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MEXICO'S INTEGRATION INTO THE NORTH AMERICAN ECONOMY: The Role of Foreign Investment

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1. Introduction

A new international industrial order is taking shape which will have dramatic consequences for developing countries (Mortimore, 1992). One of its principal characteristics is that it primarily concerns a transnational corporate core of a few thousand global companies operating in a half dozen technologically-advanced industries in science-based sectors, such as fine chemicals, electronic components and telecommunications, and specialized supplier industries, like machine tools, and in another half dozen which are undergoing an active process of industrial restructuring, such as is the case for scale-intensive sectors (automobiles, consumer electronics, etc.). Around this core, a new and integrated international production system is emerging. This system is centered on the Triad, that is, the huge markets formed by the European Union, North America and Japan, but it also extends to regional clusters of developing countries associated with each of these three major markets (UNCTAD, 1993a; UNCTC, 1991).

Technology is now the most crucial element in defining competitive advantage (Cantwell and Dunning, 1991; Chandler, 1990; OECD, 1992; Teece, 1987; and Ernst and O'Connor, 1989). Clear indications of the new international order are evident in the simultaneous processes of globalization and specialization characterizing international trade flows and the processes of globalization and regionalization linked to flows of foreign direct investment (FDI). Within the Triad, Japanese transnational corporations have made enormous advances, primarily at the expense of their American and European counterparts (Encarnation, 1992, and Thurow, 1992). Their gains have been registered mainly in those same technologically-advanced and restructuring industries where international competition has become most intense, such as computers and office equipment, automobiles, consumer electronics, machine tools, etc., in which Japanese manufacturers have made big inroads into international markets and are establishing new international or regional manufacturing operations (Mortimore, 1993).

The increased international competition in global economic relations has meant that developing countries now receive fewer preferences from the OECD countries, and at the same time have to compete on harsher terms with them. Only a relatively small group of developing countries are in a position to do so. At the same time, it is evident that significant production activities linked to the new international industrial order are being transferred or assigned to manufacturing operations in newly industrializing countries which possess the competitive advantages needed by the transnational corporate core (UNCTAD, 1993a). These developing countries **could** be incorporated into the new international industrial order, but the extent of their incorporation will depend on the nature of the competitive advantages offered by the local industrialization process.

Whereas national policy decisions used to be the defining element of the local import-substituting industrialization process, in the new international industrial order the more consequential aspects of

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decision-making shift to the transnational corporate core of the new and integrating international production system. In this sense, the competitive situation on international markets for TNC products and the corporate strategies designed to deal with this factor take preference in the transnational corporate core's decisions to make investments, generate trade and transfer technology. Although government influence is blunted, the way they adapt to this new order effects whether and how developing countries are integrated into the international production system.

Mexico is presently in the process of being incorporated into the new international industrial order. The indications of such are evident in each of the international trade, foreign investment and technology fields. With regard to international trade, Mexico's international competitiveness has improved enormously over the 1980-92 period.[1] Measured by its share of the OECD imports of manufactures, the dynamic part of world trade, it rose from 0.7 percent in 1980 to 1.7 percent in 1992. Moreover, manufactures now account for two-thirds of Mexico's exports to the OECD (up from 30.6 percent in 1980). Mexico had very significant positions in OECD imports by 1992 up enormously from those held in 1980, as Table 1 indicates. Mexico is in the small group of "winners", that is, those that have gained at least a one percent OECD import market share during the 1971-92 period. Other members of this select group are Japan, China, South Korea, Taiwan, Singapore and Spain. In other words, Mexico has come in from the cold with regard to its international trade.

Table 1
Mexico: principal positions in OECD imports, 1980 and 1992

SITC Code	Product Group	Market Share	
		1980	1992
773	Equipment for distributing electricity	7.3	20.2
761	Television receivers and related equipment	0.2	12.1
771	Electric power machinery (exc.716), parts	4.9	7.7
762	Radio broadcast receivers and related equipment	0.1	7.2
532	Dyeing and tanning extracts, synthetic material	1.1	6.7
685	Lead	5.8	6.6
713	Internal combustion piston engines and parts	1.0	5.4
716	Rotating electrical plant and parts thereof	2.1	5.1
772	Electrical apparatus for breaking circuits	2.7	4.5
784	Vehicle parts and accessories	0.9	3.9

Source: The authors, using the CAN software, version 2.0.

A somewhat similar situation holds in terms of foreign investment, in the sense that Mexico has become significantly more integrated into the international capital markets (ECLAC, 1994). This is true for all aspects of foreign investment: portfolio investment, loans and foreign direct investment. If one considers the long term capital inflows from private sources over the 1989-93 period, Mexico received US$ 83.7 billion, or 43 percent of all inflows to Latin American countries. With regard to FDI inflows,

Mexico was one of the five principal developing country recipients during 1990-2 (with China, Singapore, Malaysia and Argentina, which together accounted for 60 percent of the developing country total). Mexico's share corresponded to one-third of that for Latin American countries, 12 percent of that for developing countries and 2.5 percent of the world total. Mexico had become a factor in global capital flows.

Information related to the transfer of modern technology is harder to come by, however, the example of the Mexican automobile industry suggests that much has been accomplished (Mortimore, 1994). During the 1980s and early 90s the industry was completely modernized in Mexico, receiving huge foreign direct investments (in the order of US$10 billion) and world class technology, with the result that the industry became internationally competitive. For example, Mexico's share of the OECD imports of automotive goods, in general, rose from 0.4 to 3 percent from 1980 to 1992. The particular situation for internal combustion engines (SITC 713), autoparts (784) and passenger cars (781) was an increase from 1.0, 0.1 and 0.9 percent to 5.4, 3.9 and 2.3 percent, respectively. The Mexican operations of General Motors, Ford, Chrysler and Volkswagen occupied the third, fifth, seventh and fifteenth spots on the list of the 200 principal exporters from Latin America during 1991.[2] Evidently, the global strategies of some of the largest and most important transnational corporations were changing to include Mexico in their new integrated international production systems (Mortimore and Huss, 1990; Peres, 1990a; UNCTC, 1992).

It should be pointed out that Mexico's increased incorporation into the international market was a continuous and arduous **process**, which only began in a serious way with the far reaching stabilization and adjustment programs initiated to deal with the very serious debt crisis facing Mexico at the beginning of the 1980s (Lustig, 1993; OECD, 1992; and UNIDO, 1993). Significant events in this process were the following:

- the accelerated trade liberalization program which began in 1985;
- Mexico's adhesion to the GATT in 1986;
- the implementation of strong incentives for FDI, in the form of the debt-equity conversion program (beginning 1987) and the acceleration of the privatization program (after 1990);
- the debt-reduction agreement signed with transnational bank creditors in 1989;
- the loosening and reinterpretation of FDI regulations in 1989;
- the redefinition of the automotive sector Decree in 1989;
- the entrance into operation of various free trade agreements with Latin American countries (Chile, the Group of Three (with Colombia and Venezuela), Central America, etc.) during the early 1990s and the North American Free Trade Agreement (NAFTA) with Canada and the United States in 1994.
- the new Law on FDI of late 1993;
- Mexico's membership in the OECD and adhesion to its rules in 1994;
- the new automobile rules of 1994 under the NAFTA.

