Economic Concentration and Conglomerates in Mexico

Barbara Hogenboom*

ABSTRACT

Mexico's economic groups are currently the most powerful of Latin America. Various indices show that Mexican conglomerates are very successful, and Cemex is the only company from the region in the top 25 MNCs from developing countries. Large Mexican companies have grown extensively with the expanded export opportunities created by NAFTA, turning Mexico's economy into the largest in Latin America. But are Mexican conglomerates expected to survive new waves of international acquisitions and mergers, or will their expansion soon turn out to be only an intermediary step in Mexico's economic integration of the early 21st century? The article analyzes the rise of Mexican economic groups and conglomerates, and the relations between this economic elite and the political elite since neoliberal restructuring, discussing the policies and effects of privatization, liberalization and economic integration. Special attention is paid to the attitude of corporate giants and the state towards the financial sector, especially since the peso crisis in 1994/5. Finally, the article analyzes some effects of economic concentration in large local and foreign conglomerates on the Mexican economy and employment.

Keywords: conglomerates, economic concentration, Mexico, peso crisis, privatization

Mexico's economic groups are among the most powerful of Latin America, dominating the various lists of the largest regional companies together with Brazilian conglomerates. In the list of the top 50 of developing country transnational companies, seven are Mexican. In fact, the second largest is Mexico's cement giant Cemex, which in 2004 acquired the transnational producer of construction materials RMC Group for US$4.1 billion in order to expand its global spread and strengthen its position in potential markets such as those of Eastern Europe. The transnational level of Mexican transnational companies has reached the same heights as those from Hong Kong (UNCTAD, 2002, 2003). The list of Latin America's 50 largest local private companies of 2002 includes 36 Mexican companies, including the first seven (rated by sales):

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* Centre for Latin American Research and Documentation, Amsterdam, The Netherlands.

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TelMex, Cemex, América Móvil, Grupo Alfa, Fomento Económico Mexicano, Grupo Carso and Telcel (*AméricaEconomía* 257/258, 2003).

Of these seven major Mexican companies, TelMex, América Móvil and Grupo Carso are linked to the conglomerate of Carlos Slim, the richest person in Latin America, who has made his fortune in the aftermath of the crisis of 1982 and whose corporate activities currently range from telecom to finance, and from electronics to trade. At the time of large-scale privatizations he became the owner of a controlling share of Teléfonos de México (TelMex) with partners Southwestern Bell and Telecom France. In 2001, Slim started to expand his corporate dominance beyond Mexico, particularly through América Móvil, a giant company in cellular phones that through massive acquisitions has been one of the regionally fastest growing companies of the early 2000s (see also the article on Central America in this issue). Slim's career is the ultimate example of the current regional power of Mexican conglomerates, illustrating not only their economic concentration and transnationalization since the 1980s, but also showing that financial crises and neoliberal economic restructuring have been most beneficial to large economic groups and conglomerates. In addition, the corporate successes of entrepreneurs like Slim have been in part based on good relations with politicians and state officials; the well-known 'know-who factor' (see the introduction to this issue).

While the companies of Carlos Slim have largely expanded southwards, into Latin America, many other Mexican groups have directed their international initiatives towards the United States or other industrialized countries. For instance, Vitro became the second largest glassware company in the United States, and Grupo Dina North America's largest truck producer. From the perspective of corporate governance, these successes are somewhat unexpected since the ownership, culture and relations of leading Mexican economic groups are very different from those of US and European transnational corporations (TNCs). Mexican entrepreneurs tend to not be open in their company operations, and even when they become transnational players Mexican conglomerates often remain family-based and closed for outsiders. They are also hesitant in releasing bonds which would require them to provide extensive information to bond markets and shareholders, and would mean (partly) handing over control (*Expansión*, 29 May 2002).

Evidently, the proximity of the world's largest economy together with the North American Free Trade Agreement (NAFTA) have allowed Mexican conglomerates to reap the benefits of neoliberal policies more successfully than some competitors from other Latin American countries. And entry into NAFTA reinforced the government's initiatives for privatization and for liberalization of trade and finance, creating new avenues for expansion of economic groups. Large Mexican companies have grown in particular through the greater opportunities for export and foreign investment as created by NAFTA. Of the 20 economies with the world's largest export market shares in

2000, Mexico (at number 11) is the only country from Latin America. And Mexico even comes fourth on the list of the 20 economies whose share of the world's export market has increased the most between 1985 and 2000 (after China, the United States and South Korea). While remaining rather volatile, and becoming only further dominated by flows from the United States, foreign direct investment in Mexico increased seven times in this same period, from US$2 billion in 1985 to US$15 billion in 2000. Although FDI decreased in 2002 and 2003, such a strong rise in foreign investment might be reproduced in the future because Mexico is classified as a 'below-potential economy': its FDI performance is relatively low whereas its FDI potential is high (UNCTAD, 2002).

