative importance of its external trade relations. The ratio of merchandise exports and non-factor services to GDP fell from 14.4 per cent in the 1950s to about 9 per cent for the two following decades, whereas the imports-to-GDP ratio decreased from 16.7 per cent to little more than 10 per cent, respectively (Table 1). In general terms, total foreign trade as a share of GDP lost more than 10 percentage points in that period, especially in the 1960s, which is to say during the most dynamic years of vertical import substitution industrialization.

Table 1

MAIN TRADE RATIOS OF THE MEXICAN ECONOMY
(percentages)

	1951-60	1961-70	1971-80	1981-87	1987
Exports*/GDP	14.4	9.2	9.3	15.4	19.7
Imports*/GDP	16.7	10.3	10.4	10.4	12.6
(X+M)/GDP	31.1	19.5	19.7	25.8	32.3

* Merchandise trade and non-factor services.

Note: Calculations are based on values at current prices.

Source: Banco de México, *Indicadores Económicos,* several years.

According to Mexican officials in charge of foreign trade policy, protectionism bore high costs upon the country's economy.

A closed commercial environment led to suboptimal investment decisions, and thus Mexico's ability to compete in world markets declined substantially. Because of the anti-export bias present in trade policy, manufactured exports grew very slowly in the late 1970s, whereas imports surged after 1979 in response to booming economic growth driven by oil exports and foreign indebtedness[7]. Dependence on oil exports and growing manufacturing imports increased the country's economic vulnerability to a point where it could not stand up to the reduction of oil prices and the rise of international interest rates in 1981. In an attempt to deal with these problems, the Mexican economy was effectively closed to foreign trade in 1982 as licensing requirements were imposed on all imports.

The trade liberalization program was started in 1983 and has continued up to the present (1990). Generally speaking, the program can be grouped around three major policy decisions. First, the share of the import value subject to licensing in the total value of imports went down from 83 to 37 per cent over 1983-1985. Second, in December 1987, as a part of an anti-inflationary plan, the import tariff range was reduced to 0 -- 20 per cent with only five rates being applied (0, 5, 10, 15, and 20 per cent), whereas the few remaining official import reference prices were eliminated in 1987 as well. Third, in early 1989 the minimum tariff rate was increased from 0 to 10 per cent for most tariff items. The explicit purpose of that policy was to reduce tariff discrimination among economic sectors. However, it also had the effect of slowing down import growth caused by the exchange rate appreciation brought about by the stabilization program.

By the end of the first quarter of 1990, the situation regarding trade liberalization was as follows:

1. The average tariff was 13.1 per cent, whereas the import-weighted tariff was just 9.5 per cent;

2. Import licensing covered only about 2 per cent of tariff items, and roughly 19 per cent of import value;

3. The main sectors that were still under import licensing protection consisted of a number of agricultural goods[8] and two industries which have operated under development programs (automobiles and pharmaceuticals)[9];

4. In brief, Mexico's trade liberalization program has placed this country among the most open developing economies.

In this general framework, the situation of the automobile and the microcomputer industries deserve more detailed analysis.

In December 1989, two decrees contemplating a gradual trade liberalization of the automobile industry from November 1990 on were issued[10]. For passenger cars (the most important item regarding future imports), liberalization will take place as follows: Beginning with the 1991 models (November 1990-October 1991), car imports will be allowed to *terminal car producers already installed in the country*. Such firms (Chrysler, Ford, G.M., Nissan and Volkswagen) will be permitted to bring in new cars according to specific ratios derived from their firm-level surplus trade balance, and those ratios will be reduced over a period of four years[11].

According to a decree published in April 1990, another important industry under a development program (microcomputer production) has been exempted from import licensing[12]. A protectionist scheme has been designed for it too. Imports of micros and peripherals will be subject to a 20 per cent tariff rate[13]. However, firms registered in the development program, which implies certain binding conditions regarding domestic content, technology transfer, and so forth, will benefit from a subsidy equivalent to 100 per cent of tariffs corresponding to their imports of components and finished computer goods.

It is remarkable that both for computers and automobiles the specifics of trade liberalization opened doors for potential cross-subsidies from consumers of imported goods to domestic producers. Foreign firms are the largest producers in the country in both cases as well, and as we will see later on, they are also the leading exporters of those goods.

From a general standpoint, trade liberalization has allowed producers of exportable goods greater access to inputs at international prices and qualities, which has rendered those firms more competitive abroad. Additionally, trade reform has lowered the anti-export bias by reducing the profitability differential in favor of producing for the domestic market instead of exporting.

According to Mexican officials, trade liberalization is the main force behind the fast growth of non-oil exports. During the period from 1982 to 1989 such exports tripled, whereas manufactured exports increased more than fourfold. That is, during those years, non-oil exports increased from $5 to $15 billion, while exports of manufactured goods rose from $3 to $12.5 billion[14]. These figures imply annual average growth rates of 17 and 23 per cent, respectively. Moreover, the combined effect of the reduction of oil prices and the hike of non-oil exports increased the latter's share in total exports from 28 per cent in 1982 to 68 per cent in 1989, while exports of manufactured goods jumped from 20 to 56 per cent, respectively.

A detailed consideration of the fastest-growing export manufacturing industries sheds additional light on the actual driving forces of the export boom. More than one third (35 per cent) of the increase in manufactured exports from 1982 to 1988 was accounted for by the automobile industry, and within that industry finished cars and engines were the most relevant export products (Table 2). Other outstanding export items were computers, chemicals, and steel and sundry metal products. The forces that fostered exports from those industries were diverse and the final result was successful because of the combination of trade and industrial policies.

Finished products from the automobile and computing industries have been fully protected through import licenses during the whole period under consideration. The actual effects of trade liberalization operated through the free importation of parts and components in a context in which producers could reap the benefits of protection by means of their sales in the domestic market. Cross-subsidization in favor of exports was thus definitively possible. Moreover, subsidization indeed took place through the reduction of capital costs by means of significant investments implemented through debt-equity swaps[15].

The logic behind rising exports from the other two mentioned industries is more conventional. The production of chemicals enjoys a true comparative advantage in Mexico given the country's endowment of natural resources, whereas the exports of steel and metal products responded to a sharp decrease in the domestic market for those products, which was caused by the plunge of investment after 1982.

Table 2

FAST-GROWING EXPORT MANUFACTURING INDUSTRIES
(million dollars)

	1982 (1)	1988 (2)	Increase (2)/(1)
Computing Industry	2	340	170.0
Cement	13	146	10.2
Sundry Metal Products	76	818	9.8
Automobile Industry	483	3,459	7.2
* *Automobiles*	*81*	*1,493*	*17.4*
* *Auto-parts*	*188*	*599*	*2.2*
* *Car Engines*	*214*	*1,367*	*5.4*
Steel Products	112	759	5.8
Beer	28	186	5.6
Textiles and Apparel	129	510	3.0
Glass and Glass Products	68	235	2.5
Chemicals	441	1,397	2.2
TOTAL	1,352	7,850	5.8
TOTAL MANUFACTURING INDUSTRY	3,018	11,523	3.8

Source: SECOFI, based on data from Banco de México and INEGI.

Four other industries also displayed good export performances: cement, beer, glass, and textiles. The first three deserve special consideration because they are typical examples of sectors led by large Mexican-owned conglomerates, which, as we will see later on, are growing not only through exports, but also by means of taking over American firms.

The combination of the above-mentioned factors actually changed the international integration of the Mexican industry. Data from Table 1 show that the ratio of exports to GDP jumped from 9.3 per cent in the 1970s to 19.7 per cent in 1987, while the ratio of exports plus imports to GDP reached 32.3 per cent that year, this figure being higher than the averages for the four previous decades[16].

The bottom line is clear. After almost a decade of efforts, Mexico has attained an important place among the leading newly exporting economies (NEEs). If we include the gross exports of the *maquiladora* industry, Mexico is the largest Latin American exporter of manufactured goods[17]. And, even if we do not include the *maquiladoras*, Mexico still is a larger exporter than four of the five NEEs of South-East Asia (Table 3).

Table 3

EXPORTS OF MANUFACTURED GOODS FROM 10 LEADING NEEs, 1988
(million dollars)

Hong Kong	57,836
South Korea	56,629
Taiwan	54,540
Singapore	29,123
MEXICO with *maquiladoras*	**21,676**
Brazil	16,151
MEXICO without *maquiladoras*	**11,523**
Malaysia	9,533
Thailand	8,192
Indonesia	5,535
Philippines	4,400

* Exports of manufactured goods plus **gross** *maquiladora* exports.

Source: SECOFI on the basis of data from The World Bank and Banco de México.

As we saw previously, foreign firms played an outstanding role in Mexico's export performance. It was this aspect of FDI as a supplier of access to foreign markets, as well as a source of technology, that motivated the changes in the regulations regarding FDI implemented in 1989.

A New Context for FDI

In December 1989, registered FDI stock in Mexico reached slightly more than $27 billion. Registered FDI flows, after showing a sharp pro-cyclical behavior immediately after the 1982 crisis, picked up from 1985 on and have never fallen below $3 billion since 1987 (Table 4). Although, for the period 1986-1988, this unexpected counter-cyclical dynamic can be explained by the impact of debt-equity swaps and capitalizations of liabilities[18], investment continued at a fast pace even after the phasing out of the swap program.

In particular, a detailed account of projects announced in 1989 shows that FDI flows have continued to concentrate in sectors closely related to exports of goods or services: tourism, *maquiladoras*, automobile industry, chemicals, and so forth. Nevertheless, a few important projects have also been undertaken in areas related with the domestic market, e.g., dairy products and telephone equipment[19].