All of these steps had in common the accommodation of the Mexican economy to the needs and requirements of globalizing TNCs, especially North American ones.

It should be clear that the further integration of Mexico into the international market really signifies the further integration of Mexico into the North American cluster of the Triad. After all,

70 percent of Mexico's trade is with North America (67 percent with the United States) and two-thirds of the stock of foreign direct investment in Mexico comes from North America (64 percent from the United States). The incorporation of the Mexican into the North American cluster of the Triad is mainly the consequence of the challenge for Mexico to improve its international competitiveness in the face of a new international industrial order, on the one hand, and the convenience of Mexico for globalizing North American TNCs, on the other. It must be mentioned that this is a two-way process, as the principal destination of trade and FDI by Mexican firms is the U.S. market (CEPAL 1993; Peres, 1993).

The rest of this article will deal primarily with foreign investment information (data and legal aspects) and other specific sectoral elements of the process of integration of Mexico into the North American economy.

2. Characteristics of the foreign capital inflows

Since the beginning of the 1990s, the countries of Latin America and the Caribbean have received large net amounts of external capital. During the first four years of this decade, the flows of capital towards the region reached an annual average of US$ 44 billion (ECLAC, 1994). This situation represents a complete turnaround from the eighties when Latin America had to face a notable restriction of foreign financing as a consequence of the international debt crisis.

Although most of the countries in the region benefitted from increased foreign capital inflows, these flows were concentrated in only a few countries. The high-flyer is Mexico whose economy accounts for a quarter of the regional GDP and yet absorbed almost 50 percent of these net capital inflows from private sources (Table 2).

In Mexico, as in other Latin American countries, this resurgence of capital movements included several new modalities with regard to access to international markets and was also characterized by important amounts of repatriated capital. During the 1990s, the commercial bank loans, the principal source of finance in the pre-debt crisis period of large capital inflows, were surpassed other forms of foreign financing, in particular by foreign investment, both direct as well as portfolio.[3] However, it should be noted that Mexico has been one of the few Latin American countries that has continued to receive an important level of financing through credits of commercial banks.

A large number of factors helps to explain these important inflows of foreign capital towards Mexico. In terms of external factors one might mention the following: the recession in the industrialized countries, especially in the United States, which also caused a deep fall in the profits in the property market; the low profitability of the U.S. enterprises during the recession (Calvo, Leiderman y Reinhart, 1993); and the decline in domestic U.S. interest rates on deposits and short term financial investments. Furthermore, some changes in the regulations of the capital markets in the United States reduced the transaction costs of agents entering foreign markets, such as Mexico. The approval in 1990 of Regulation "S" and Rule 144A of the U.S. Security and Exchange Commission (SEC)[4] was influential in the decision of portfolio investors to change their investment strategies in response to new offshore opportunities.

The sharp rise in capital inflows also responded to factors in the Mexican economy itself, notably, the high real interest rates, initially closely linked to the stabilization program and, later on, owing to the policy of partial sterilization of such capital inflows. In addition to offering attractive real yields, progress achieved in the economic reforms begun in 1983 had a definite influence in attracting foreign capital due

to the confidence it produced. Particularly, the 1989-1992 external debt restructuring package was a key factor, backing up the perception of reduced country risk[5] (Gurría, 1993).

Table 2
Private Capital Inflows: Mexico as percentage of all Latin American countries

	Foreign Direct Investment	Portfolio Flows		Total loans of commercial banks a/	Total Private Inflows	
		Equity	Bonds		Mexico's share	Latin America US$ billion
1986	40.0	0.0	0.0	29.1	33.1	10.3
1987	49.7	0.0	0.0	58.8	54.4	14.7
1988	28.1	0.0	0.0	18.1	23.2	17.5
1989	35.0	0.0	68.4	21.3	31.1	15.3
1990	29.7	51.2	89.1	43.7	43.8	21.7
1991	38.2	70.7	49.4	43.1	47.7	33.4
1992	37.3	66.1	47.7	40.9	45.3	53.3
1993	34.8	70.0	37.3	40.0	42.0	70.0

Source: The authors, based on information from Alvaro Calderón, "Inversión extranjera directa e integración regional: la experiencia reciente de América Latina y el Caribe", Industrialización y desarrollo tecnológico, Informe No. 14 (LC/G.1778), Santiago, Chile, ECLAC, September 1993; and the World Bank, World Debt Tables 1993-94, Washington, D.C., December 1993.

a/ Includes disbursements of publicly guaranteed and private nonguaranteed loans.

In what follows, we concentrate specifically on the portfolio and direct elements of foreign investment flows. Between 1990 and 1993, these capital flows to Mexico reached an annual average of US$ 22.6 billion (Table 3). Portfolio investments accounted for about three times as much as direct investments in terms of absolute values. While portfolio investment is not as important as direct investment in the establishment of integrated international production systems of globalizing TNCs, its absolute value in capital flows does make it a variable to be taken explicitly into account.

A. Portfolio investment

International equity markets have been a very important source of external resources for Mexican firms. Foreign participation in the Mexican stock market has became more pronounced in recent years. In 1988, foreign investors held only 4 percent of market capitalization, that increased to 18.8 percent in 1991 and to 27.2 percent (US$ 54.6 billion) at the end of 1993 (Table 4). This increase reflects both the inflow of new capital resources and the sharp appreciation of the price of Mexican stocks in foreign hands. During 1992-93 foreign investment in the Mexican stock market grew by 90.2 percent and nearly half of this increase occurred after the approval of the NAFTA by the U.S. Congress.

Table 3
Mexico: Foreign Investment Flows a/
(Millions of dollars)

	1986	1987	1988	1989	1990	1991	1992	1993
TOTAL FOREIGN INVESTMENT	2401	1631	3880	3526	6004	17504	22404	33332
Direct Investment	2401	2635	2880	3175	2633	4761	4393	4901
- New Investment	1870	2318	2205	1659	1115	3422	3012	4108
- Effective FDI	1507	869	1337	1270	1030	3403	3012	4108
- Debt/equity swaps	363	1449	868	389	85	19	0	0
- Re-Investment	595	412	692	1075	1070	1408	1020	1135
- Inter-Company Accounts	-64	-96	-17	441	448	-69	360	-342
Portfolio Investment	-	-1004	1000	351	3371	12743	18011	28431
- Stock Market	-	-	-	493	1995	6332	4783	10717
- International Issues	-	-	-	n/a	n/a	5495	3553	n/a
- Direct Equity	-	-	-	n/a	n/a	230	885	n/a
- Country Funds	-	-	-	n/a	n/a	307	345	n/a
- Securities denominated in New Pesos	-	-	-	-	-	3396	8117	6868
- Securities denominated in Foreign Currencies		-1004	1000	-142	1376	3015	5111	10847

Source: The authors, based on information of the Banco de México.

a/ Balance of payments data.