These trends in exports and foreign investment have changed Mexico's position in the Americas. In recent years, Mexico seems to be beating Brazil as Latin America's largest economy. Meanwhile, Mexican conglomerates are transnationalizing through foreign acquisitions, mergers and other investments. In 2001, FDI outflows from Mexico equaled US$3.7 billion, only US$0.1 billion less than Chile, the region's largest investor abroad. Contrary to most Latin American investments abroad, which tend to remain within the region, Mexican companies have also been expanding into the United States. In 2002, for instance, food group Bimbo paid US$610 million to acquire Orowit in the US. The economic dependency of Mexico on the United States, however, has also increased further, and in 1999 88 percent of exports went to US markets while 71 percent of FDI came from US sources. While in the major economies of South America liberalization has resulted in the expansion of resource-based industries, in Mexico (as in Central America) the pattern of industrial specialization has been in the expansion of *maquiladoras* (World Bank, 2000; UNCTAD, 2002). In the future, however, Mexican conglomerates will increasingly face international competition, which may turn their recent successes into a temporary phase. As this article will show, much of the expansion and transnationalization of Mexican conglomerates in the 1990s was based on supportive state policies that allowed them to grow with little new investment, and with limited foreign competition in the internal market. Yet the first does not seem to be a viable long-term strategy for a transnational company, while the latter is undermined by NAFTA and other policies of economic opening.

Next to doubts about the future of Mexican conglomerates, the effects of their recent expansion and current role have been issues of concern. This concern partly flows from the process of major privatizations, which was far from transparent and in some cases – contrary to neoliberal economic theory on the importance of competition between market players – resulted in state monopolies being replaced by corporate monopolies. Additionally concerning are economic and social indicators showing that large companies have not become the motors of development as envisioned by the proponents of liberalized markets. In *maquiladora* industries, unskilled and low-wage workers assemble imported parts into products for the US market. The domestic value added is extremely low, which helps explain why trade growth has had disappointing effects on employment, local production and technology transfer. Recently, foreign investment to Mexico has been shifting from manufacturing to services. In the financial sector, a boom of foreign take-overs has resulted in a rapid transnationalization process. Are Mexican conglomerates likely to invest these massive recent earnings well, and to survive new waves of international acquisitions and mergers? Or will their expansion of the 1980s and 1990s soon turn out to be only a temporary phenomenon in Mexico's neo-liberal-style economic integration?

This article aims to analyze the rise of economic groups and conglomerates in Mexico in relation with the economic restructuring policies, which started under president De la Madrid (1982–8), were extended by president Salinas (1988–94), locked in with Mexico's entry into NAFTA in 1994, and then fine-tuned by president Zedillo (1994–2000). The focus here will be on groups of Mexican origin and their transnationalization. Since economic concentration in large private sector entities is a central issue here, the analysis encompasses a range of corporate giants – horizontally or vertically structured – that have linked several companies – in one or various sectors – under some form of centralized control (see Basave Kunhardt, 2001: 10–16), which here will be generally referred to as conglomerates or economic groups. The article starts with a general overview of their development, especially since the late 1970s. Next, the relation of economic groups and the state with the financial sector since the mid-1990s will be assessed. Finally, the role of conglomerates in the Mexican economy is discussed, including issues such as Mexico's competitiveness, the relations between large companies and the rest, and the development of employment.

The Rise of Economic Groups in Mexico

Economic power in Mexico is concentrated in a relatively small number of very large Mexican and foreign enterprises, and of the large Mexican firms many are part of the country's key economic groups. Based on the number of employees, of a total of 2.7 million economic units in 1999, the overall majority is made up of micro enterprises (95.9 percent), with 2.9 percent being small companies, 0.9 percent medium-sized companies, and only 0.3 percent (7473 units) large companies (*El Mercado de Valores*, 2002: 40–1). Apart from a few giant state companies in the energy sector (petrol, gas and electricity), the group of large companies consists of so-called local companies, including above mentioned '*multilatinas*', and foreign transnationals such as General Motors, Wal-Mart, Daimler-Chrysler, Delphi, Volkswagen, Nissan, Sony, IBM, Coca Cola and Nestlé. Between large Mexican enterprises and economic groups there is a strong relation, although figures on recent tendencies are hard to come by.

In the period 1987–91, the 59 major economic groups were made up of almost 1000 companies, 197 of which were on the list of Mexico's largest 500 companies. The share of the sales of these 197 even equaled 65 percent of the top 500, showing that the main economic groups are at the heart of large private Mexican companies (Garrido, 1998).

In the development of Mexican economic groups, financial crises and financial policies are important elements for the groups' development. A crisis shakes things up and may form an excellent opportunity for innovation and expansion. Moreover, apart from the evident pro-business bias of neoliberal policies, the governmental efforts to rescue financial capital from defaulting after the financial crises of 1982 and of 1994–5 were particularly beneficial to large Mexican investors. Evidently other changes have also affected their position, but it is striking that in analyses of the contemporary history of Mexican economic groups much of the speed and nature of their development is linked to events in financial markets (currency and stock exchange) and changing government initiatives towards banking, financial services, and exchange rates (Concheiro Bórquez, 1996; Morera Camacho, 1998; Basave Kunhardt, 2001; Garrido, 2002).

Most Mexican conglomerates already existed prior to the phase of economic restructuring policies, although Carlos Slim's empire forms an exception to this rule. In fact, it was import-substitution industrialization (ISI) that created the basis for growth of Mexican economic groups as well as foreign TNCs in Mexico. Initially, the first large manufacturing companies emerged under Porfirio Díaz (1890–1910) and were active in railways, mining as well as banking. After the Mexican Revolution, in the 1920s and 1930s, a modern banking and financial system was created, the Mexican state invested major sums in infrastructure and institutions supporting the economy, while large flows of foreign investment entered Mexico, in particular from US sources. In the phase of ISI policies (1940s to mid-1970s) direct state participation in industrial production turned out to be a dynamiting factor for economic growth and for economic concentration. This concentration took place both in large state companies as in large private companies and economic groups. The large statal sector subsidized the (national and foreign) private sector, predominantly through price policies. In this period, Mexico's industrial infrastructure was formed, and the Mexican markets grew at a steady high rate (the 'Mexican miracle'). The protectionist policies and the growth of both the Mexican and the US markets were very attractive to large companies of national as well as foreign origin, resulting in the establishment and expansion of numerous major companies, economic groups and conglomerates that became dominant in Mexico's economic structure. When in the 1960s centralization occurred in the financial sector, many large companies transformed into integrated economic groups (Basave Kunhardt, 2001).