Table 4

FOREIGN INVESTMENT IN MEXICO, 1982-1989
(million dollars)

	TOTAL	OECD Countries	United States	Japan	OECD, Europe
Stock*					
1982	10,786	10,732	7,335	777	2,481
Flows*					
1983	684	634	267	4	341
1984	1,442	1,349	921	36	359
1985	1,871	1,861	1,436	79	310
1986	2,421	2,196	1,206	142	805
1987	3,877	3,622	2,670	133	800
1988	3,100	na	2,100	149	na
1989**	3,000	na	na	na	na

* Stocks and flows include authorized investments and investments that do not need authorization to be registered.

** Preliminary figures.

Source: Dirección General de Inversiones Extranjeras, SECOFI. For 1989, SECOFI, cited in *La Jornada,* December 15, 1989.

Though FDI flows to Mexico might look quite impressive, and even more so if we compare this nation to other large Latin American countries, such flows are much lower than those expected by Mexican officials. Even before the only partially successful negotiation of the government's foreign debt in July 1989, it was clear that the country should attract FDI for at least $30 billion during the six years of the current administration in order to make ends meet[20].

It is in this framework of insufficient FDI to the country that one must consider the overhauling of the regulations on foreign investment that took place in 1989. In May that year, the government issued a new decree to regulate FDI and seven months later approved several laws that increased the scope for FDI in non-banking financial institutions.

Since 1983, the Mexican government has been considering a comprehensive change in the legal constraints to FDI. However, the 1973 Law to Promote Mexican Investment and to Regulate Foreign Investment continues to be in force. Different means were used as substitutes for the change or the abrogation of that law[21]:

1. The 1984 Guidelines from the National Commission of Foreign Investments (NCFI), which actually allowed up to 100 per cent foreign ownership in specific capital-intensive, high-tech, or export sectors;

2. General resolutions by the NCFI that reduced red tape for establishing subsidiaries of very small foreign firms or allowed unlimited investment by neutral capital; and

3. Explicit statements by high-level policy-makers which indicated their intention of applying the 1973 law in quite a flexible way.

The May 1989 decree was another step in this process of changing the legal framework without changing the law[22]. With the implicit goal of increasing FDI share in total investment from the prevailing 10 per cent in 1988 to 20 per cent, the new regulations established automatic authorization for investments with up to a 100 per cent share of foreign capital that fulfill six somewhat binding conditions[23]:

1. Total assets are less than $100 million;

2. All funds originate abroad;

3. Production plants are located outside the most populated urban areas (Mexico City, Guadalajara and Monterrey);

4. Foreign exchange flows are in balance during the first three years of operation of the project;

5. Investors create jobs and train workers; and

6. Projects use suitable technologies and respect environment protection laws.

These new regulations may promote investments by small- and medium-sized firms; but, they will hardly increase investments by large multinational corporations, which are the owners of the sought-after intangible assets[24]. Given President Salinas' political clout, shown once again in the May 1990 constitutional amendment to re-privatize the commercial banking system, it is difficult to argue that he has not changed the FDI law because of political constraints. Regarding foreign investment, the Mexican strategy has been one of a very careful gradualism, in sharp contrast with the rather harsh liberalization of trade flows.

A similar gradual approach was also present in the process of preparing the financial system to withstand foreign competition. With this purpose, the Mexican financial authorities introduced several reforms aimed at modernizing that system in 1988 and 1989.

In late 1988, legal reserve requirements on bankers' acceptances were replaced by a liquidity ratio, thus freeing funds for financing the private sector. Subsequently, in early 1989, restrictions on lending to that sector were removed, all deposit rates were liberalized, and below market rate lending to the government was discontinued,

enabling commercial banks and private brokerage houses to compete with one another in a free market. So, the government will no longer be financed through the banking system; instead, it will be financed directly by means of the sale of Treasury bills and other government paper in open market operations[25].

In December 1989, the Mexican Congress passed new legislation under which foreign investment of up to 49 per cent of total capital will be allowed in firms such as brokerage houses, variable-income investment funds, insurance companies, bond guarantor companies, and other non-banking financial institutions (e.g., bond warehouses)[26]. Although in all cases investments require authorizations to be granted by the NCFI, these laws imply a significant opening up of the Mexican financial market that will put pressure on domestic firms to modernize or to establish joint-ventures with large international financial institutions[27]. Moreover, legislation passed in June 1990 establishes that foreign investors will be allowed to own up to 34 per cent of equity in the commercial banks to be re-privatized[28].

The process of internationalization of Mexican financial agents is already well advanced in the cases of investors and issuers of bonds and stock. Although these agents -- or at least the larger ones -- have access to international markets, Mexican financial intermediaries lag behind in this process of going abroad, especially regarding operation, e.g., in the NYSE trading floor. The decisions to re-privatize the commercial banks and to allow minority foreign participation in their equity might be considered an additional step in modernizing the financial sector and strengthening it to withstand the inevitable competition by large international firms that the integration of Mexico in the international economy will imply.

Another area in which Mexican strategy has also moved gradually is technology transfer and protection of intellectual property rights. After a long process that implied the change of the law on patents in 1987, a new decree on technology transfer and the use of patents and trademarks was issued in January, 1990[29]. This decree has eight basic points:

1. The government is not going to control technology transfers anymore. They will be subject only to decisions by the contracting firms;

2. There will be no limits to royalty payments;

3. More protection to industrial secrecy and patents will be granted, thus attempting to prevent piracy;

4. Promotion of franchising contracts;

5. The National Registry of Technology Transfers will not be allowed to deny the registration of technology contracts that fulfill legal requirements. In particular, no more technological or economic performance requirements will be imposed on firms that want to register contracts;

6. Reduction of red tape to register software contracts;

7. Elimination of mandatory registration for most contracts involving operation services;

8. The National Registry will become a promotional agency and a data bank on technology, losing its regulatory powers.

The explicit goal of this new regulation was to foster economic modernization through the elimination of bureaucratic procedures that according to the government prevented technology transfers to small firms, put obstacles to all types of transfers from abroad, and hindered transfers of high-tech to production areas.

In sum, the impressive listing of new decrees issued in less than twelve months sends two different messages to investors and decision makers. On one hand, the political willingness of the government to assure a stable and progressively more open and flexible environment for FDI, technology transfer, and trade. On the other, the determination of moving only gradually regarding the most sensitive issues of ownership and control of certain production areas and of financial services in general. The movement toward internationalization is irreversible; however, rhythms are different and selectively determined. The automobile, computer and FDI policies show that pragmatism continues to have a place in Mexican economic policy-making.

ASYMMETRICAL INTERDEPENDENCE: THE MEXICAN-US RELATIONSHIP

Data regarding both trade and FDI show conclusively that the internationalization of the Mexican economy indeed implied its increasing integration in the US economic arena (Tables 4 and 5).

Although the United States has accounted for more than two-thirds of Mexico's external economic relations in the very long-run[30], the American market absorbed an even larger share of the fast growing non—oil exports during the 1980s[31]. Therefore, the driving force for economic growth lies in a stable relationship with the United States.

The marginal presence of the Latin-American Integration Association (LAIA) countries in Mexico's foreign economic relations is no surprise. However, the relatively small Japanese share in FDI and trade flows and the only slightly larger Western European presence in non-oil exports go against current conventional wisdom. So far, the process of opening up of the Mexican economy has not brought about an actual diversification of its trade and investment partners. The relationship with the United States continues to be the core of the integration of Mexico in the world economy.

Two different, opposite approaches are useful to understand the complex and multidimensional relations between Mexico and the United States[32]. On one side, we have analysts who consider that the core of the relationship lies in a growing interdependence between the two countries[33]. On the other, authors who argue that such a core actually lies on asymmetry, and that Mexico's position in the relationship is better understood if we consider it as dependent on the United States[34].

Interdependence

Proponents of the interdependence approach believe that increasingly important economic and social relations between the two countries should lead to policy changes aimed at eliminating unilateral action as the main way to deal with the relationship[35]. This strongly normative approach recognizes that states may not achieve a level of optimal policy coordination because of power and interest or institutional factors. However, economic and social forces would eventually lead the partner countries to a pattern of explicit strategic behavior (cooperation) or even to institution building to manage the relationship.

The report prepared in 1989 by the Bilateral Commission on the Future of the US-Mexican Relations is a paradigm of the interdependence approach[36].

The Commission's message is twofold:

1. Bilateral problems require bilateral approaches because unilateral actions cannot provide lasting solutions. Not only does a bilateral approach assure full consideration of a problem, but it also enhances the likelihood of finding a solution that actually works;

2. The bilateral relation is becoming more complex and requires skillful management, not simplistic recipes.

The Commission identified five important issues it believes will face the two countries through the rest of the century. For each, it detected fundamental trends and assessed opportunities for bilateral cooperation. Those issues are: economic relations, immigration, illicit drugs, foreign policy, and education and public opinion.

In order to show the Commission's innovative approach of considering that both countries face somewhat similar, although asymmetrical, challenges and opportunities, it is worthwhile to show how it tackled the economic aspects of the relationship, specifically in the areas of trade and investment.

The Commission argued that both the United States and Mexico have to cope with serious economic and financial problems, especially in the areas of the budget and of redefining each country's position in a new global economy. However, the challenge the United States faces is related to its global leadership, whereas Mexico's main concern is how to recover a stable, relatively dynamic growth pattern after a decade of economic stagnation.

In the bilateral relation, many potentially conflictive situations demand a framework able to address the most sensitive issues: debt, trade, and investment. A cabinet-level binational commission would be, according to the Bilateral Commission, an adequate institution to provide a high level forum for dialogue and a means to develop early warning mechanisms to help reduce economic dislocations.

In opposition to the currently faded-out debt issue, which nevertheless would still have the potential to undermine the bilateral relations, increasing trade could be

the cement bonding the countries closer. However, given that both countries seek to increase their exports and try to balance their commercial accounts, trade might also pose a potential for conflict.

The Commission suggested that both administrations should adopt a two-step approach to trade issues, recognizing the limitations that derive from the enormous economy disparity. First, the two countries should continue to agree to generalized trade concessions. Second, they should move quickly to free-trade agreements in all sectors, especially industrial ones, where benefits from more open trade relations may exist.