Equity investment in Mexico has adopted various forms, including the direct purchase by foreign investors of shares of Mexican companies listed on the Mexican Stock Exchange or on the stock exchanges of industrialized countries where they were offered or indirectly through the various country funds specializing in investments in the Mexican stock market. It should be mentioned that the shares of foreign corporations may be issued and traded in the United States in three different ways: i) as ordinary shares, that is, in the same way in which they are traded in the foreign corporation's own domestic markets; as shares issued by the foreign corporation specifically for the U.S. market and in a form adapted to the needs of U.S. investors; or iii) through American Depositary Shares (ADSs) represented by American Depositary Receipts (ADRs). ADRs present the advantage that foreign companies may be listed an the stock exchanges of the United States and their securities may be quoted and traded in any U.S. stock exchange. The ADR is thus a negotiable certificate that is traded and quoted on the U.S. stock market and represents the ownership of a specific number of shares of a non-U.S. company, be it privately or state owned. When a company wishes to place its share in several stock markets around the world it uses the investment vehicle of Global Depositary Receipts (GDRs), which are analogous to ADRs but have a broader coverage.

Table 4
Foreign investment in the Mexican stock market a/
(Millions of dollars)

Month	ADRs b/		FREE SUBSCRIPTION		NEUTRAL FUND		MEXICO FUND		TOTAL c/	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Dec 1989	402.0	49.8	107.0	13.2	35.0	4.3	264.0	32.7	808.0	100.0
Dec 1990	2086.8	51.2	1072.7	26.3	676.0	16.6	243.9	6.0	4079.5	100.0
Dec 1991	13733.5	74.1	2961.0	16.0	1348.8	7.3	499.3	2.7	18542.5	100.0
Dec 1992	21154.0	73.7	5097.0	17.7	1798.1	6.3	667.3	2.3	28716.3	100.0
Dec 1993	33959.6	62.2	12906.1	23.6	6380.6	11.7	1363.7	2.5	54632.1	100.0

Source: Banco de México (1994), based on Anuario Bursátil 1993 and Indicadores Bursátiles, several issues, Mexican Stock Exchange.

a/ Amount outstanding at market value.
b/ Includes Global Depositary Receipts (GDRs).
c/ Total for 1993 includes warrants and investments in the intermediate market.

ADRs and GDRs have played and important role in facilitating international equity placements by companies from developing countries. Since 1990, more than 70 new international issues by Latin American enterprises have been emitted,[6] meaning that new resources of US$ 12.6 billion were obtained by 1993. There is no doubt that the offer of more than US$ 2 billion in shares, coming from Teléfonos de México (Telmex) in May 1991, was the principal one, reinforcing the use of the mechanism and prompting the more important global financial institutions to actively promote Mexican issues. Mexican national enterprises were most active in the use of ADRs and GDRs, representing almost 65 percent of the resources mobilized by means of these mechanisms throughout the region. High-flyers were: Bancomer with emissions of US$ 840 million (March 1992) in GDR to finance a part of its privatization process; big private Mexican groups such as Televisa (US$ 1.1 billion in two operations), Carso (US$ 442 million in two operations), Cemex (US$ 312 million in two operations) and Vitro (US$ 228 million), which used the resources to finance expansions at home and abroad; and the Mexican government, which floated a new international offer of issues of Telmex during a privatization operation, obtaining resources in the order of US$ 1.4 billion in May 1992.

The other investment vehicle most used by foreign investors in the Mexican capital market was the purchase of free subscription shares, the amount of which climbed from US$ 0.1 billion in 1989 to US$ 12.9 billion in December of 1993 (23.6 percent of total foreign portfolio investment in Mexican equities). Additionally, foreign investment in the Mexican capital market through the Nacional Financiera Neutral Fund was important in 1990 and in 1993, years when it accounted for 16.6 and 11.7 percent of total foreign investment in Mexican equities, respectively. A less important channel was the Mexico Fund (Table 4).

Another significant aspect of Mexico's return to international capital markets has been the bond issues placed by public sector entities and by the larger private sector firms. Mexico was also the first and most active country in Latin America when it came to floating bonds on the international markets. In June 1989 the first international emission of non-guaranteed bonds coming from an Mexican entity

since the start of the debt crisis in 1982 took place. It corresponded to Banco Nacional de Comercio Exterior (BANCOMEXT), which obtained some US$ 100 million, over five years carrying a yield of 17 percent, or the equivalent of a spread of 820 base points above the Treasury Bills of the United States. Furthermore, the first issue coming from a private enterprise, in this case a subsidiary of Cemex (Sunbelt Enterprises) took place in October, for the amount of US$ 150 million, at two years and with a yield of 16 percent. Thereafter, the cost of the Mexican bonds issues, both public as private, dropped considerably, reaching in 1993 the equivalent of 200 points above the Treasury Bills of the United States for government issues and 366 points for private sector ones (International Monetary Fund, 1993). The value of such issues have grown from about US$ 570 million in 1989 to an average of US$ 4.8 billion in the period 1990-93, in more than 100 operations. In 1993, Mexican bond offers on the international markets of Eurobonds, 144A, Yankee and Samurai issues reached US$ 7.5 billion. For 1994, as a consequence of the approval of NAFTA, estimations suggest that the issuance of bonds will be superior to US$ 10 billion (Euromoney, 1994). More than half of total issues correspond to the private sector, where Cemex stands out for having issued bonds for US$ 1 billion during 1993, which is the biggest operation ever realized by a Latin American enterprise.

As important as are the absolute values of portfolio investment flows, it must be reiterated that while these flows have been central to the internationalization of Mexican firms in terms of obtaining external finance, they are not instruments needed by the principal global TNCs in establishing their integrated international systems of production. FDI is central to that pursuit.

B. Foreign direct investment

While shorter term profitability factors have been central to the explosion of portfolio investment flows to Mexico, FDI flows have responded more to longer term considerations in terms of TNC strategies to improve their competitiveness via production facilities in lower cost areas, the geographic proximity of Mexico to the huge North American market, the more recent growth potential of the Mexican economy, and the opportunities presented by the NAFTA. FDI has been the preferred instrument of TNCs in these fields.

Since the Second World War, FDI flows to Mexico were closely associated with the import-substituting industrialization (ISI) process (Fajnzylber y Martínez, 1976; Sepúlveda, Pellicer y Meyer, 1974). For TNCs selling differentiated products in established oligopolistic markets it was important to expand into the larger new markets in developing countries to preserve their advantages (Hymer, 1976). High tariffs kept their exports out, thus FDI became the only, if inefficient, means of participating in those protected markets. However, the Mexican authorities tended to take a defensive approach to foreign direct investment, as was manifest in their Law to Promote Mexican Investment and Regulate Foreign Investment, of March, 1973.