In the mid-1970s, with the crisis of the ISI-model, a concentration of capital in private companies, economic groups and conglomerates started. Major entrepreneurs diversified their activities and expanded them beyond borders, based on the easy access to loans (as large Mexican oil reserves had been discovered). In addition, the banking reform of 1975 allowed banks to broaden their services and gave way to a process of mergers that entailed increasing ties between companies and banks, resulting in oligopolistic empires. For example, a rapid growth took place of the so-called 'Grupo Monterrey', a group (although informal) of very large companies such as Alfa, Vitro, Visa and Cydsa. This was also the time when holdings were emerging: conglomerates with intra-group financial flows, decentralized decision-making on investment, growth and diversification, and minimal fiscal control by the government. Simultaneously, major entrepreneurs were involved in a perverse process of protecting their personal capital against a likely devaluation, while indebting their companies and speculating with pesos. Banks enabled these speculations and loans, which contributed to the depth of the crisis of 1982 and the post-1982 situation of 'poor enterprises and rich entrepreneurs' (Concheiro Bórquez, 1996; Basave Kunhardt, 2001). When in 1982 the government announced that it could no longer pay its debt services, Mexico experienced a massive capital flight, followed by years of debt renegotiations, public rescue operations for 'poor' private enterprises, and economic restructuring.[1]

While, for most Mexicans and much of the economy, the 1980s were a lost decade, for Mexican economic groups it was the time of a miraculous centralization, which prepared them for transnationalization in the 1990s. The nationalization of the Mexican banking sector in 1982 resulted in former bankers creating new financial groups that invested in non-bank activities, including stock markets and insurance companies. The stock markets in fact turned into a parallel banking system, and a new group of giant firms emerged: '*los bolsistas*'[2] with among others Carlos Slim. Between 1983 and 1987, adjustments in their accumulation strategies gave economic groups more than ever a financial capital character. The centralization and 'financialization' of these groups was supported by the creation of the Ficorca (Fideicomiso para la Cobertura de Riesgos Cambiarios) in 1983. This commission was to rescue large private enterprises from the effects of the debt crisis, many of whom otherwise would have defaulted. Through Ficorca the massive sum of US$11.6 billion of public funding was transferred to the private sector. The beneficiaries of this state interference became strategic actors in mergers and centralization through aggressive purchasing of shares of industrial companies. These financial accumulation strategies came at the cost of productive investments, which decreased from 50 percent in 1982 to 8 percent in 1987. Within five years, these large companies had paid off their debts and were financially ready for more 'conglomerization' and opening markets (Basave Kunhardt, 2001: 75–81).

The presidency of Carlos Salinas de Gortari (1988–94) was a next crucial phase for the development of Mexican economic groups. In 1987, the early modernization process stagnated, unemployment increased, and the overvaluation of bonds made the Mexican stock market crash. Salinas's aim thus was to complete the restructuring process for the modernization of Mexico. Policies of privatization and the liberalization of trade, services and capital were widened and deepened, while fossil fuels and agriculture were no longer excluded. Salinas replaced de la Madrid's Pact of Economic Solidarity between the state, the business and agricultural sectors and labor by the Pact for Stability and Economic Growth, which aimed at growth through private investment, export of manufactured goods, and public investment in infrastructure. Legislative reforms served to strengthen financial intermediaries: commercial banking was reprivatized in 1990; foreign investment in banks, production and portfolio was liberalized; a new act encouraged the integration of financial groups, predominantly by allowing the establishment of financial holding companies; and Salinas's modernization program included a repeal of regulations restricting private investment, and the abolition of most price controls. Together, the Pact and the economic reforms of Salinas express the government's special support for large enterprises, which Concheiro Bórquez (1996) has labeled *el gran acuerdo* (the great accord).

Privatization was a key element of economic restructuring policies, and it was central to the expansion of Mexican conglomerates under neoliberalism. While his predecessor had started to privatize some smaller and poorly operating state companies, Salinas was responsible for the major transfers of larger and more productive parastatals to the economic sector. Their new private owners developed complex finance structures that allowed them to control these companies with relatively limited investment of their own. As companies were not sold on the open market but through a far from transparent state-controlled system of selection, the prices and public revenues of these transfers remain unclear, but the total value is estimated around US$20 billion. For prices (sometimes much) below their real value, 93 percent of them were sold to large Mexican enterprises and economic groups (Guillen, 1994: 32–3). Teléfonos de México (TelMex), for instance, was sold to the powerful Grupo Carso of Carlos Slim for US$443 million; less than two thirds of its estimated real value (*Proceso* 996, 1995: 19).[3]

Through new financial strategies, such as constructions, to obtain only the smallest number of shares necessary to dominate a firm, these 'new' important entrepreneurs took control over a large number of privatized companies. When banks were reprivatized from 1990 onwards, most of them were bought by economic groups that already owned stock markets. The result is a major concentration of power into the hands of some 274 investors dominating the sector. Contrary to traditional family companies the new conglomerates of economic groups involved holdings, stock market quotation, and international funding through credits, strategic alliances and joint ventures. The rearticulation of major Mexican capitalists that had started in the 1980s thus further developed in the 1990s. With these new financial groups that can take the lead over various functions of capital, a powerful financial oligarchy centralizing the command over economic processes came into being (Concheiro Bórquez, 1996: 30–8, 98–100).