Regarding investment, the main issue relates to the creation of an environment characterized by profitability and stability. For the specific case of Mexico, the Commission recommended a more open and consistent policy for new FDI, the re-establishment of the debt-equity swaps in cases beneficial for that country, and the encouragement of projects that lead to prompt transfer of modern technology. In addition, the two governments should establish a fast track procedure to identify legal, administrative, fiscal, commercial, and patent issues that might pose obstacles to FDI, and adopt measures that reduce or eliminate those impediments.

From this review, it is clear that even though the interdependence approach recognizes the existence of long-term disparities, it also believes that better, shared knowledge and adequate institution building may, and eventually will, reduce the scope for confrontation and increase the opportunities for cooperation and coordination.

Nowhere is this proposition more explicitly presented than in the Commission's considerations on education and public opinion. On these subjects, it stated: "The problems of interdependence are needlessly complicated by cultural stereotypes that cloud public understanding, by ignorance and misconceptions that affect policy-makers and the media, as well as ordinary citizens, by the failure to inform and educate, and the by dearth of scholars and researchers needed to produce new knowledge and expert analysis."

The areas of education, news coverage, entertainment media, and cultural exchange would thus be the most important ones where both governments should work to reduce the negative effect of stereotypical approaches to each of the two cultures from the standpoint of the other. Quite likely, the fairest way to epitomize the Commission's report is by citing its final assertion that collaboration between Mexico and the United States demands more than good will. What it indeed demands is a willingness to discard preconceptions and to search for innovations.

Asymmetry

In sharp contrast with the previous optimistic approach, authors who focus mainly on power and national interest argue that the most important characteristic of the bilateral relationship is Mexican vulnerability and dependence on the United States Power asymmetries do not encourage bilateral cooperation in the form of explicit agreements or the creation of formal institutions, because the stronger state can always act unilaterally to change the terms of any agreement with the weaker.

Table 5

STRUCTURE OF MEXICO'S FOREIGN TRADE, SELECTED YEARS
(percentages)

	United States	Western Europe	Japan	LAIA*	Other Countries
Exports					
1981	4	18	5	na	na
1984	58	20	8	4	10
1985	62	19	8	3	8
1986	66	14	7	4	9
1987	65	15	7	4	9
1988	66	14	6	4	10
1989**	69	na	6	na	na
Non Oil Exports					
1981	62	9	4	na	na
1984	69	6	2	na	na
1985	75	10	3	na	na
1986	75	8	2	na	na
1987	81	5	3	na	na
Imports					
1981	60	16	4	na	na
1984	65	18	5	4	8
1985	66	16	6	4	8
1986	65	19	6	3	7
1987	64	19	7	3	7
1988	68	17	6	3	6
1989**	65	na	5	na	na

* Latin American Integration Association's countries: Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

** Preliminary data based on actual figures for January-July.

Source: *Latin American Statistical Abstract,* several years; Banco de México, *Indicadores del Sector Externo,* several years, and Banco de México (1989).

Rico (1983) summarizes the asymmetry approach when he argues: "Such rhetoric [the one about interdependence] confounds the discussion on both sides of the border regarding the fundamental realities of the relationship and its future. Whatever merit the arguments may have, they cloud one of the basic characteristics of these relations - their profound asymmetry."

In such a framework, Mexico would be much more constrained by any formal general agreement than the United States. So, it should get out of the multilateral policy arena to enter the bilateral one only when dealing with areas where there is a relative symmetry in its bargaining power vis-à-vis the United States. As Krasner (1988) points out, in this case cooperation will be at best selective and episodic. As there would be no clear evolution toward a more cooperative environment, unilateral decision making or tacit strategic behavior would be the normal mode of interaction between the two countries.

Mexico has been strongest in relation to the United States, a) During limited time periods (e.g., the World War II, when the United States needed Mexican manpower for its agricultural sector and raw materials for the war effort), or b) In very specific policy areas in which sovereignty rights preclude that an optimal solution could be achieved through unilateral action (e.g., pollution in urban border areas, or sharing of surface water).

In general terms, explicit cooperation and even institution building have taken place more frequently in areas in which power relations have been relatively balanced, whereas unilateral action or at best implicit strategic behavior, predominate in more asymmetric issues (Table 6).

The Road Toward a Free-Trade Agreement

Although bilateral trade issues, as most of the other main economic policy areas, have been tackled overwhelmingly through implicit strategic behavior, the two countries have reached three formal bilateral agreements in the last five years[37].

In 1985 there was an agreement on subsidies, which stabilized new markets for Mexican exports by preventing the easy recourse of countervailing duties by American firms potentially hurt by those exports. In 1987, a framework of principles and procedures for consultations on trade and investment relations was signed; it meant an important step forward for Mexico given that the United States accepted for the first time a sectoral approach to those consultations. This agreement was developed further by another one signed in October 1989, by means of which sectoral negotiations began in product areas and interrelated issues. In particular, the two countries agreed to initiate "trade and investment facilitation talks", which are to be comprehensive negotiations on market access and trade and investment facilitation[38].

In spite of the relevance of these agreements, they have been clouded by the announcement in March 1990 that Mexico was going to initiate talks towards a general free-trade agreement (FTA) with the United States. Although Mexican officials initially played down the news and argued that there were "no formal negotiations"[39], after Presidents Bush and Salinas met in June 1990, the road toward a FTA seems to be

Table 6

POWER AND COOPERATION IN THE US-MEXICO RELATIONSHIP

	Unilateral Action	Tacit Strategic Behaviour	Explicit Cooperation	Institution Building
Equal	Aquifers		Fishing Health Debt Braceros Drugs	Surface water Boundary
Unequal	US immigration policies	Petroleum Bilateral Trade In-bond Industry Direct Investment		

Source: Author's adaptation of Krasner (1988), Table on p. 61.

open. Formal negotiations might begin in early 1991, after the end of the Uruguay Round of the GATT[40].

Several important issues regarding what internationalizationpattern the Mexican economy will follow arise from the announcement of negotiations aimed at signing a FTA:

1. Why has Mexico agreed to such negotiations given that its current president clearly stated, during his electoral campaign, that he was not in favor of any FTA or common market plan because "there is such a different economic level between the United States and Mexico"[41]?

2. What is Mexico's actual strategy for integrating into the world economy? Multilateral negotiations through the GATT, a bilateral agreement with the United States, regionalization with the United States and Canada, or a true global approach that includes North America, Western Europe and Japan?

Until mid-1989, Mexico pursued a strategy of internationalization based on the premises of: a) Bilateral, sectoral negotiations with the United States, b) Multilateral negotiations through the GATT to open foreign markets and attain reciprocity for its own trade liberalization, and c) Efforts oriented toward attracting Japanese and Western European direct investment in order to diversify its dependence on the United States.

Different facts proved that this multidimensional strategy was too ambitious. The FTA signed between the United States and Canada began to be seen as a potential threat to Mexican exports to the United States even in the short run. The most endangered areas would be energy, petrochemicals, textiles, wood and lumber products, and auto-parts. Additionally, the unexpected changes that took place in Eastern Europe thwarted the hopes of significant Western European investments[42]; whereas, for reasons we will analyze in the following section, Japanese firms showed they were rather reluctant to invest amounts commensurate to Mexico's foreign exchange needs.

All these reasons forced Mexico to move from a strategy of integration into the global economy to another that considers that globalization should be preceded by a stage, of indefinite duration, of regionalization, i.e., integration with the United States. As a stable and predictable trade relationship with the largest market in the world would send a very positive message to investors, a FTA is quite probably the best policy tool Mexico has to promote non-US direct investment flows.

During the first quarter of 1990, increased attention has been given to closer links with Canada, mainly in the areas of environmental protection, prevention of drug traffic, and investment[43]. However, Mexico and Canada seem to consider each other more as potential competitors vis-à-vis the United States than partners in a regional scheme[44]. In this sense, a true regionalization of the Mexican economy would be determined more by the evolution of the US-Canada relationship than by Mexico's policy towards, and linkages with, the latter.

Reactions to the announcement of negotiations aimed at signing a FTA have been more positive in Mexico than in the United States. Mexican businessmen and politicians tend to agree with the FTA idea with the United States, mostly because of the reasons pointed out by Székely (1989):

1. Economic integration is increasing at a very fast pace, even without government promotion or the official recognition that it is a policy goal, by either of the two administrations;

2. The Mexican policy aimed at diversifying the country's economic relations showed quite poor results during the 1980s;

3. Mexican national identity will not be threatened by any FTA because the country's culture is strong and will not be weakened by closer economic linkages with the United States. Opponents to the FTA (especially from the PRD-Partido de la Revolución Democrática) accept that the first reason is factual. However, they argue that such an integration is not (and should not be considered as) inevitable. It is the result of government policies that precluded more diversified relations, e.g., with Latin America. Regarding Mexico's cultural identity, they think that a FTA is just one step more towards what an analyst called "an annexation similar to that of Texas in 1836 and a betrayal of Latin America"[45]. Finally, they consider that such an agreement goes against the country's sovereignty because it sets limits to the power of future governments regarding the US-Mexico relationship[46].

Although press coverage of the FTA in the United States has been adequate, the Bush administration is strongly supportive of the FTA, and congressional hearings on the subject are scheduled for the second half of 1990, American public opinion is not very concerned with such negotiations.

Corporate America seems to be much in favor of a FTA with Mexico[47]. However, casual evidence suggests that smaller companies and less efficient firms in the agricultural and manufacturing sectors might be reluctant about the benefits of such a move[48]. The main reasons for that reluctancy are: a) Doubts about additional advantages the United States will get, given that it already faces an almost completely opened Mexican economy, b) Strong competition by Mexican exports of fruits and vegetables, c) Potential production shifting towards Mexico, and d) A generalized fear that the FTA will lead to "huge movements of people going North"[49]. Naturally, labor unions, specifically the AFL-CIO, tend to oppose the FTA on the grounds that US wages will be reduced because of labor shifting abroad and competition posed by goods produced under "exploitative conditions in Mexico".