The coincidence in time of the breakdown of the ISI process, the domestic impact of the international debt crisis and other severe external shocks (the collapse of the international price of petroleum, etc.) provoked an extensive rethinking of the Mexican development strategy and the official view toward FDI, for example. In the context of the stabilization efforts and structural reform program, very significant incentives were provided to daring foreign investors by way of the debt equity conversion program implemented in the mid-1980s.

During a period of foreign investment scarcity in Latin America, the Mexican debt-equity conversion program succeeded in attracting over US$ 3 billion in FDI (Mortimore, 1991). This FDI went

primarily to the tourism (29 percent), automobile (17 percent) and maquiladora industries (12 percent). While most of it came from the United States (48 percent), some diversity by origin was evident: United Kingdom (14 percent), Germany (6 percent), Japan (4 percent), France (3 percent) and Spain (3 percent). This incentive program carried an initial implicit subsidy (the difference between the cost of Mexican debt paper in secondary markets and the redemption value in pesos offered by the Mexican government) of almost 19 percent. This incentive program, coupled with macroeconomic considerations, such as the sharp devaluations of the mid-80s, the country's growth potential and its successes in containing inflation, proved very effective in Mexico's eventual return to a more 'normal' FDI inflow situation (Calderón, 1993).

According to the figures recorded by the Secretariat of Commerce and Industrial Promotion (SECOFI) the stock of FDI reached a total of US$ 47.9 billion in 1993, as can be seen in Table 5. With regard to foreign investment flows, a record was made in 1993 at the level of US$ 15.6 billion. As well as authorized FDI and registered inflows, the SECOFI figures include portfolio investments. These flows consist of US$ 2 billion (12.6 percent of total inflows in 1993) corresponding to investments authorized by the National Commission on Foreign Investment (CNIE), US$ 2.9 billion (18.8 percent) corresponding to investments registered by the National Registry of Foreign Investment (RNIE) and portfolio investment in the stock market for a value of US$ 10.7 billion (68.6 percent).

The accumulated foreign investment during the first five years of the Salinas Administration increased by some US$ 41.7 billion, an amount that has already surpassed the originally official target of US$ 24 billion of new foreign investment for the six-year period of 1989-1994 (Banco de Mexico, 1993). At the end of 1993, accumulated total foreign investment (including the mentioned portfolio investment and special authorized stock market operations) reached an impressive US$ 65.8 billion. This performance is in sharp contrast with relatively slow GDP growth in the period (2.9 percent per year in 1989-1993), at least by long-term Mexican standards.

The largest source of FDI in Mexico has been the United States (with 63.8 percent), followed by France and the United Kingdom with 4.6 percent each, Switzerland with 4.5 percent, Germany with 3.6 percent, the Netherlands with 2.5 percent, Japan with 2 percent, Canada with 1.8 percent, Spain with 1.1 percent, and other countries accounting for a total of 11 percent (Table 6). Thus, FDI in Mexico has recuperated its US-centric character and is a clear signal of the further integration of both countries. In 1993, with the ratification of NAFTA by the U.S. Congress, this tendency increased as North American FDI accounted for 73 percent for the total inflows for that year. The U.S. share was 71.5 percent and that of Canada 1.5 percent.

Table 5
Cumulative foreign investment a/
(Millions of dollars)

Year	New Investment					Cumulative Direct Investment	Cumulative Total Investment
	Direct Investment			Portfolio d/	Total		
	C.N.I.E. b/	R.N.I.E. c/	Total				
1985	1337.6	533.4	1871.0	-	1871.0	14628.9	14628.9
1986	1563.1	861.1	2424.2	-	2424.2	17053.1	17053.1
1987	3260.7	616.5	3877.2	-	3877.2	20930.3	20930.3
1988	2448.3	708.8	3157.1	-	3157.1	24087.4	24087.4
1989	1231.5	1268.2	2499.7	414.0	2913.7	26587.1	27001.1
1990	2118.6	1603.8	3722.4	1256.0	4978.4	30309.5	31979.5
1991	4871.7	2143.5	7015.2	2881.0	9897.0	37324.7	41876.5
1992	4298.5	1406.6	5705.1	2629.7	8334.8	43029.8	50211.3
1993	1964.8	2935.9	4900.7	10716.3	15617.0	47930.5	65828.3

Source: Dirección General de Inversión Extranjera, SECOFI.

a/ Foreign investment flows, as shown in the balance of payments figures in Table 3, may differ from new foreign investment registered or authorized (due to lags between authorizations and actual investments and because some authorized investments may not be realized).

b/ Investments approved by the National Commission on Foreign Investment (CNIE).

c/ Investments registered by the National Registry of Foreign Investment (RNIE), that do not require prior approval by the CNIE.

d/ The figures for foreign portfolio investment do not reflect the total flows during the year, as part of the flow is recorded as foreign direct investment.

Table 6
Cumulative foreign direct investment by country of origin a/
(Millions of dollars)

	1983	1986	1989	1990	1991	1992	1993	%
United States	7601.4	11046.6	16771.7	19079.7	21465.8	23117.5	26621.1	62.8
United Kingdom	351.2	556.2	1799.4	1913.8	1987.9	2414.7	2603.9	6.1
Germany	972.9	1399.4	1667.7	1955.9	2040.5	2125.4	2236.8	5.3
Switzerland	587.9	823.0	1198.9	1346.9	1414.9	1730.1	1831.8	4.3
Japan	780.4	1037.5	1334.8	1455.6	1529.1	1616.0	1689.6	4.0
France	228.6	564.9	765.0	946.0	1446.5	1515.4	1592.3	3.8
Spain	357.9	477.3	681.2	692.0	735.5	772.7	836.2	2.0
Canada	162.3	270.3	360.9	417.0	491.2	579.6	653.8	1.5
Sweden	169.3	260.5	336.6	349.9	363.7	365.7	368.1	0.9
Italy	33.4	38.5	47.9	52.5	54.4	61.9	66.5	0.2
Others	224.8	578.9	1623.0	2100.2	2345.0	3175.1	3874.7	9.1
TOTAL	11470.1	17053.1	26587.1	30309.5	33874.5	37474.1	42374.8	100.0

Source: Dirección General de Inversión Extranjera, SECOFI.

a/ Excludes portfolio investment and the amount of foreign capital that resulted from authorizations granted by the CNIE to invest in companies traded on the Mexican Stock Exchange.