By transferring a considerable share of the state's economic power to large Mexican enterprises, the privatization process strengthened them as the new pioneers of growth and development. Expansion in foreign and local markets but especially the national bias in privatizations allowed Mexican industrial companies to strengthen their position. Their importance vis-à-vis foreign companies producing in Mexico increased notably between 1987 and 1992: while in 1987 73 percent of the top 500 firms in Mexico were Mexican private companies, in 1992 they made up 84 percent of the list, while simultaneously the share of transnationals dropped from 18 to 14 percent (the rest consisted of state-owned enterprises). However, among the group of 60 largest non-financial companies in 1994 in Mexico, 19 (that is 32 percent) are foreign (Garrido, 1998: 403–6).

Of Salinas's efforts to improve Mexico's regional and global relations and position, the creation of the North American Free Trade Agreement (NAFTA) between Mexico, the United States and Canada was evidently the most effective result.[4] Next to free trade of goods, the agreement allows for free flows of services and capital. In particular, the liberalization of flows from and towards the largest economy of the world (the United States) was promising for Mexico. In addition, the agreement implied the regional locking in of Mexico's neoliberal economic policies. Together these NAFTA elements added strongly to the attractiveness of investing in Mexico. This has been important for Mexican economic groups in that it eased, among other things, their access to strategic alliances with foreign capital, which has been a fundamental element of their competition in internal as well as external markets.

Mexican economic groups have become increasingly active in foreign investment, particularly in Central America, the United States and South America. Some of the success stories, apart from the globally operating Cemex, are Televisa in Latin America, Spain and the United States, and TelMex and América Móvil in Central American countries and beyond. This transnational investing started in the late 1980s and was based on sophisticated financial operations, which are complex equity and debt instruments including debt swaps. Apart from the crucial public sector's financial injection mentioned above, the international stock market became a source of finance. For instance, between 1989 and 1992 35 Mexican companies used American Depositary Receipts (ADRs) or Global Depositary Receipts (GDRs) on international markets, and to some economic groups it was a way of financing investments and acquisitions. 'They generally do not depend on their own internal financial resources to finance their expansion. Instead, they use sophisticated financial devices engineered by powerful transnational agents who have become a key link in the whole process of globalization' (Salas-Porras, 1998: 151). Although involving very little new investment, this expansion still involves the risk of losing the resources that have been accumulated over a long period. Nevertheless, by 1998 of the 60 largest non-financial Mexican economic groups over 60 percent had become global players by means of strategic alliances with foreign firms, and through expansion to stock markets. However, with recent trends in Mexico of increased foreign competition and decreased foreign investment, the risk of Mexican entrepreneurs losing control over their companies is growing. This is also related to the sectoral specialization of Mexican groups which is mainly in goods like cement, steel, glass and petroleum; while letting external TNCs dominate in the more technologically advanced sectors (Salas-Porras, 1998).

In sum, during the 1980s and 1990s, Mexican economic groups went through a phase of profound change. Particularly after 1988, groups and conglomerates restructured towards competitiveness in an open economy, by means of acquisitions, business integration, and capturing foreign markets through exports. This restructuring process has turned a part of these economic groups into the top of '*multilatinas*' and of transnationals from developing countries. Inside Mexico, it was above all the process of privatization that caused a centralization of capital, resulting in a *nueva oligarquía* that was much more powerful and far more associated with transnational capital than the old oligarchy (Morera Camacho, 1998: 50). As we will also see below, in Mexico two economies have come into being: the economy of economic groups, and the economy of the rest (Basave Kunhardt, 2001: 97).

The close relations between the government and the top of the corporate sector have had a strong impact on the outcome of Mexico's privatization, regionalization and other restructuring policies. Contrary to official claims that privatizations would enhance competition and efficiency, in the process several monopolistic groups were created that have also become big transnational players, especially in copper (Grupo México of the Larrea family) and in telecommunication (Slim's TelMex). Apart from a preferential status in privatization procedures, close ties allowed for effective business pressure on policy-making processes with respect to (foreign) competition (in the financial sector, telecommunications and airlines), as well as through the conglomerates' capturing of the regulatory boards, which are officially supposed to ensure fair competition. Such practices clarify where the views of technocrats and large entrepreneurs diverged: the first aimed for free, open markets, while the latter wanted privatization and deregulated markets but also pushed for arrangements that would protect their powerful position (Teichman, 2001). Since technocrats lacked popular support for their program of market reform, their dependency on the political (and financial) support of 'big business' made them turn their pro-market agenda into a pro-conglomerates program.

Conglomerates and the State in the Financial Sector

To Mexican conglomerates and economic groups, their recent activities in the financial sector have been special, differing from those in other sectors. In the 1990s, they were overly eager to benefit from the privatization of banks and the liberalization of the sector as a whole. By the early 2000s, however, Mexican groups have sold most of their banks to US and European transnationals. This development has affected Mexico as a whole. Apart from being a crucial sector to any economy, the financial sector is of special importance to Mexico's economic prospects as it is generally seen that its weakness is a key element in Mexico's limited competitiveness (see World Bank, 2000: 8). As we will see further on, the concentration and transnationalization of Mexico's financial sector since the late 1980s has to a large extent been orchestrated by the Mexican government, but the price of it for the public sector was unforeseen, particularly due to the peso crisis.