Supporters of the FTA in the United States argue that it will create more stable political conditions south of the border[50], and also that jobs in the United States will be maintained because of shifting partial production processes to Mexico instead of moving whole processes further away.

Debates about the FTA with Mexico will tend to become harsher and it is not clear whether the Bush administration has enough votes in the Congress to pass the FTA[51]. However, it is quite likely that some kind of an agreement will be reached in the near future because (and on this we should accept the interdependence analysts' proposition) economic forces have transformed what was considered a "silent integration" into a "roaring process", despite all the very well known asymmetries.

THE LIMITS OF THE JAPANESE CARD[52]

During the 1980s, Japan emerged as Mexico's second or third largest economic partner in terms of trade, investments and loans. However, by 1989 Japan still accounted only for 5.9 per cent of Mexico's exports, 4.7 per cent of its imports, and 5.5 per cent of FDI stock in that country (about $1.6 billion)[53]. At that time, the United States share in the same variables was 69, 65 and 66 per cent, respectively (Tables 4 and 5). If we take into account imports and exports by the *maquiladora* industry, trade flows with the United States are even more important: Mexico-US trade in 1988 reached $43.8 billion, whereas Mexico-Japan trade was only $2.2 billion[54].

In spite of these figures, during most of the late 1980s there was actually a Japan fad in Mexico. Decision makers suggested, and public opinion believed, that large amounts of Japanese investment would come and that a strategy toward diversifying Mexico's dependence on the United States was being successfully implemented. However, by early 1990 the situation changed and, as we saw in the previous section, the United States was once again in the center of the debate about the internationalization of the Mexican economy.

To understand why the limits of the "Japanese card" were reached so quickly, we must try to answer two questions:

1. Is Japan really interested in Mexico and, if so, for what reasons?

2. What would an increased Japanese involvement in Mexico mean for the United States?

The Mexico-Japan relationship has followed four stages of development, which have also taken place in other large Latin American countries, according to Horisaka (1990).

Until the early 1960s, economic relations were concentrated in the areas of trade and immigration. Mexico has usually been Japan’s second trading partner in Latin America (after Brazil), whereas it had the third place (after Brazil and Peru) as a host country for Japanese immigration to the region in the first four decades of the century (Kunimoto, 1990). From both the standpoints of Mexico and Japan, bilateral relations were hardly significant during this stage; however, during the 1950s, Japanese manufacturing firms and trading companies began to pay attention to Mexico as a new market for their rapidly growing industrial production.

A second stage took place in the 1960s. In that decade, direct Japanese investment in Mexico was the main feature of the relationship, the most important project being Nissan’s in the automobile industry in 1966. Import substitution policies forced this firm, as well as others, to go into Mexico in order to jump over protection barriers. During those years, there was no interest on the part of Japan to invest in Mexican export assembly industries as they had in cheap-labor East Asian countries. Mexico offered a very profitable, fast-growing and relatively large domestic market, and was too far away to be a processing zone for Japanese industries.

In the 1970s and early 1980s, bank lending as well as attempts to secure sources of raw materials characterized Japanese investments abroad. In this framework, Mexico played an important role, both as an increasingly larger debtor and as a source for a relatively significant supply of oil and other mineral products, e.g., salt and manganese. So, by the early 1980s, Japanese banks held about 17 per cent of Mexico’s foreign debt, while the latter’s fourth largest creditor bank was Japan’s Export Import Bank. Regarding oil, by the mid-1980s 14 per cent of Mexican exports were sold to Japan, which accounted for 5 per cent of the latter’s total imports (Székely, 1990).

In this third stage of the relations, strategic considerations on the part of Japan were the driving force behind increased economic transactions. By 1980, Prime Minister Masayoshi Ohira played a leading role in developing a strategy regarding Mexico. The Japanese government encouraged the formation of the Mexican Petroleum Import Company (MEP, a consortium of nine trading companies, three banks, and twenty-four refineries), designed to be the sole importer of Mexican oil. Although Ohira could not get a contract for a supply of 300,000 barrels per day as he expected, Japan increased its financing to Mexico and promoted the creation of two joint-ventures among Japanese consortia and the Mexican government.

These "good-citizen" investments were undertaken in two firms in the area of capital goods: the NKS project (Nafinsa, Kobe Steel, Sidermex) for the production of heavy forged and cast products, and the PMT project (Productora Mexicana de Tubería) for the production of large diameter steel pipes for the oil industry. In both cases, Japanese investors (Kobe Steel in NKS, and Sumitomo Metal Industries with other 51 companies in PMT) hold minority equity shares (less than 15 per cent).

During the setting-up period, Japanese firms enjoyed the support of the Overseas Economic Cooperation Fund (OECF), provided engineering works (plant layout) and production technology, and arranged the imports of machinery from Japan[55]. These almost paradigmatic Japanese investments were considered a keystone of the relations until the 1982 crisis radically transformed the supply and demand conditions under which both projects were considered viable. So, when production facilities were inaugurated by the mid-1980s, utilization was extremely low, and, in 1989, PMT production was stopped for an indefinite period.

A fourth stage of the relationship has taken place after the crisis. Voluntary private bank lending dried up and the increase in Japan's exposure in Mexico was caused by the revaluation of the yen, "non-voluntary" credits Mexico obtained in successive negotiations of its foreign debt, and government loans[56]. Direct investment continued at a moderate pace until 1989 and was concentrated in the *maquiladora* industry and in tourism. This trend toward currency-earning projects peaked in mid-1989 when Nissan announced a one billion dollar investment over five years to double its production facilities. The additional vehicle production would be oriented toward North and South America and Japan itself, and also toward the domestic market. In the 1980s, the automobile industry has been the most attractive sector for Japanese investment in Mexico (Table 7) and, within it, Nissan has been by far the leading firm.

In the *maquiladora* industry, Japan only had about 50 plants out of a total of 1,650 in December 1989. However, most of those facilities belong to leading corporations in electronics (Matsushita, Hitachi, Pioneer, Toshiba, Tocabi, Casio, Epson) or in the auto-parts industry (Yasaki, which has eight plants) and which are also leading suppliers to the US market (e.g., all Sony Trinitron TV sets with less than a 19 inch screen sold in the United States are produced under *maquiladora* conditions).

Nothing in this context of good, but not impressive, economic relations with Japan could have given rise to expectations about a Japanese strategy in which Mexico could have played an outstanding role. Although Mexico enjoys a unique favorable location for being an export processing zone to the United States, several factors still hamper Japanese investors' enthusiasm for locating there.

According to interviews with leading Japanese non-*maquiladora* firms in Mexico[57], the investment climate, although good and improving, is not excellent because: a) It is not clear if the current results of the 1987 stabilization program can be maintained in the long run; b) Growth prospects are only moderate and do not justify investments oriented only towards the domestic market; c) Until a trade agreement with the United States is reached, uncertainty will limit investments in

non-*maquiladora* manufacturing areas; d) Mexicans have not yet repatriated capital they sent abroad; and e) Mexico acquired a bad image after its 1982 crisis, Japanese investors bore heavy losses, and confidence is still lacking[58].

These comments should not lead us to think that there is a unified Japanese strategy toward Mexico. Japanese firms' perceptions of Mexico's prospects vary from a very cautious approach from companies not yet located in that country, which will come only after a *keiretsu* leader does so, to moderate optimism by large *sogo shosha* (e.g., Mitsubishi and Sumitomo), and to ever increasing investments by Nissan. Past experiences in the country and external image determine such differences.

Table 7

TOTAL STOCK OF JAPAN'S FDI IN MEXICO*
(million dollars)

	VALUE		PERCENTAGE	
	1981	1987	1981	1987
GRAND TOTAL	818	1,556	100.0	100.0
Manufacturing Industry	275	905	33.6	58.2
Foodstuffs	15	33	1.8	2.1
Textiles	4	5	0.5	0.3
Chemicals	38	45	4.6	2.9
Metals	47	108	5.7	6.9
Machinery	18	32	2.2	2.1
Electric & Electronic Equip.	17	28	2.1	1.8
Transport Equipment	132	649	16.1	41.7
Other	5	6	0.6	0.4
Natural Resources	510	512	62.3	32.9
Mining	500	502	61.1	32.3
Other	10	10	1.1	0.6
Services	33	139	4.1	9.0
Commerce	16	41	2.0	2.6
Finance & Insurance	12	12	1.5	0.8
Other	5	86	0.6	5.6

* Investment stock at book value for March of each year.

Source: Hollerman (1990), based on data from The Import-Export Bank of Japan.

In the Japanese government, as Chalmers Johnson points out[59], there is no interest group focused on Mexico (nor on Latin America) that might promote a unified policy toward this country. The Ministry of Finance follows the United States strategic leadership, thinks in terms of a G-2 (Europe and "*Nichibei*") and, regarding the main issue it had to tackle related to Mexico, supported the Brady Plan and the IMF position, both ideologically and through credits for debt enhancements. On the other side, the MITI, which wants Japan to go by itself in the future and thinks in terms of a G-3 (US-Japan-Europe), promotes countries like Mexico as export platforms.

Two factors would put obstacles to larger investment flows to a Mexican platform: a) The overall predominance of the Ministry of Finance, and b) An increased contradiction between MITI's approach to economic growth (interventionism, state guidance, non-market incentives for changing the allocation of resources among industries, and so forth) and Mexican current economic strategy (privatization, market guidance, reduction of state intervention). For sogo shosha, hotels and *maquiladoras* a non-managed trade and economic environment may be quite attractive; but for industrial firms oriented toward the domestic market or that think in terms of export bases (which imply integration of domestic parts and components) instead of export assembly platforms, the situation might be the converse.