During the 1989-1993 period the sectors which have attracted most foreign direct investment are services, aside from those listed below (32.1 percent), manufacturing (31 percent), communications and transportation (22.3 percent), commerce (10.8 percent), and agriculture, mining and construction (3.8 percent). Over the same period, the accumulated FDI in manufacturing declined from 69 to 50 percent, while services increased its share from 29 to 48 percent of the total (Table 7). The interpretation of this shift away from manufacturing and toward services should be done with caution because several simultaneous processes are taking place: the exit or sale of non- competitive existing TNC operations; the restructuring of existing TNC operations from the ISI period to make them more competitive; and new entrants, both those large TNCs which were not present and small and medium North American firms which are beginning their internationalization process. Mexico is already the second most important developing economy after Hong Kong in terms of the operations of small and medium-sized U.S. TNCs, mainly in the maquiladora industry (UNCTAD, 1993b). The key feature is that a strong specialization process is taking place and therefore it is more the quality of the FDI than its absolute amount which gives character to it. In the next section reference to the situation in the automotive sector will clarify this.

Table 7
Cumulative foreign direct investment by sector
(Millions of dollars)

Year	Industry a/	Services b/	Commerce	Mining	Agriculture	TOTAL
1982	8346.7	1271.8	925.8	237.3	4.8	10786.4
1983	8943.7	1284.7	984.4	252.3	5.0	11470.1
1984	10213.3	1406.9	1015.9	258.0	5.8	12899.9
1985	11379.1	1842.2	1125.4	276.0	6.2	14628.9
1986	13298.0	2165.3	1276.6	306.8	6.4	17053.1
1987	15698.5	3599.2	1255.4	355.6	21.6	20930.3
1988	16718.5	5476.6	1502.2	380.5	9.6	24087.4
1989	17700.8	6578.9	1888.5	390.0	28.9	26587.1
1990	18893.8	8781.9	2059.8	484.0	90.0	30309.5
1991	20220.1	13958.5	2496.1	515.0	135.0	37324.7
1992	21782.8	17242.1	3307.0	523.6	174.3	43029.8
1993	24103.3	18972.8	4066.9	578.7	208.8	47930.5

Source: Dirección General de Inversión Extranjera, SECOFI.

a/ Corresponds to manufacturing industries.
b/ Includes construction, transportation and communications, financial services, community services, and electricity and water.

In the services sector FDI during the 1989-93 period has been concentrated in property (32 percent), professional services (30 percent) financial services (19 percent) and hotels and restaurants (14 percent). Part of the rapid growth of FDI in the sector corresponds to the fact that it began from a very small base and new entrants are plentiful in the context of the NAFTA. One notable feature of this service sector FDI, for example, has been the use of joint investments in franchising operations which are spilling

over into Mexico from the United States. The number of such operations rose from only 10 in 1990 to 125 (with 950 locals in the country) in 1993.

In general, it may be concluded that the incentives for FDI, the new development program and the improved macroeconomic situation in Mexico coincided with the need for improved competitiveness on the part of globalizing TNCs. Mexico became especially convenient for U.S. TNCs as the modifications of their corporate strategies indicates. This is the topic of the following section which deals with the particular situations of the automobile and maquiladora industries.

3. Sectoral Elements

While the FDI data give a precise statistical picture of this aspect of Mexico's integration into the North American cluster of the Triad, they must be supplemented with sectoral information in order to present a more complete view of that process. In this section we offer a compressed appreciation of two of the more significant sectoral aspects from the automobile and maquiladora industries.

A. The automobile industry

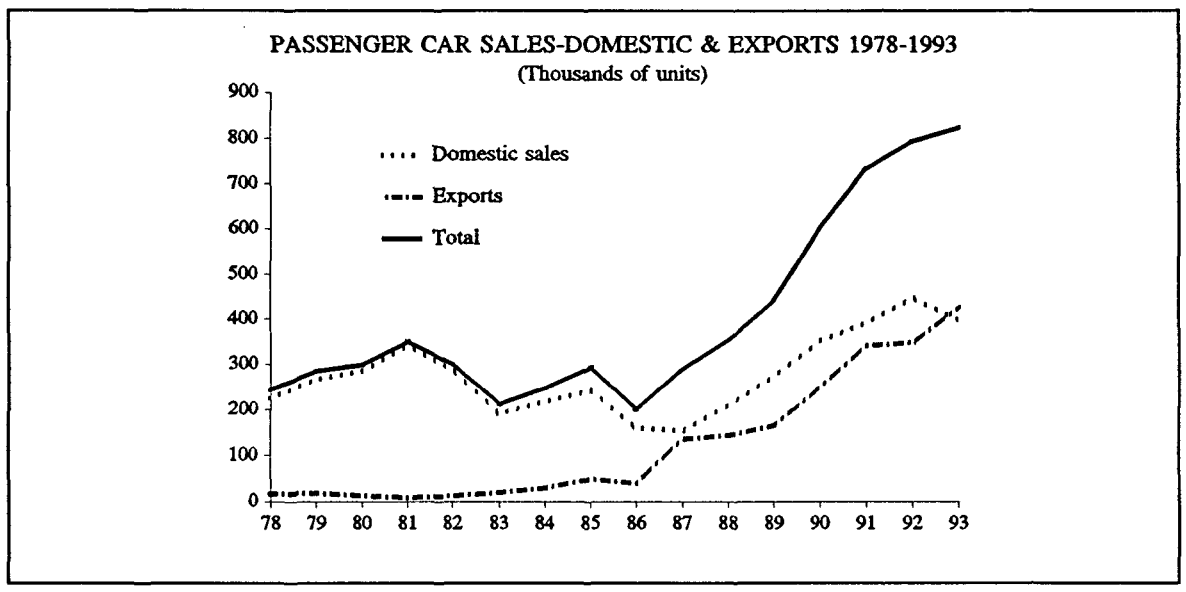
As was suggested in the Introduction, the recovery and expansion of the Mexican automobile industry was nothing short of spectacular and was an important element in Mexico's structural adjustment, economic reorientation and incorporation into the North American cluster of the Triad. Foreign direct investment and technology played a central role in that process. The effect was most evident on the trade front where by 1992 automotive industry exports (passenger cars-7.6 percent; automobile parts-5.4 percent; and internal combustion engines and their parts-3 percent) represented 16 percent of all Mexican exports to the OECD and accounted for three of their five principal exports of manufactures (occupying first, second and fifth spots).

Figure 1 and Tables 8 and 9 present a good profile of the transformation of the industry, viewed from the perspective of passenger cars. Essentially the industry has lived three phases, which can be described as the 1978-82 import substitution boom in which sales for domestic consumption reached an average of 300 thousand units a year, the 1983-87 crisis and reorientation phase in which sales fell to an average of 250 thousand units a year but when modern new plants were built, and the 1988-92 export-based expansion phase when sales jumped to the 570 thousand level on average and over 240 thousand units were exported annually. In 1993, production surpassed 800 thousand units and over half (425 thousand) were exported. Table 8 captures that transformation in terms of the national market, dual market and export market orientations of passenger car sales.