The recent transformation of Mexico's financial sector is first of all a result of liberalization policies. Between 1988 and 1994, initiatives for deregulation took the form of abolishing various previous restrictions. In particular the end to the restriction on cross-sector participation gave way to the formation of vertically integrated financial groups including banks, insurance firms, stock markets and other financial entities. Several new regulations allowed banks to fully participate in the markets of state bonds, and to issue short-term bonds themselves (while some derivates were allowed too). Bonds of Mexican firms could also be emitted abroad, and local markets were gradually opened to foreign investment (Guillén Romo, 2002: 570). These liberalization measures, together with the fixed parity of the peso, produced a strong increase of short-term transnational capital flows to Mexico as well as of financial speculation by Mexican capital. Subsequently, NAFTA allowed opening Mexico's financial sector for US and Canadian investment and competition. In addition, the financial sector became gradually more open to foreign investment in general. The Foreign Investment Law of 1993 still included a 30 percent limit to foreign participation in holding companies for financial groups and commercial banks, but this limitation was first extended in 1996 to 49 percent, and then in 1998 the law was revised to allow for majority foreign ownership.

Next to these liberalization policies, it was again a financial crisis and the state's response to it that contributed to the changing role of large Mexican companies in the financial sector. Like the impact of the debt crisis to the development of Mexican economic groups in the 1980s, from the mid-1990s onwards the peso crisis strongly affected Mexico's financial sector and the economic role of Mexican conglomerates. When starting his presidency in December 1994, Zedillo immediately had to deal with the overvalued peso, which was a legacy of his predecessor Salinas. Yet the attempt at controlled devaluation failed: financial markets panicked, the value of the peso was almost halved, and the economic and social effects were devastating. During the rest of his presidency, Zedillo focused on keeping Mexico's debt and budget deficit under control, decreasing the country's financial vulnerability, and saving the banks.

The arrangements to save Mexican banks from defaulting were made by the FOBAPROA (the Banking Fund for Protection of Savings set up in 1990 – a follow-up of Ficorca) and later on also by IPAB (the Institute of Protection of Bank Savings, set up in 1999). Fobaproa was originally established as a fund of the sector of privatized Mexican banking, so that when in trouble banks would turn to this fund rather than using public resources. However, FOBAPROA lacked the resources necessary to solve the problems caused by the peso crisis, as devaluation and the strong rise of interest rates had left thousands of companies unable to pay their debts. Therefore the government decided to help them out. After the peso crisis, FOBAPROA bought unpaid loans of banks (worth billions of US dollars) while signing agreements that banks would be receiving guarantee payments from 2005 onwards. Mexico's public sector thus provided unprecedented support to private banks in the form of complex structures of bonds to banks. The so-called *pagarés* FOBAPROA are promissory notes (or IOUs) for the financial rehabilitation of the banks. They were issued between 1995 and 1997 for a period of 10 years, and thus guaranteed interest paid by the government to the banks during these years. Since 2000, IBAP has been issuing a new type of bonds in an effort to find funding to pay off the FOBAPROA bonds, but with limited success.[5]

This rescue of privatized banks serves as an illustration of the way in which Mexico's technocratic elite governed the new relationship between the state and the envisioned motors of neoliberal growth: large companies. The costs of this special treatment were enormous. Between 1995 and 1998 the public resources spent on funding arrangements amounted to approximately US$60 billion, which is five times the amount the government had previously earned from the privatization of these banks (Székely, 1999: 14). This funding increased from 5.5 percent of GDP in 1995 to 14.3 percent in 1999 (Guillén Romo, 2002: 573), while the World Bank (2000: 59) even calculated that the fiscal costs of the banking crisis is the equivalent 19.3 percent of GDP. This public money was also used to bail out investors who had been aware of the weak supervision of the privatized financial sector, and who had willingly taken great financial risks. Moreover there were major irregularities involved in the process, especially in the loans to the major banks Banamex, Bancomer, Bital and Banorte, and both FOBAPROA and IPAB have been accused of insufficient transparency. According to the president of the Mexican Association of Banks (AMB), Héctor Rangel Domene, there definitively have been frauds (*Expansión* 831, 2001). In addition, the bonds were issued without the authorization of the Mexican Congress.

After the peso crisis and the rescue of Mexican banks, the banking sector transnationalized at a rapid pace due to numerous foreign take-overs. Both North American and European banks started making large investments in Mexican banking, including Citicorp in 1994, Banco Bilbao Vizcaya Argentaria in 1995, Bank of Montreal in 1996, and Banco Santander in 1997. Yet the hub of FDI in this sector came after 1999. In 2000, the large Spanish bank Banco Santander Central Hispano (BSCH) took control over the Mexican bank Serfin, and the Spanish Banco Bilbao Vizcaya Argenteria (BBVA) came to control Bancomer. The next year, US transnational Citigroup purchased Banamex for US$12.5 billion, which was the region's second largest acquisition ever, and the world's largest in financial services in that year. In 2002, the UK-based Hong Kong and Shanghai Banking Corporation (HSBC) paid US$1.13 billion to acquire the fifth largest banking group of Mexico: Bital.