In sum, Japan has shown a moderate economic interest in Mexico which may be strongly increased only in the event that a stable opening up of the US market to imports from Mexico is assured[60]. However, it is far from plausible that the United States would accept passively an "invasion" of Japanese goods assembled in Mexico. In a context of growing US concerns about Japan; Mexico's intentions of reaching a FTA may imply that Japanese investment to this country will have to conform to what the United States may consider a fair amount of exports from Japanese firms located in Mexico.

In general terms, a prosperous Mexican economy is in the interest of both large powers, but specially of the United States. As far as there continue to be economic problems in Mexico, we might foresee cooperation between Japan and the US to protect that country from bankruptcy, as happened during the Brady Plan's implementation (US leadership and Japanese money). However, a fast growing Mexico may increase the chances for rivalry between Japan and the United States, because of US fears of an ever-growing role of Japan in Mexico, which will go, sooner or later, beyond economic issues to enter political arenas[61]. If all this proves to be true, the regionalization of the Mexican economy will not necessarily be a step in its way towards globalization.

FIRM STRATEGY IN THE REGIONAL CONTEXT

In the area of firm strategy, the trends toward integration with the US economy are more clear than at a general level. Besides the increasing predominance of intra-industry and infra-firm trade in the most dynamic export sectors since the early 1980s[62], three features characterized firm strategy during the second half of the decade. Pressure on the part of the leading exporting foreign firms to continue enjoying a protected environment, rationalization and international expansion of large

Mexican conglomerates, and booming performance of the *maquiladoras* have been the main issues at the level of the firm.

In Section 1, we showed that the automobile and the computing industries were two of the leaders in export expansion. Those industries, in which FDI clearly predominates, have enjoyed continuous protection through import licenses in the long term. Imports of computers were freed of prior permit requirements just in April 1990 and imports of vehicles will not begin until November this year. Even after producers have to face foreign competition, a rather protected context for their operations will prevail for at least the following three years.

Continuity of protection was requested, and eventually assured, on the bases of promotion considerations to activities with a good balance of payments performance and engaged in at least moderate technology transfers to the country. However, besides those reasons, foreign firms showed their demand for protection either through explicit statements that they needed incentives in order to continue manufacturing and developing technical skills in Mexico (e.g., IBM) or through threatening that they were going to call off new investment projects (e.g., Nissan). The better performance foreign firms had in the 1980s regarding Mexico's technology and foreign currency needs actually increased their bargaining power. All this calls into question the idea that those firms' production in Mexico is competitive at the international level; otherwise, the new schemes would mean little more than redundant subsidies to oligopolistic suppliers of intangible assets.

Mexican Firms as "Raiders"

In a rather appealing contrast to foreign firms' demand for further incentives, some large Mexican-owned conglomerates, after taking control of their domestic markets, are advancing deeply into the US market. Two sectors have already attracted Mexican raiders: glass and glass products, and cement, whereas beer producers are considering following suit.

The first successful hostile take-over of an American concern by a Mexican conglomerate was done by Vitro, a holding company which is a leading producer of glass containers, flat and household glass, glass-making machines, car windows and windshields, and whose sales reached $1,100 million in 1989. That year, Vitro acquired, through a tender offer, 95 per cent of the Anchor Glass Container Corporation, the second-largest glass container manufacturer in the United States[63]. The cost of this foray is estimated at more than $900 million, including $460 million in Anchor's debt, the purchase of the Latchford Glass Company for $48 million, and the installation of Latchford's management at Anchor.

Vitro has a long experience in joint-ventures with large US corporations (e.g., Ford, Ingersoll-Rand, Owens-Corning Fiberglass, or Whirlpool); however, the strategy that led to take over an important US firm is quite recent. According to its CEO, Vitro went abroad because, if it wanted to continue to be a glass company, it could no longer be satisfied with having a strong domestic base and some export activity (actually 25 per cent of its total sales in 1989). "With a more open Mexican economy our strategy has had to change"[64].

Although the strategy undertaken by Vitro was quite probably the only way to survive as a world producer in an industry that is under harsh restructuring, the mere fact that such a strategy could be pursued successfully by a Mexican firm deserves special attention. In 1983, Vitro's foreign debt was $758 million; six years later, after negotiating with its creditor banks and having had the government's support to convert its dollar debt into peso debt, the firm owed just $15 million. The combination of a long experience in its domestic market (Vitro was founded in 1909), a wise diversification policy and government support were the bases of its new international standing.

In the cement industry, another Mexican conglomerate (Cemex - Cementos Mexicanos), after having taken over its major domestic competitor to prevent its acquisition by one of the largest world producers, also went abroad. Cemex, which controls 66 per cent of the Mexican market and will sell about $755 million after the domestic take-over, is a leading exporter to the United States[65].

The focus of Cemex's raid was the cement production facilities of the U.K. based Blue Circle Industries, both in Mexico and in the United States[66]. Cemex took over Blue Circle's affiliate in Mexico to increase 20 percentage points its market share and to protect its own export market in the American South. Then, Cemex bought Blue Circle Industries' US cement properties, and thus became the fourth largest producer in the world with an installed capacity of 18.5 million tons[67].

When Cemex's CEO presented an account of the reasons for the firm's new strategy[68], he argued that the mergers will increase cost-efficiency through economies of multi-plant operation, distribution channels will be improved, and transportation costs will be cut[69].

Given the size of both Cemex's and Vitro's investments in the United States, it is quite clear that those firms are following strategies under which the elements that define the structure of their industries and their competitive position are determined basically in an integrated Mexican-US marketplace[70].

The strategies of both firms show not only the efficiency of going international, but also of pursuing a diversification pattern based on horizontal and vertical integration from, and not far from, their core activities. The converse pattern (investment in activities only very loosely intertwined) proved to be a failure for the largest Mexican private holding company, Grupo Industrial Alfa, in the early 1980s.

In the cases of Cemex and Vitro, we see leading Mexican-owned conglomerates, whose situations were not bright immediately after the 1982 crisis, becoming international competitors in their industries. This may show the consolidation of important sectors of the Mexican entrepreneurial class. These sectors are not new in any sense and their consolidation is quite in accordance with a pattern that has prevailed in Mexican industry in the long term: foreign firms' control on modern consumer goods and capital goods, and large Mexican companies' predominance in traditional consumer goods and intermediate goods (Jacobs and Peres, 1982). There is, however, a big difference: now some of those Mexican companies are competing successfully in the US market too[71].

Booming maquiladoras[72].

The late 1980s were booming years for the *maquiladoras* located in Northern Mexico, on the border with Texas and California[73]. From 1983 to 1989, the number of *maquiladora* plants increased from 600 to 1,650, jobs in the industry rose from 151,000 to 427,000, and their value added (net foreign exchange generation) jumped from $818 million to $2,900 million (Table 8). By the end of 1989, the *maquiladoras*

Table 8

MAIN ECONOMIC INDICATORS OF THE *MAQUILADORA* INDUSTRY
(million dollars and thousand jobs)

	PLANTS*	VALUE ADDED	EMPLOYMENT*
1980	620	771.7	124
1983	600	818.4	151
1984	672	1,155.3	199
1985	789	1,267.1	212
1986	987	1,294.5	250
1987	1,125	1,598.1	305
1988	1,396	2,337.4	369
1989**	1,650	2,900.0	427
1990***	1,780	3,100.0	470
1995***	3,200	5,500.0	847

* Annual averages.
** Preliminary figures.
*** Estimates based on data from Deloitte & Touche (1989).

Source: Banco de México, *Indicadores Económicos*, several years, and INEGI, Avance de Información Económica. *Industria* maquiladora *de Exportación*, September, 1989.

were the second largest net source of foreign exchange in Mexico's balance of payments[74], were the most dynamic creators of jobs, and accounted for 17 per cent of the country's employment in the manufacturing industry.

The prospects for the *maquiladora* industry continue to be of a very fast growth over the next five years, so that its size may double from 1989 to 1995. That means that the industry's economic indicators would increase four-fold in about a decade. This goal is implicit in the new decree of December 1989, 2[75] by means of which the Mexican government reduced red tape, partially phased out regulations that limited the sales by the *maquiladoras* in the domestic market to 20 per cent of their production, and extended to domestic suppliers of the *maquiladoras* the benefits the latter have.

The growth of the *maquiladora* industry has been accompanied by the emergence of several new issues: a) New forms of investment, b) A dynamic transfer of modern production and managerial technologies, and c) A renewed debate in the United States regarding the benefits of maintaining tariff items 9802.00.60 and 9802.00.80 HTSUS (previously 806.30 and 807.00 TSUS)[76], under which the re-importation into the United States of products assembled abroad with US-made components has tariff assessed only on the value added they incorporated abroad.

Shelter operators are the most outstanding new form of investment in the *maquiladora* industry. A shelter company is a US or Mexican based firm that provides some of the most critical services a foreign investor needs to operate as a *maquiladora*: site selection; obtaining both US and Mexican permits; labor hiring and screening; and interface with Mexican officials, customs administration and public utilities. The investor company usually provides just top management, very skilled workers and production equipment, while parts and components may be obtained from third parties (the parent firm, a US vendor, or another *maquiladora*). Shelters get paid on the basis of the services they provide, currently at a fixed price for direct labor hour worked ($3.5 to $4.5 per hour/worker, which implies an important gross profit margin in areas in which labour costs including fringe benefits -- are between $0.8 and $1.8 per hour).

Despite of the cost implied in investing through a shelter, about 10 per cent of the *maquiladoras* now operate under that form. To use shelter services is an intermediate strategy between installing a wholly owned *maquiladora* by a foreign firm and just subcontracting the products that firm needs to an already established *maquiladora*. Naturally the division of risks and benefits vary from case to case. Profits increase as a firm moves from subcontracting to work by means of a shelter, and to have its own plant, but risks also increase because of higher sunk costs.