Table 9 distinguishes the behavior of the five passenger car producers in Mexico. This table demonstrates quite clearly that it was the three U.S. automobile companies (Ford, General Motors and Chrysler) which most expanded their Mexican production operations and transformed them to an export orientation (also consult U.S. Congress, 1992). Those three companies accounted for over 70 percent of all exports during the export-based expansion phase and by 1993 all had export propensities above 60 percent. The non-US auto producers (Volkswagen and Nissan) concentrated their operations on domestic sales, where together they accounted for over one-half. In other words, the original transformation of the Mexican automobile industry in terms of its international competitiveness was clearly the work of the Big Three U.S. automobile producers.

With regard to the transfer of technology (and new organizational practices), available evidence (De Maria y Campos, 1992) suggests that in terms of productivity and quality the new production facilities in Mexico have caught up to and in certain cases surpassed the benchmarks established by the U.S. auto industry, including the Japanese transplants operating there.[7] The experience of Ford in Mexico is particularly revealing in this regard. Ford's engine plant at Chihuahua and its vehicle assembly operations at Hermosillo have been extensively examined and are considered examples of how advanced production processes can be successfully transferred to newly industrializing countries (Shaiken and Herzenberg, 1987; Shaiken, 1991). The Hermosillo plant was designed primarily by Mazda, a major Japanese auto producer in which Ford has a minority participation, thereby introducing to the Mexican automobile industry many of the best practice production techniques and modern organizational practices of the very competitive Japanese automobile industry. The Hermosillo plant had a defects per vehicle rating (0.276) well below the weighted average for all Mexican auto producers (0.665) and close to the world optimum (Olea, 1993; Womack, 1990). It is ranked among the five best plants in all of North America.

Figure 1



Source: Mexican Automobile Manufacturers Association (AMIA).

The explanation of why this transformation of the Mexican auto industry took place is as important as its dimension. Succinctly, the relevant factors can be combined in only three groups: those related to the competitive situation of the international automobile market, those linked to the corporate strategies of the major global producers, and those pertaining to Mexican national policy at the macroeconomic and sectoral levels (Mortimore, 1994). In gist, the Japanese challenge to U.S. auto makers in their own market led the Big Three U.S. producers (Ford, General Motors and Chrysler) to alter their corporate strategies with regard to entry-level front wheel drive small engine passenger cars. They sought out lower cost production sites in a few select newly industrializing countries, one of which was Mexico. The new corporate strategies of these producers led to the transformation of their Mexican production facilities via new plant construction and the restructuring of existing plants so as to integrate them into their North American production system. The reorientation of the Mexican macroeconomic

policy during the 1980s, the new Automotive Decrees (1983 and 1989), and the impact of the NAFTA allowed these auto TNCs to consolidate their advantages.

The NAFTA impact on the automotive sector is reflected in the registered FDI projects of a total value of US$ 2.5 billion for 1994 alone (SECOFI, 1994a). The 1989 Decree limited passenger car imports into Mexico to the existing five auto producers in Mexico. This limit, according to the NAFTA, will be phased out over a 10 year transition period. This advantage and the desire to consolidate their Mexican operations into their North American production facilities is reflected in investment projects by Chrysler, General Motors and Ford worth US$ 1.0 billion in 1994. The NAFTA rules of origin (62.5% percent North American content) inspired investment projects by the non-US original producers (Nissan and Volkswagen) in the order of US$ 1.2 billion in order to expand production and consolidate local supplier networks. Furthermore, in spite of the advantages given to original producers, newcomers (BMW and Honda) have registered investments in the order of US$ 246 million in 1994. These FDI figures indicate elements of Mexico's integration into global or regional production systems of many major auto TNCs.

Table 8
Mexico: Passenger car sales, by principal market, annual averages by period, 1978-1992

UNITS	1978-82	1983-87	1988-92
National market a/	147.1	78.3	70.8
Dual market b/	138.6	116.9	307.5
Export market c/	10.5	54.5	199.0
Total	296.1	249.7	577.4
PERCENT			
National market a/	49.7	31.4	12.3
Dual market b/	46.8	46.8	53.3
Export market c/	0.4	21.8	34.4
Total	100.0	100.0	100.0

Source: Mortimore, 1994, on the basis of data provided by the Mexican Automobile Manufacturers Association, AMIA.

a/ Car models sold in only in the domestic market.
b/ Car models with more than 50% of total sales in the domestic market less than 50% of sales in export markets.
c/ Car models with more than 50% of total sales in export markets.

The transformation of the Mexican automobile industry represents the clearest example of the deepening integration of Mexico into the North American cluster of the Triad and conforms most clearly to the principal characteristics of the new international industrial order identified in the Introduction in relation to international trade, foreign direct investment and the transfer of foreign technology on the part of the principal global transnational corporations.

Table 9
Mexico: Passenger car sales, in export and domestic markets, 1978-1993 a/
(Thousands of units)

	1978-82c/	1983-87c/	1988-92c/	1993
EXPORT MARKET SALES				
Ford	-	10.4	87.3	117.2
General Motors	-	17.7	52.6	90.7
Chrysler	...	15.8	53.7	101.7
Volkswagen	14.7	8.3	30.4	77.5
Nissan	...	4.2	18.4	37.4
Total	14.8	56.4	242.4	424.5
DOMESTIC MARKET SALES				
Volkswagen	93.0	64.5	111.3	151.7
Nissan	39.0	45.9	78.0	83.4
Chrysler	49.7	29.1	61.3	59.6
Ford	39.6	25.7	51.4	52.8
General Motors	23.0	15.5	32.9	51.2
Others b/	37.2	12.6	-	-
Total	281.3	193.3	334.9	398.7

Source: Mortimore, 1994, on the basis of data provided by the AMIA.

a/ Does not include imported vehicles. They declined from 6 048 in 1992 to 3 273 units in 1993.
b/ Diesel Nacional S.A. (Renault) and Vehículos Automores Mexicanos S.A. (American Motors).
c/ Annual averages.

B. The *maquiladora* industry

The in-bond assembly industry in Mexico has experienced explosive growth since the major devaluations of the Mexican peso during the 1980s. The number of plants rose from 620 in 1980 to 2,142 in 1993, the number of jobs went from 124 to 549 thousand, and the net value added climbed from US$ 772 million to 5,410 million over the same period raising the maquiladora share of total exports from 16 to 42 percent (Table 10). This industry is now the second most important source of foreign exchange, the most important creator of new jobs, and is responsible for most of the principal exports of manufactures, especially those with the highest OECD import market shares in 1992. The most important activities in terms of local value added were transport equipment (28 percent), electric and electronic materials and accessories (25 percent), electric and electronic machinery and appliances (11 percent), other manufactures (10 percent) and textiles (7 percent).