These foreign acquisitions of Mexican banks are a direct result of the peso crisis and the subsequent state intervention in the banking sector. After the crisis Mexican banks were in great need for rapid capitalization, yet the massive state support had the perverse result of becoming big transnational business. The business of collecting the flows of obligations turned into a main motivation for foreign banks to become interested in buying Mexican banks! The *pagarés* made up a large share of banks' portfolio, ranging from 20 to 50 percent in Mexico's largest five banks in March 2002. In addition, by providing many credits to a range of state agencies, of the portfolio of these banks no less than 40 to 72 percent consisted of funding to the government. Banks in Mexico have ended up depending strongly on a range of government issued instruments, including by Fobaproa. In June 2000, 23 percent of their total interests stemmed from these bonds sold to Fobaproa (World Bank, 2000: 59–63).

Since the early 2000s, the transnationalization of banks operating in Mexico is a fact. Foreign ownership of Mexico's banking sector rose to 92 percent in 2002 (ECLAC, 2003: 45). Apart from Monterrey-based Banorte (part of the industrial-financial group related to Gruma-Maseca, the world's largest producers of corn products) all the large banks in Mexico – Banamex, BBVA Bancomer, Bital, Banco Santander Mexicano and Banca Serfin – had moved into the hands of external TNCs, and since then control has tended to be shifting among them.[6] The transnationalization of banking is related to that of other branches of the financial sector. For instance, it is also the dominant trend in the control over stock markets in Mexico, where the foreign share had risen to 54 percent in March 2003. Together with large foreign acquisitions in telecommunications, this foreign investment in banking has turned the service sector into the largest recipient of FDI in Mexico: from 23 to 65 percent from 1994 to 2000. While in the period 1994–9 the average share of financial services in FDI inflows was 10 percent, it rose to 32 percent in 2000 and 58 percent (mostly due to the acquisition of Banamex by Citicorp) in 2001 (UNCTAD, 2002: 66–7).

The new situation in Mexico's banking sector involves several conflicts and contradictions in the relations between the public sector and the private sector. In 2005, the first part of the bonds issued by FOBAPROA expires, involving the four major banks Banamex, Bancomer, Bital and Banorte, although in 2004 the quasi-state institutions and these banks were still negotiating on a deal for some sort of exchange of these bonds. Increasingly a range of (possible) irregularities with these major banks have come into the spotlights. In 2003, for instance, Mexico's Federal Auditor ordered Banamex, Bancomer, Bital and Banorte to return over US$12 billion given to them as part of the bank bail out. In the future, transparency and relations between these banks and the state may remain limited and problematic. Foreign ownership of the largest banks limits the information available on their operations in Mexico; with their headquarters being located in the United States or Europe, they have fewer obligations to provide the Mexican government with extensive information.

While a systemic crisis was prevented by the Mexican state's intervention after the peso crisis, the price has been high. First, Mexico's public debt has increased significantly through these rescue arrangements, and will continue to do so for the next decade to come. Second, the rescue efforts have hardly contributed to a more solid banking sector that serves the real economy. Banks in Mexico prefer to buy (relatively secure) state bonds instead of providing credits to companies, and therefore perform badly as providers of capital for productive activities. Credits that are made to the private sector are extremely concentrated in large enterprises whereas medium and small companies experience that banks have little to offer them. Between December 1994 (when the peso crisis started) and June 2000, bank lending to the private sector fell 40 percent, and direct commercial bank financing to the non-bank private sector even decreased with 73 percent (World Bank, 2000: 59–64). Third, the transnationalization of large banks in Mexico means that the public sector's bail out for the banking sector was a transfer of public resources to the banks' previous Mexican owners and their current external owners. Since neither of them are making a very satisfying contribution to the development of banking, the financial sector or the rest of the economy in Mexico, the amount spent on rescue arrangements (so far and in the future) is perverse, especially when considering that this happened in a country where public resources for supporting economic development are far from sufficient to cover even the most primary needs.

Neoliberal Conglomerization and the Mexican Economy

To Mexican economic groups and conglomerates neoliberal restructuring has profoundly affected their operation and economic role. Leading industrial groups of Mexico used to dominate in products of mass consumption (particularly food and drinks) and (intermediary) products for general use, including iron, cement and glass. These industrial companies were the basis for the formation of economic groups. At least until the 1990s, major Mexican industrial companies largely retained their traditional characteristics: owned as family property, leaders of the industries in Mexico, and representing the heart of national industrial-financial groups. However, their leadership has been importantly expanded to the extent that these companies and the conglomerates to which they belong have started to compete for leadership with other large Latin American conglomerates. This internationalization is the dominant tendency of the industrial activities of Mexican conglomerates, and has taken place at practically all levels: sales, finance, production etc. Exports increased strongly, also in food products. The manufacturing sector has witnessed profound changes since the 1980s, with car (parts) production and chemistry increasing while traditional activities such as textiles production decreasing. Also production of these conglomerates was internationalized involving policies of strategic associations and co-investment with foreign firms (Garrido, 1998).