To operate through a shelter is a reasonable strategy for firms without previous experience in Mexico that do not intend to commit large resources in that country, at least in the short run. In some cases, firms that started *maquiladora* operation through a shelter moved toward complete ownership, once they learned how to deal with the industry[77]. This process may explain the relatively reduced share of shelter operators in the total of the *maquiladora* industry; once a firm has successfully used shelter services, it moves to full ownership.

Regarding technology transfers, the situation in the *maquiladora* industry has been determined by the very export nature of this activity. All the available evidence tends to show that *maquiladoras* have moved from unskilled-labor assembly activities in the late 1960s and early 1970s to relatively skilled-labor assembly and manufacturing industries nowadays. From 1975 to 1988, the percent of technicians to total labour force in *maquiladoras* rose from 8.8 to 12.3[78]. This shift originated in the new sectoral composition of the *maquiladoras*, which moved from being basically an apparel industry into being an activity concentrated in electronics, electrical equipment and components, and auto-parts production[79].

There is also evidence of widespread use of modern managerial techniques in those kinds of *maquiladoras* (Carrillo, 1989). Justintime inventories, statistical process

control, quality circles, zero-defect techniques, and work teams are now common practices; such practices are inducing more labor training and efforts to reduce very high turn-over rates (in the range of 8 to 15 per cent per month), which continue to be the most important problem Northern Mexico poses to investors.

Maquiladoras have not increased their use of Mexican-produced materials, parts and components; no more than 3 per cent of total inputs have been of domestic origin since the industry started in 1965. This negligible integration of other industries located in the country can be explained by the concentration of potential domestic suppliers in areas far from the border[80], a relatively poor communication infrastructure, and still unsolved problems of price, quality and delivery time on the part of domestic vendors. Moreover, one might argue, following Grunwald (1989), that the isolation of the *maquiladora* industry has also been imposed by Mexican policy-makers' belief that it was an inferior economic activity.

Although *maquiladoras* operate as a production enclave, they have had a very positive effect on labour qualification, both of workers and supervisors, as well as staff and technical levels[81]. The very reason for establishing *maquiladoras* (labour cost savings in a location close to the United States)[82] precludes those firms from using non-indispensable American technicians and middle management. With the exception of the top level, and sometimes even without that exception, the *maquiladoras*' staff is Mexican.

The growing importance of this industry[83] and the increased Japanese presence in some of its sectors, such as electronics and auto-parts, have given rise to a debate in the United States regarding the benefits that country gets from maintaining a policy that allows an ever-increasing supply from the *maquiladoras*. Sometimes, the debate focuses on a potential and actual use of the *maquiladoras* on the part of Japan as a means of shipping products to the United States with minimum value added in Mexico, thus disguising part of its commercial surplus with the United States.

Although the US International Trade Commission estimated that Japan will invest up to $3 billion in the *maquiladora* industry between 1987 and 1990, a "Japanese challenge" is quite unlikely given that Japanese firms still employ little more than 10 per cent of the *maquiladora* workers. Japan will continue increasing its share in the industry, as will others such as Hong Kong, Taiwan and Korea[84]; however, *maquiladoras* will continue to be within the realm of US firms in the foreseeable future.

The shifting of American jobs to Mexico is another issue that will cloud the prospects for the *maquiladoras*, if protectionist pressures increase in the United States However, evidence suggests that *maquiladoras* are indeed preventing an even larger loss of US jobs. Gruben (1990) presents evidence for 1975-1987 that suggests that *maquiladora* workers are competing not only with American workers, but also with workers in the East Asian NIEs. Employment in *maquiladoras* is positively correlated to wage differentials, both between the United States and Mexico, and among East Asian NICs and Mexico.

This correlation suggests that the *maquiladora* industry is a component of global production systems in which competitive advantages are internationally defined. As within such systems, employment in low- and medium-tech production is highly sensitive to wage differentials; if *maquiladoras* were to be shut down, jobs would not return to the United States. Instead, many of these jobs would go to Taiwan, Hong Kong, Singapore or South Korea. *Maquiladoras* may take US jobs, but the jobs might go to other low wage countries if they did not exist. In this sense, they are both a competition to US labor and a source of competitive advantage for US corporations[85].

CONCLUSIONS AND PROSPECTS

All the evidence presented in this paper points to an unrelenting integration of Mexico into the US economic space. Although a true global production system is being developed in the *maquiladora* industry and there is political willingness to reach agreements with Canada, the United States will continue to be the focus of attention for Mexican firms and labor in the future. Japan will work within the framework set both by its relationship with the United States and the latter's goals toward Mexico[86].

The main issues for the future will be concentrated in a few subject areas: the domestic political responses to the integration with the United States, Mexico's standing in the Latin American context, the internationalization of services, and the prospects for the country as a competitive partner in its relationship with the United States.

In the domestic political arena, it is quite unlikely that opposition parties will be able to prevent formal negotiations with the US administration aimed at signing a FTA. The Mexican administration faces a relatively easy situation in Congress because it has an overwhelming control on the Senate and a working majority in the House of Representatives. The only potential threat to the formalization of current integration trends can be posed by a general defeat of the ruling P.R.I. (Partido Revolucionario Institucional) in the July 1991, congressional elections. Although, such a defeat seems quite unlikely at the time of this writing, those elections will be a test for the strength of traditional nationalist sectors and for the opposition's capability to organize them. In any case, the electoral process will indicate how far President Salinas' administration will be able to go regarding economic integration with the United States.

Economic agents seem to be mostly in favour of a closer link with the United States. We mentioned in section 2 that business people were enthusiastic about a FTA. On their part, labour unions consider that further integration will mean more jobs. In both cases, potential threats posed by imported products are dismissed because of the already factual unilateral opening up of Mexico's economy. In this sense, the economic strategy initiated after the 1982 crisis did produce results: economic agents now consider natural that their best prospects for profits and growth lie abroad.

Economic relations with other Latin American countries will continue to lag far behind Mexico's relations with the United States and Japan. An ideological commitment to the cultural region will remain in decision-makers' rhetoric. However,

poor economic performance in most of the large countries in the region during the last years, the fact that those countries have delayed policy decisions that have been made in Mexico some time ago, and have not yet succeeded in stabilizing their economies, render them unattractive to Mexican businessmen. All this suggests that Mexico might be departing from a region it never belonged to from an economic standpoint, although it will continue to be one of its cultural and ideological cores. Geography and economic reality might prove to be stronger than culture and language.

In the international environment we foresee for Mexico, it might well play an leading role among the LDCs, as is taking place currently in the GATT. In spite of only having joined this organization in 1986, it has played a relatively important role in the negotiations of the Uruguay Round. On this particular point, Mexico supports the inclusion of subjects related to services, FDI and intellectual property rights in the negotiations[87], while at the same time it prepares its own service sectors to withstand foreign firms' competition from abroad and from within the country in the near future. Modernization of services is moving ahead through privatization of some areas (e.g., the telephone company, two airlines, and the commercial banking system), deregulation, and gradual opening up to FDI in financial intermediaries. Besides tourism, Mexican officials believe that foreign investors will also be interested in infrastructure projects (roads, airports, harbors, and so forth), international trading companies, and production-sharing projects in the state-controlled petrochemical industry.

The actual materialization of those expectations depends, as Vernon (1989) points out, on two sets of forces which are largely external to the Mexican economy. First, US economic performance and policies. Although one cannot exclude the possibility that the United States might move in a more protectionist direction, especially if there is an economic downturn, both the Bush administration and the largest corporations seem to be in favor of maintaining an open US market. Second, with the growth of exports by foreign firms and of the *maquiladoras*, Mexico's dependence on the international marketing channels they provide has increased as well. In those areas, improvement in quality and reduction in international transportation and communication costs may reduce the impact of the factor that has most favored Mexico from the economic standpoint: its proximity to the United States In such a scenario, other low-wage countries' advantages might well offset Mexico's.

All these factors may pose challenges to the future standing of Mexico *vis-à-vis* the United States and the world economy. However, the competitive advantages the Mexican economy enjoys will strengthen domestic and foreign forces that push toward integration with the United States. It would be much more risky to suggest that such an integration will indeed be a step toward a true globalization.

NOTES AND REFERENCES

1. *The New York Times,* March 28, 1990.

2. The diversification of Mexico's external economic relations has been successively stated as a policy aim both in the 1983 and in the 1989 national development plans, and in the sectoral programs for industry and foreign trade of 1984 and 1990. In particular, the 1990 Program asserts: "This program promotes the insertion of Mexican industry in the trend toward globalization that prevails in the world economy".

3. Adapting Porter (1986), we define globalization as a process under which economic agents in a country are driven toward following global strategies instead of domestic or multi-domestic ones. A global strategy implies that firms seek to gain competitive advantage from their international presence through either a concentrated configuration or coordinating among dispersed activities, or both. Agents that follow global strategies tend to consider the elements that define the structure of their industry or industries as determined by forces that operate at a world level. Regionalization implies that firms take into account such elements (suppliers, buyers, existence of substitutes, potential new entrants and actual competitors) only in a limited, although geographically determined, grouping of countries.

4. Some of the following ideas have been taken from an unpublished document on "Trade Liberalization and Structural Change in Mexico" prepared by the Secretaría de Comercio y Fomento Industrial - SECOFI - (Ministry of Industrial Promotion and Trade). Its contents were presented by the former General Director for Foreign Trade in the "Roundtable on the Free-Trade Agreement Between Mexico and the United States" held at the University of California, San Diego (UCSD), on May 2, 1990.

5. In this area, Mexico's results have been quite impressive. Inflation, after reaching 180 per cent in annual terms in February 1988, has been running at about 20 per cent per year since March 1989. For a detailed account of Mexico's adjustment programs, see Quick (1989) or Lustig (1989).

6. In the period 1957-1981, import licensing ranged between 35 and 85 per cent of import value.

7. Less orthodox analysts would also point out the negative effects of the 1979 trade liberalization program, which was implemented during years of fast growth and overvalued domestic currency.