As of the early 1990s, about one-half of the maquiladora plants pertained in whole or in part to U.S. investors, about 40 percent were Mexican-owned, and the remainder corresponded to Japanese, German and Spanish investors, thus, foreign direct investment is an integral element of such operations. Ninety percent of these plants are located in areas close to the U.S. border, which indicates their function, that is, to allow US-based companies to take advantage of the production sharing provisions

9802.00.60 and 9802.00.80 of the Harmonized Tariff Schedule of the United States. Such companies can obtain reduced tariff treatment for eligible imported goods that are assembled outside of the United States using US-made components and this has been found to be "an important part of the global competitiveness strategy for many U.S. firms" (USITC, 1994).

With regard to the transfer of foreign technology, that varies with the nature of the operation, however, it is evident that maquiladoras are no longer solely based on the unskilled labor assembly practices of the 1960s and 1970s rather they have become increasingly intensive in skilled-labor activities in keeping with international competitiveness requirements of US-based TNC operations. The early concentration in the apparel industry has given way definitively to more technology-intensive activities, such as electronic products, electrical equipment and components, and automobile parts, even though the assembly-nature of such operations persists. Evidence of the widespread use of modern managerial techniques in the new industrial sectors has been cited (Carrillo, 1989). Just-in-time inventories, statistical process control, zero-defects techniques and work teams are now common practices.

Table 10
Main economic indicators of the maquiladora industry
(Million of dollars and thousand jobs)

	Plants	Value added	Employment
1980	620	771.7	124
1983	600	818.4	151
1985	789	1 267.1	212
1987	1 125	1 598.1	305
1989	1 655	3 047.3	430
1990	1 938	3 606.5	460
1991	1 925	4 118.9	467
1992	2 075	4 808.5	505
1993a/	2 142	5 410.0	549

Source: Banco de México, Indicadores Económicos, May 1994 and March 1990, and INEGI, Avance de Información Económica, Industria Maquiladora de Exportación, May 1993 and September 1989.

a/ Employment data is for October and number-of-plants data is for April.

The in-bond assembly operations are a second fundamental aspect of Mexico's integration into the new international industrial order, specifically the North American cluster of the Triad. While the sharp devaluations of the 1980s made Mexican assembly operations much more convenient for TNCs operating in the U.S. market, the early low wage advantage seems to have given way to more long range considerations for corporate strategies in terms of international competitiveness in modern activities, such as electrical distribution equipment, televisions, radios, autoparts, electrical apparatus, circuit breakers, telephones and sound equipment, in which the Mexican-assembled products represent a significant share of the U.S. market.

These sectoral considerations drawn from the automobile and maquiladora industries served to provide a "taste" for the process of Mexican integration into the North American cluster of the Triad which the statistics alone do not supply. They are especially useful in suggesting the overriding importance of new corporate strategies for improving the international competitiveness of their international or regional production systems in the context of the new international industrial order.

4. Mexican FDI Abroad

Since the mid-1980s, large Mexican firms have made important direct investments in foreign markets. Although Mexican investments abroad are rather diversified, they present two basic features: their concentration in the developed countries (mainly the US) and their specialization in some key production and service sectors, particularly cement and glass products (Peres, 1993). Most of those investments have been undertaken through the acquisition of existing firms, and, in some cases, those acquisitions took the form of hostile take-overs.

The most important successful take-over of a U.S. firm by a Mexican conglomerate was done by Vitro, a holding company which is the leading producer of glass containers, flat and household glass, glass-making machines, and car windows and windshields, and whose sales reached US$ 3.3 billion in 1992. In 1989, Vitro acquired, through a tender offer, 95% of the Anchor Glass Container Corporation, the second-largest glass container manufacturer in the United States. The cost of the acquisition was estimated at more than US$ 900 million, including US$ 460 million of Anchor´s debt. According to its CEO, Vitro went abroad because, if it wanted to continue to be a glass company, it could no longer be based solely on a strong domestic base coupled with some minor export activity: "With a more open Mexican economy our strategy had to change" (Peres, 1990b). 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 by a Mexican firm before the end of the debt crisis deserves special attention.

In the cement industry, another Mexican conglomerate (Cementos Mexicanos, CEMEX) with sales of US$ 2.2 billion in 1992, took over its major domestic competitor to prevent its acquisition by one of the largest world producers, then it also went abroad. The focus of Cemex´s first raids was the cement production facilities of the UK-based Blue Circle Industries, both in Mexico and in the United States. When Cemex´s CEO presented an account of the reasons for the firm´s strategy, 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 (Peres, 1990b). These same reasons, and the access to the European Union market, were also present in CEMEX´s acquisition of the two largest Spanish cement producers, which implied that, in 1993, the Mexican conglomerate controlled 29% of the Spanish cement production. After these investments (worth US$ 1.8 billion), CEMEX became the fourth largest cement producer in the world.

Although CEMEX and Vitro have been the largest Mexican investors abroad, several other big conglomerates have followed suit, both in the production and service sectors. For example, Synkro (a large producer of panty-hose and other women's underwear) bought Kayser-Roth, DINA (a producer of trucks) acquired Motor Coach Industries, the financial and agro-business Grupo Cabal Peniche took control of PPI Del Monte Fresh Produce and Del Monte Food Inc., and the media giant Televisa bought Univision. All these operations took place in the US.[8]

The size of these firms' investments shows that they are following strategies under which the basic elements that define the structure of their industries and their competitive positions are determined in an integrated Mexican - United States economic area. In these cases, we see leading Mexican conglomerates, becoming international players in their industries. Some of these conglomerates have a long history in the Mexican economy (e.g., Vitro or Televisa), while others have a relatively recent record (e.g., Cabal Peniche). The strengthening of these conglomerates, both old and new, is quite in accordance with the pattern that have prevailed in the Mexican industry in the long term: foreign firms' control on modern consumer and capital goods, and large Mexican firms' predominance in traditional consumer and intermediate goods. The big change now is that some of the Mexican companies are expanding successfully into regional and global markets.

5. The New Regulatory Framework

Two aspects of the changes related to FDI stand out and merit comment. The first has to do with the impacts for FDI of the NAFTA, and the second is the new FDI Law of 1993 itself. Both of these will be highlighted briefly in this section.

In general, while the Mexican government had been considering a comprehensive change in the 1973 legal framework for foreign direct investment since the early 1980s, it was only after the ratification of the NAFTA that a new law was enacted in December, 1993. This law incorporates the liberalization commitments assumed by Mexico under the Agreement, and, in some cases, goes beyond those commitments. The NAFTA and the new Law both had the effect to consolidate the transition from a nationalistic defensive stance with regard to FDI toward an open, inviting position, one that facilitated Mexico's integration into the North American cluster of the Triad.

A. The NAFTA: FDI-related aspects

The NAFTA removed significant investment barriers, ensured basic protection for NAFTA investors and provided a mechanism for the settlement of disputes between such investors and a member country. Its provisions cover investment in one country by NAFTA investors from another member country. According to the Agreement, NAFTA investors include all enterprises with substantial activities in a member country, while the concept of investment covers all forms of ownership and interests in a business enterprise, tangible and intangible property and contractual investment interests (SECOFI, 1994b).