As a result of the transnationalization of Mexico's financial sector, since 1998 funding for Mexican economic groups has been shifting. The importance of bank credits has decreased whereas the importance of non-bank funding and foreign funds has increased. These groups balance their finance between '*proveedores*', local and international banks and from other companies of their group (Garrido and Martínez Pérez, 2004: 24–9). For instance, the country's largest industrial-financial group, Carlos Slim's Grupo Carso, owns Mexico's number one stock market, Inversora Bursátil (23 percent of the sector), as well as the bank Inbursa. However, the selling of banks and stock markets to external transnationals means that further expansion requires solving limitations to attracting financial resources. As they are losing participation in the banking and financial sector while increasingly becoming regional multinationals, large companies search for opportunities in foreign markets to finance their regional expansion. The risk of such strategies is that with foreign competition and/or a new financial crisis they may become financially vulnerable to the extent of even losing control to foreign firms. And with the clearly negative effects of the post-peso crisis rescue on the public sector's debt, such a rescue is unlikely to be replicated in case of another financial crisis. On the other hand, the financial situation of the top Mexican companies has been more troublesome than it might seem from a quick look at their regional successes. Between 1995 and 2001, the sales of the 40 largest companies were on average almost constant, while their rentability was weak. Between 1999 and 2001, only four of these 40 achieved financial stability, meaning that there is a high risk of bankruptcy, especially for a 'global winner' as Cemex (Garrido, 2002).

The stock market is only a limited source of finance to Mexican economic groups. In Mexico, about 70 percent of the ownership of companies is with their bosses, and only 30 percent is in the stock market. One explanation might be that due to the higher risks of investing in Mexico, Mexican companies have to sell their capital at lower prices. There are some companies that investors favor, including several local giants (such as TelMex and Cemex), and some subsidiaries of transnationals (including Walmex and América Móvil). Although opening stock markets to foreign investors multiplied the total capitalization of bonds (some US$800 million in 1988 to US$50 billion in 1994), capitalization of the Bolsa Mexicana de Valores tends to be relatively low, and between 1999 and early 2003 its value was halved to US$65 billion (*Expansión* 864, 2003). Also the use of corporate bonds for the funding of operations of Mexican firms has its problems. In the early 2000s, the crisis in Argentina and Brazil harmed the region's corporate bond market as indebted companies had serious problems paying their bondholders, and several companies defaulted. At the beginning of 2003, Mexican companies in particular began issuing new bonds in order to restructure debt. The country's massive exports and ties to the US ease the access of Mexican firms to capital markets, even at times of crisis. Despite these favorable circumstances a number of Mexican conglomerates, including Cydsa (synthetic fibers) and Hylsa (subsidiary of steel company Hylsamex), have been forced to go through complicated negotiations on debt restructuring to arrange for an extension on payments of millions of US dollars in bonds (*Latin Trade*, November 2003).

Mexico's entry into NAFTA is a major explanatory factor for the rise of Mexican economic groups, but also external TNCs have been growing strongly in Mexico whereas the country's historical economic dependency on the United States has further increased. After the Mexican recession following the peso crisis, between 1997 and 2000 the Mexican economy started to profit again from the booming US economy, and had average growth results of 5 percent.[7] Between 1992 and 1999, the volume of trade between the two neighbors more than doubled, while between 1993 and 2002 the share of Mexican exports going to the United States increased from 83 percent to 91 percent (*Latin American Weekly Report* WR-2–40: 473). This ongoing integration has been most visible in manufacturing and services, such as food processing, chemicals, machinery, and electrical, electronic and transportation equipment. The US dominance is linked to a second major feature of Mexico's economy: the growth of export and *maquiladoras*. These predominantly (about 60 percent) US-owned factories of export-processing assembly production have experienced spectacular growth rates since the middle of the 1980s, while Mexican exports tripled between 1991 and 1998 (Alba Vega, 2000). Mexico has become an important export country of automotive products as a result of restructuring in the US auto industry and NAFTA. In electronics, US, Asian and European TNCs have expanded production in Mexico. In effect, almost two-thirds of Mexico's manufactured exports come from external TNCs (UNCTAD, 2002: 173–6).

Although the growth of Mexico's *maquiladoras* and further economic integration with the United States have brought certain economic gains, overall liberalization policies have not brought about sustained economic development, and in particular employment has become a sensitive issue. Between 1988 and 2000 there was productivity growth in most sectors, but they hardly generated employment. What has happened is increasing productivity by adjusting the numbers of personnel (dismissing workers), meaning a loss of qualified employment that is contrary to long-term competitiveness. '[T]he formula used in the nineties evidence a concept of development that wastes resources, especially human capital formed during decades' (Ruiz Durán, 2003: 8). The *maquiladora* sector is a substantial source of employment, but it can not – by far – compensate for the loss of jobs in other sectors (especially agriculture) and the yearly need for about 1 million extra jobs for Mexico's young population. In addition, while *maquiladora* salaries are higher than those in manufacturing for the domestic market, working conditions and workers' right are notoriously low in this sector. Moreover, the *maquiladoras* are extremely dependent on the ups and downs of the US economy. In 2001, some 240,000 *maquiladora* jobs were lost, representing 18 percent of this sector's employment (*Mexico & NAFTA Report*, 16 April 2002: 4).