8. The following products are excepted from imports licenses: all fruits except grapes, apples and peaches; all vegetables except potatoes; and bovine and pork meats. The agricultural goods under import licenses are: grains (except sorghum), oil-seeds, poultry, animal fats (e.g., lard), eggs, dairy products (powder milk and cheese), coffee, and tobacco.

9. In January, 1990, 40 out of 75 pharmaceutical tariff items were freed from import licensing. The liberalized items accounted for about 75 per cent of the value of pharmaceutical imports previously subject to control.

10. *Diario Oficial,* December 11, 1989.

11. For 1991 models, 2.5 pesos of surplus trade balance will be required to offset each peso utilized to finance imports. For 1992 and 1993 models, this ratio will fall to 2:1, and for 1994 models the ratio will be 1.75:1.

12. *Diario Oficial,* April 3, 1990.

13. Imports of most parts and components will pay a 5 per cent tariff; imports of modular circuits will pay 15 per cent.

14. All values in this paper are in current U.S. dollars, unless otherwise stated.

15. For a detailed account of the dynamics of these industries during the period and how Mexican policies adapted to multinational corporations' world strategy, see Peres (1990), part II, chapters 1 and 2. Swap operations implemented from 1986 to 1988 reached $3,872 million and the subsidy they implied has been estimated in some $1,200 million, according to a study edited by the Banco de México cited in *El Financiero,* January 26, 1989.

16. At the time of this writing, National Accounts information for 1988 and 1989 is not available to calculate the ratios corresponding to those years. However, slow GDP growth, continuous good performance of non-oil exports, and import liberalization after 1987, strongly suggest that the ratios for 1989 should be higher than those for 1987.

17. Mexico's balance of payments only takes into account the net value added of the maquiladora industry's exports. Figures regarding the country's merchandise exports do not include those exports at all.

18. For a detailed account, see Peres (1990), part I, chapter 3.

19. The largest FDI projects in the manufacturing industry announced in 1989 corresponded to the following firms: Nissan ($1 billion for plant expansion), Ford ($840 million to modernize and expand assembly lines and auto-parts production), Celanese ($700 million for new chemicals, fibers and plastics), Nestlé ($350 million for new plants and products), Mabe/Leiser -GE- ($100 million for production of gas ranges for the US market), Kimberley Clark ($65 million for fibers and cellulose inputs), GM ($50 million for production of harnesses), Indetel/Alcatel ($48 million to install 2.7 million telephones), Otis ($46 million for repair services), and Procter & Gamble ($26 million for new production lines).

20. This figure was indicated by the General Director for Foreign Investments, who was cited in *El Financiero*, November 13, 1989, p. 27. The main advisor to

President Salinas on foreign investment, Kimberley Clark's president, Mr. Claudio X. González, even mentioned a figure of 6 to 8 billion dollars per year, according to *El Financiero*, February 9, 1989.

21. For a detailed account, see Peres (1990), part I, chapter 2.

22. *Diario Oficial,* May 16, 1989.

23. Other provisions of that decree establish: 1) The status of neutral capital for some investment funds, so that foreign investors are allowed to participate in the profits, but not in the control or management of the firms in the fund's portfolio, b) Automatic renewal for 30 years of trust funds used to acquire land on coastal areas, and c) Automatic approval of applications for investments that do not receive an official response within a determined time period.

24. In particular, regulations regarding a maximum FDI share in equity of 40 per cent for auto parts and secondary petrochemical production have not been changed. However, in 1986 and 1989, the government reclassified as secondary petrochemicals several products previously considered as basic petrochemicals, of which production can only be undertaken by the government. Regarding the impact of regulations on FDI flows, the president of the American Chamber of Commerce, Donald F. Spieler, stated: "The reason foreign investors are not taking some major initiative, the reason we're investing two billion dollars and not five billion is that the government is excessively regulating the economy." *San Diego Union,* April 22, 1990, p. I-13.

25. Banco de México (1989), p. 81.

26. These laws are the Securities Market Law, the Insurance Law, the Auxiliary Financial Institution Law, the Bond Guarantor Company Law, and the Investment Fund Law. *La Jornada,* December 27, 1989, pp. 1 and 14.

27. Since 1985, the NCFI has authorized the establishment of financial consultancy firms owned by foreign banks, e.g, by the Citibank Overseas Investment Corp., the First Chicago Finance Corp., and the Continental Illinois National Bank. There are also cases of joint ventures, e.g., Ingeniería Financiera Internacional, in which Lazard Frères participates jointly with Mexican private capital. *El Financiero,* March 3, 1989.

28. *El Financiero,* June 21, 1990, p. 1.

29. *Diario Oficial,* January 9, 1990.

30. In fact, Solís (1970), chapter II, shows that 1890 was the first year when the Mexican economy showed one of the characteristics that were to be considered as structural thereafter: three-fourths of Mexican exports went to the United States.

31. During that decade, not only did the United States absorb most of Mexican manufactured exports, but Mexico also became a leading supplier of the United States demand for imports. For example, from 1983 to 1989, Mexico's share of US imports jumped from 8.5 to 20.3 per cent for car engines, from 4.1 to 24.8 per cent for cement, from 5.7 to 19.1 per cent for beer, from 2.8 to 38.3 per cent for glass containers, and from 5.8 to 54.6 per cent for plate plastic products. *La Jornada,* December 13, 1989, p. 20. According to the US Department of Commerce, by 1988 Mexico was the first exporter to the United States of color TV sets (import market share: 41 per cent), computer keyboards (25 per cent), air conditioning equipment (44 per cent), non-industrial refrigerators (37 per cent), ceramic bathroom fixings (38 per cent), and wooden picture frames (34 per cent).

32. Some of the following ideas are based on a creative paper presented by Stephen Krasner of Stanford University in the Center for US-Mexican Studies, University of California, San Diego. See Krasner (1988).

33. See, for instance, Reynolds (1983), Reynolds and McCleery (1988), Ronfeldt and Sereseres (1983), or Bilateral Commission on the Future of the United States-Mexican Relations (1989).

34. E.g., Rico (1983) or Krasner (1988).

35. Krasner (1988) presents four possible ways in which states can deal with interactions: 1) Unilateral action, without regard for the behavior of the other country; 2) Tacit strategic behavior, which implies taking into account the other country's behavior without explicit bargaining; 3) Cooperation or explicit strategic behavior, where the policies of one country are made contingent on the policies of the other; 4) New institutions that range from permanent consultative bodies to supra-national organizations.

36. Besides several well-known American and Mexican businessmen, scholars and intellectuals, the Commission included among its members policy-makers as Robert S. MacNamara, the current Deputy Secretary of State, Lawrence S. Eagleburger, and the former Mexican Ambassador to the United States, Hugo B. Margáin. The Commission was co-chaired by Peter Smith (UCSD) and Rosario Green (El Colegio de México).

37. An important agreement in another economic area was signed, on November 9, 1989, between the Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit) and the US Treasury to exchange fiscal information in order to prevent tax evasion and tax fraud in both countries. This agreement will probably be a deterrent to further capital flights. *El Economista*, November 13, 1989, pp. 1 and 5.

38. See the press release of the Office of the United States Trade Representative issued on October 4, 1989.

39. See, for example, *The Wall Street Journal,* March 31, 1990. From mid-April to mid-May 1990, the Mexican Senate held consultation fora integrated with economic, political and social agents and institutions in the country to discuss the future standing of Mexico in the world economy. Actually, the fora were a mass communication effort on the part of the government to promote the idea of the inevitability of Mexico's integration in its natural economic region: North America.

40. "Mexico and the U.S. agreed to hold talks aimed at reaching a broad free-trade agreement. Formal negotiations are expected to begin after Bush and Salinas meet again in December [1990]." *The Wall Street Journal,* June 12, 1990, p. A1.

41. See *The New York Times,* March 28, 1990.

42. President Salinas' speech at the World Economic Forum held in Davos, Switzerland, on February 1, 1990, shows Mexico's preoccupation with a foreseeable diversion of investment toward Eastern Europe. In particular, he said: "May these splendid signs of change [in Eastern Europe] not cloud Europe's global vision, nor turn its attention from our continent - particularly Mexico -..." In the same forum, Salinas argued once again that development differences advised against linking Mexico to the United States in a *common market*. However, he did not mention any FTA at all. *The New York Times*, February 2, 1990, p. C-5.

43. For a detailed account of the agreements signed during Prime Minister Mulroney's visit to Mexico in March 1990, see *El Financiero,* March 14, 1990, p. 17, and *El Universal*, March 17, 1990, pp. 1 and 18. Investment flows among the two countries would be expected mainly in the textile, automobile, forestry, fishing and agricultural sectors. A potential agreement regarding temporary agricultural workers is also under consideration.

44. Mexico's exports to Canada accounted for just 1.5 per cent of the former's total exports in the period January-July, 1989. The percentage for Mexico's imports from Canada was only slightly higher: 1.8 per cent. Data from INEGI, *El Comercio Exterior de México*, December, 1989.

45. This phrase by Gastón García-Cantú was quoted by *The New York Times*, March 28, 1990.

46. This reduction of the government's discretionary powers may be one of the implicit aims looked for by the current Mexican authorities. If this reduction proves to be true, potential investors might consider Mexico as an even more attractive host country.

47. Robert Lawrence (The Brookings Institution) and Daniel Sharp (The American Assembly and Columbia University) stressed this point at the Meeting of Experts held at the OECD Development Centre on June 21-22, 1990. A sign of corporate America's favorable position regarding the FTA with Mexico was

the explicit support that the Business Roundtable, a group of about 200 top US corporate leaders, has granted to that agreement. See, *The Wall Street Journal*, June 12, 1990, p. A2.

48. These considerations are based on presentations made in the "Roundtable on the Free-trade Agreement" held at UCSD on May 2, 1990, and on "Inching Toward a North American Market", *International Business Week*, June 25, 1990. Moreover, Donald Hughes, president of the American Textile Manufacturers Institute, argued: "We oppose a free-trade agreement between Mexico and the United States.[...] Such an agreement would further erode the market share of domestic industry and result in further US job losses." *The Wall Street Journal*, June 12, 1990, pp. A2 and A16.

49. It is remarkable that, in spite of the fact that a FTA does not imply free movement of labor, analysts in both Mexico and the US have argued as if it would lead inevitably to such a situation.

50. For example, on March 31, 1990, an editorial in *The New York Times* (p. 14) supported a FTA with Mexico because the economies of the two countries are very entwined and it will increase political stability and economic growth in Mexico, thus preventing further illegal immigration to the United States. Regarding the economic effects of the migration of Mexicans to the United States, Reynolds and McCleery (1988) calculated that free labor movement between the two countries might result in a 2 per cent increase of their combined GNP per year. About 90 per cent of the potential losses derived from restrictive immigration policies would be borne by the United States.

51. According to *The Wall Street Journal,* June 12, 1990, p. A2, "some US lawmakers have expressed concern that such an agreement might adversely affect groups such as US labor and farmers."

52. Most of the information for this section was collected either through interviews with top managers of Japanese corporations' Mexican subsidiaries (Mitsubishi, Sumitomo, and Kobe Steel) or from the seminar on "Japan's Relations with Latin America: Implications for the United States" held at UCSD in April 1990. The interviews were undertaken as a part of a research project on "The Role of Japanese Firms in Mexico and their Relations with Japanese Firms in the United States". I would like to thank the director of the project and organizer of the seminar, Dr. Gabriel Székely (UCSD), for kindly allowing me to use those materials.

53. Of the $31.6 billion Japan invested in Latin America and the Caribbean from 1951 to 1988, Panama accounted for $12.9 billion, Brazil for $5.6 billion, the Bahamas for $2.7 billion, and Mexico for $1.6 billion (0.9 per cent of total Japanese investment abroad). Data from Horisaka (1990), Table 2.

54. Data from *Japan-Mexico-United States*, a newsletter published under the project mentioned earlier.

55. Another relevant case of transfer of modern technology has been Nippon Kokan's technical assistance to a state-owned company (Sicartsa) for the setting up of an integrated steel mill.

56. Government induced loans continued at a relatively fast pace during the second half of the 1980s; e.g., a) An undisclosed loan to help reconstruction after earthquakes hit Mexico in 1985, b) A special $1.2 billion loan for oil projects, the steel industry and export promotion, in 1986, c) A $2 billion loan to provide enhancements that facilitated the 1989 foreign debt negotiation under the Brady Plan, and d) A $ 1.2 billion loan to clear water and air pollution in Mexico City committed in 1989 after Prime Minister Kaifu's visit to Mexico. Data from Székely (1990).

57. See footnote number 52.

58. In particular, Japanese investors consider that a change in the 1973 Law on FDI would not be enough to eliminate Mexico's bad image. A FTA with the United States and a long period of economic and policy stability are the necessary conditions.

59. Presentation made at the seminar mentioned in footnote number 52.

60. After President Salinas' visit to Japan in June 1990, new Japanese financing for $ 1,605 million was announced, as well as 30 investment projects (not all of them new) in the areas of automobiles, electrical conductors, semi-conductors, secondary petrochemicals, tourism, and electronics. *La Jornada,* June 20, 1990, pp. 1 and 24.

61. Naturally, the question of US-Japan relations goes far beyond the former's involvement in Mexico. Stallings (1990) makes an account of this question and presents a good analytical framework to analyze those relations. That framework is based on scenarios determined according to the four values the following two variables may take: a) Hegemony (US hegemony or no US hegemony), and b) Basic character of the relations among developed capitalist countries.

62. See Peres (1990), part II.

63. Anchor, a Fortune 500 firm with 20 plants in 14 states, produces glass containers for wine, beer, soft-drinks and foodstuffs. Its principal client is Anheuser-Busch, the producer of the Michelob and Budweiser beers. *The New York Times,* October 30, 1989, p. C-6.

64. *Expansión,* December 6, 1989, p. 60.

65. Cemex exported 30 per cent of its total production and accounted for 85 per cent of Mexican sales of cement to the United States in 1989. (Mexico is the principal foreign supplier of cement to that country.) *El Economista,* December 6, 1989.

66. According to "American Inc. under siege", *South*, December 1989, and *El Economista*, October 17, 1989, Cemex's total acquisitions reached $725 million. Its purchases in the United States included Pacific Coast Cement, Gulf Coast Portland Cement, and Houston Shell and Concrete, for a total of $85 million, *La Jornada,* December 6, 1989.

67. The three largest producers are: Holderbank (39.5 million tons), Lafarge (37.5 million) and Blue Circle Industries (31.5 million). *El Economista*, October 13, 1989.

68. *The News* (Mexico City), January 10, 1990.

69. Vitro's and Cemex's purchases do not seem to be explicitly aimed at fostering the transfer of foreign technology toward Mexico. Given the good technological level of both buyers, it is quite likely that having to face competition in the United States would be a force strong enough to keep them near the cutting edge.

70. In particular, Cemex's CEO has stated: "The globalization of Mexican firms begins with their integration into the US market." *El Economista*, December 6, 1989, pp. 18 and 20.

71. Although it seems that similar processes are taking place in other NIEs, the size of the manufacturing plants acquired by Mexican firms is far larger. For example, compare Vitro's and Cemex's investments to the $10.2 million plant established by the Brazilian auto-parts producer Metal Leve in South Carolina or the purchase of a $52 million steel mill in Canada by the Brazilian steel-maker Grupo Gerdau. *South*, December 1989, pp. 36-38.

72. I would like to thank Eric Fredell, Mitch Muhleman, Richard Rifkin, and Peter Zung, whose papers for my course on "Firm Strategy in the World Economy", at the Graduate School for International Relations and Pacific Studies (IR/PS), UCSD, were rich sources of information and ideas for this section.

73. The term *maquiladora*, which has gained general acceptance in the United States, defines a Mexican company that assembles, manufactures, processes, or repairs materials that are imported to Mexico on a temporary basis for eventual re-exportation. A variety of other terms are used as synonyms, although not always accurately, to describe the *maquiladora* industry. Three of those most commonly used terms are: twin plants, in-bond industry, and production sharing. a) The term twin plants surfaced in the 1960s when many US firms were establishing two plants under one management: one plant North of the border to handle capital-intensive operations and another in Mexico to perform labor-intensive activities. Today, the majority of *maquiladoras* are being supplied by plants quite distant from the border. b) Although the products shipped to the *maquiladoras* pay no tariffs on entry to Mexico, their eventual re-exportation is guaranteed by posting a bond with the Mexican customs bureau. Thus the products arrive into Mexico "in-bond". c) The *maquiladoras* are one form of production sharing, if we understand this term

as equivalent to international division of labor. Definitions by Deloitte & Touche (1989).

74. In gross terms, both tourism earnings and exports by the automobile industry as a whole were larger. For a detailed analysis of the forces that fostered growth of the *maquiladora* industry, see Peres (1990), part I, chapter 3.

75. *Diario Oficial*, December 22, 1989.

76. HTSUS: Harmonized Tariff Schedule for the United States, implemented on January 1, 1989. TSUS: Tariff Schedule for the United States.

77. For example, such was the case of Honeywell, which began operating under a shelter and then moved to a twin plant scheme with full ownership of both facilities.

78. Data from INEGI, *Avance de Información Económica. Industria Maquiladora de Exportación,* several years.

79. In the period January-July, 1989, those three industrial branches accounted for 65.3 per cent of the value added in the *maquiladora* industry. INEGI, *Avance de Información Económica. Industria Maquiladora de Exportación*, September 1989.

80. *Maquiladoras* located within the country, far of the border have a much higher use of inputs produced in Mexico: 14 per cent of total in the period January-July, 1989. Data from INEGI, *Avance de Información Económica. Industria Maquiladora de Exportación*, September, 1989.

81. Sklair (1989) argues that staff and technicians in the maquiladoras usually perform work whose technical content is low. Although this may be accurate if we compare maquiladora jobs with similar positions in the United States, maquiladoras demand higher skills than the average of Mexico's economy does.

82. In 1989, direct labor cost savings in *maquiladoras* located in Baja California were in the range of $8,000 to $20,000 per worker per year, if we take as an alternative localization the Los Angeles area (the lower figure corresponds to the use of illegal Mexican migrant workers). Labor-intensive firms are obtaining gross savings of about 80 per cent of their payroll, which implies return periods for their total investments of no longer than 24 months.

83. According to *Expansión*, June 21, 1989, 47 per cent of US imports from LDCs under tariff item 807.00 in 1987 came from Mexico. The second larger exporter under that item was South Korea with 15 per cent, and the third, Singapore with 9 per cent.

84. For a detailed account of Korea, Taiwan and Hong Kong's direct investment in the *maquiladora* industry, see "Hurt by High Costs at Home, Asian MNCs

Look to Mexico as New Base of Operations", *Business Asia,* February 5, 1990, pp. 46-48.

85. Wharton Econometrics argues that an elimination of the *maquiladora* program in Mexico would result in lower output, increased prices and reduced employment in the United States *Business America,* 110, 24, December 4, 1989, p. 13.

86. Much further research is needed about Western European investment in Mexico. Although, as it is shown in Table 4, its share in total FDI to this country is much bigger than Japan's, only fragmentary evidence is available on its behavior. European affiliates in Mexico have followed quite different strategies; e.g., while Spanish investment in tourism and Swiss investment through Nestlé is growing, Blue Circle Industries (UK) divested in cement.

87. Statement by the Mexican Minister of Industrial Promotion and Trade, Jaime Serra Puche. *El Financiero,* December 6, 1988.

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