Mexico is increasingly struggling with foreign competition, and NAFTA-based growth may turn out to be a short-term success at best. For a few years, there has been a radical change in the global strategies of transnational companies: instead of competing for a company's size and participation in many markets they have been bringing their costs and investments under strong control. Several transnationals have opted for relocating (part of) their installations to countries with lower labor costs or to markets with higher growth potential (see also the introduction to this issue). Of the *maquilas* that closed in 2002, 60 percent relocated to Asia and 40 percent to Central America. However, value added in *maquilas* in 2002 went up 11 percent, which suggest there is a shift taking place from labor-intensive activities into higher value-added activities. This productivity and technological sophistication of (part of) the Mexican *maquiladora* sector may diminish the threat of relocation to lower cost countries for some time (UNCTAD, 2003: 54, 59). Meanwhile, the domestic economy is not doing well, yet it represents about 70 percent of total economic activity. *Maquiladoras* do not provide a solution to this problem: they are extremely import-dependent and are hardly integrated in national economy as less than 2 percent of the assembled parts come from local providers (Alba Vega, 2000). Public spending kept the economy drifting in 2003; extra oil revenues (high oil price) worth US$1.1 billion allowed for the higher government spending (*Latin American Economy & Business*, April 2004).

Together, these trends have contributed to economic polarization, which has profound social implications. Due to a policy focus on the macro level, the micro level has been harmed. A small group of large companies were encouraged by the state, but the majority of small and medium-sized firms have stayed behind. Mexico is thus facing multiple polarizations: economically, socially, and politically (Hogenboom, 2004). While the proximity and free trade with the world's largest national economy have allowed Mexico to have more extensive and prompt economic result from its liberalization policies, the pro-conglomerate bias of the governing technocratic team intensified the divide between a (small) modernized part of the economy and the large marginalized and underdeveloped segments. This economic polarization is reflected in social relations, contributing to social inequality and major flows of migrant workers. While progress has been made in some important areas such as life expectancy, child mortality, and extreme poverty, various analyses – with somewhat varying figures – show that the number of poor Mexicans has grown and that income inequality increased. An important factor explaining these negative social trends is the dramatic fall of real wages and minimum wages, and the new economic model's failure to create sufficient new jobs for the growing population. Manufacturing is only a minor source of employment-generation, not even among the five most important branches in this respect. Moreover, in the neoliberal era employment generation is not associated with trade or with exports (Dussel Peters, 2000). This is related to the above-mentioned insulation of the export sector from the rest of the economy. And to complete the circle, the high levels of poverty in Mexico again have important economic effects: the internal market and effective demand remain relatively low.

NOTES

1. The primary causes for the crisis were Mexico's (public and private sector) lending behavior in the 1970s and world-wide rising interest rates and falling oil prices during the early 1980s.

2. The term *bolsista* comes from *bolsa* (stock market).

3. Another example of irregularities surrounding privatizations is the case of Carlos Cabal Peniche who acquired control over the banks Unión and Cremi in 1991 and 1992 with hardly any capital of his own. Unión was bought for US$240 million by a group headed by Cabal, of which no one had experience in the banking sector. Contrary to federal banking regulations, major credits were obtained from related companies that were owned by shareholders of the bank: a dozen persons lead by Cabal Peniche took credits of this same bank. Although Cabal was accused of fraud with US$700 million and fled the country in 1994, he nevertheless tries to have the state compensate for his 'losses' in the peso crisis (*La Jornada*, 26 May 2004).

4. Mexico also extended its international relations via new bilateral and regional trade agreements with Latin American countries (e.g. with Chile, Brazil, MERCOSUR, and Central America), and membership of OECD (Organization for Economic Cooperation and Development) and APEC (Asia Pacific Economic Cooperation).

5. Another recent construction are transfers of obligations of IPAB to financial enterprises. Such companies buy IPAB bonds at a highly discounted rate (23 percent of its original price) as a way to compensate for the high risk that they will not be recovered. These financial companies are usually part of large financial groups, mostly of foreign origin but also some Mexican (*Expansión*, 21 August 2002).

6. In 2002, Citigroup paid US$1.240 million to the Dutch transnational Aegon for 48 percent of insurance company Afore Banamex/Seguros Banamex. That same year BSCH started to merge its Mexican subsidiaries Serfin and Banco Santander Mexicano into a giant bank with US$25 billion in assets, and the US financial transnational Bank of America bought 25 percent of the Grupo Financiero Santander Serfin, paying US$1.6 billion. In 2004, BBVA purchased another 38 percent of Bancomer's shares for over US$4 billion.

7. Mexico's GDP between 1986 and 1995 increased yearly on average 1.6 percent; then in 1996 GDP grew 5.2 percent; in 1997 6.8 percent; in 1998 5.0 percent; in 1999 3.6 percent; in 2000 6.6 percent; in 2001 –0.2 percent; in 2002 0.7 percent; and in 2003 1.3 percent (IMF, 2004).

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Barbara Hogenboom is researcher and lecturer at the Centre for Latin American Research and Documentation (CEDLA) in Amsterdam. She writes on national and transnational politics and neoliberal restructuring in Latin America, and on global political and economic processes. Some of her recent publications are *Good Governance in the Era of Global Neoliberalism. Conflict and Depolitization in Latin America, Eastern Europe, Asia and Africa* (edited with Jolle Demmers and Alex E. Fernández Jilberto, Routledge, 2004), *Cross-border Activism and its Limits: Mexican Environmental Organizations and the United States* (with Miriam Alfie and Edit Antal, CEDLA, 2003), *Miraculous Metamorphoses: The Neoliberalization of Latin American Populism* (edited with Jolle Demmers and Alex E. Fernández Jilberto, Zed Books, 2001), and *Mexico and the NAFTA Environment Debate: The Transnational Politics of Economic Integration* (International Books, 1998).
Address: Center for Latin American Research and Documentation (CEDLA), Keizersgracht 395–7, 1016 EK Amsterdam, The Netherlands.
Email: [hogenboom@cedla.uva.nl]