This section of the Agreement covers nine basic issues, the most important elements of which are the following:

- *Non-discriminatory and Minimum Standards of Treatment*: Each country will treat NAFTA investors and their investments no less favorably than its own investors (national treatment) and investors of other countries (most-favored-nation treatment). With respect to measures of a state, provincial or local government, national treatment is defined to mean treatment no less favorable than the most favorable treatment accorded to investors of the country of which it forms a part. In addition, each country must provide investment of NAFTA investors treatment in accordance with international law, including fair and equitable treatment and full protection and security.

- *Performance Requirements:* No NAFTA country may impose specified "performance requirements" in connection with any investments in its territory, namely specified export levels, minimum domestic

content, preferences for domestic sourcing, trade balancing, technology transfer or product mandating. However, these disciplines do not apply to any NAFTA country´s government procurement, export promotion or foreign aid activities.

- *Transfers*: NAFTA investors will be able to convert local currency into foreign currency at the prevailing market rate of exchange for earnings, proceeds of a sale, loan repayments or other transactions associated with an investment. Each NAFTA country will ensure that such foreign currency may be freely transferred.

- *Expropriation*: No NAFTA country may directly or indirectly expropriate investment of NAFTA investors except for public purpose, on a non-discriminatory basis and in accordance with principles of due process of law. Compensation to the investor must be paid without delay at the fair market value of the expropriated investment, plus any applicable interest.

- *Dispute Settlement*: The NAFTA sets out a detailed mechanism for the resolution of investment disputes involving the breach of the NAFTA investment rules by the host country. A NAFTA investor, at its option, may seek either monetary damages through binding investor-state arbitration or the remedies that are available in the host country´s domestic courts.

- *Country-Specific Commitment and Exceptions:* The NAFTA includes explicit country-specific liberalization commitments and exceptions to national treatment, most-favored-nation and performance requirement rules. In the case of Mexico, these exceptions take into account constitutional requirements reserving certain activities to the Mexican State. Each country will specify exceptions for state and provincial measures within two years. Exceptions may not be made more restrictive and, if liberalized, may not subsequently be made more restrictive. However, a few sectors, such as basic telecommunications, social services and maritime services, are not subject to this constraint. Canada may review acquisitions as provided in the Canada-US Free Trade Agreement, and Mexico may review acquisitions with an initial threshold of US$ 25 million phased out to US$ 150 million in the tenth year after the Agreement goes into effect. These threshold levels will be indexed.

- *Exceptions*: As mentioned above, the investment provisions do not apply to government procurement an subsidies. Other provisions of the Agreement address exceptions related to national security and to Canada's cultural industries.

- *Investment and the Environment*: The NAFTA provides that no country should lower its environmental standards to attract an investment and that the countries will consult on the observance of this provision. The Agreement also specifies that a country may take action consistent with the NAFTA's investment provisions to protect its environment.

- *Financial Services*: The NAFTA establishes a comprehensive approach to disciplining government measures regulating financial services. Under the Agreement, financial service providers of a member country may establish in any other member country banking, insurance and securities operations, as well as other financial services. Each country must permit its residents to purchase financial services in the territory on another member country and may not impose new restrictions on cross-border provision of those services. The NAFTA ensures that each country retains the right to take reasonable prudential measures and measures for balance-of-payment purposes under limited circumstances. Particularly, Mexico will permit financial firms organized under the laws of another member country to establish financial institutions in its territory, subject to certain market share limits that will apply during a

transition period ending in the year 2000. Thereafter, temporary safeguard provisions may be applicable in the banking and securities sectors. Specific threshold level have been established for market share limits during the transition period for banking and securities, insurance, finance companies, and factoring and leasing companies.

It might be mentioned that besides the commitments under the NAFTA and the new FDI Law, Mexico also assumed other obligations on its incorporation to the Organization for Economic Co-operation and Development in May, 1994. Mexico's position with the OECD confirms commitments regarding liberalization of foreign investment regulations. In particular, the country has consolidated its position regarding sectoral restrictions on foreign direct investment and operations in real estate according to the new Foreign Investment Law. Mexico has subscribed the OECD National Treatment Instrument under which member countries commit themselves to grant equal treatment to domestic and foreign investors. Finally, Mexico has expressed its intention of providing for a liberalization of the financial sector for OECD member countries (Flores, 1994).

B. The 1993 FDI Law

The new foreign investment law, besides incorporating the commitments undertaken in the NAFTA, designs a strategy to organize systematically the actions of different government entities responsible for promoting foreign investment in the country to reduce costs and increase efficiency. This strategy includes the development of an information network, as well as the adoption of common criteria and methodologies to identify, facilitate, and follow up on investment projects.

The new legislation brought about substantial liberalization in the screening process and in opening key sectors of the economy to foreign participation (Table 11 and Banco de México, 1994). For example, while constitutional restrictions on foreign direct investment in petroleum and natural gas are still in place, the 40% foreign ownership limitation on secondary petrochemicals has been eliminated. In addition, the list of basic petrochemicals, to which limitation on foreign investment apply, has been reduced from 13 to 8 products. The Foreign Investment Law also does away with the 49% ownership limitation that was generally applicable to foreign direct investment in mining, the only exception being radioactive minerals, which remain reserved to the State. Moreover, this law establishes that foreign investment in autoparts firms may reach up to 49% of the company´s stock, as compared to the 40% limit set in the 1973 Foreign Investment Law (the former percentage will increase to 100% by the year 1999). While the previous law had seven different regimes for foreign direct investment, the new law has only four:

- *Activities reserved to the State:* These activities include oil and other hydrocarbons; basic petrochemicals; generation, transmission and supply of electricity as a public service; radioactive minerals; satellite communication; telegraphs; radio telegraphy; postal services; railroads; coinage and printing of money; and control, supervision, and surveillance of maritime ports, inland ports, airports, and heliports.

- *Activities reserved to Mexican nationals or Mexican corporations with foreign´s exclusion clause*: Include retail sales of gasoline and liquid petroleum gas; non-cable radio and television services; credit unions; development banks; certain professional and technical services, and transportation of passengers, tourists, and cargo by land. The latter restriction will be eliminated gradually and does not apply to courier and package delivery services.

- *Activities in which foreign ownership is subject to ceilings*: There are four different regimes: i) Up to 10 percent: cooperative production companies, ii) Up to 25%, domestic air transportation, air taxis, and specialized air transportation services, iii) Up to 30%, financial holding companies, commercial banks, brokerage houses, and securities specialists, and iv) Up to 49%, bonded warehouses; bonding institutions; insurance companies; financial leasing companies; foreign exchange dealers; limited scope financial institutions; investment companies; manufacturing of explosives and firearms; printing and publication of domestic newspapers; ownership of T shares issued by firms holding land for use in agriculture; livestock and forestry; cable television; and basic telephone services, among others.

Table 11
Foreign ownership allowed in restricted sectors

SECTOR	1973 FOREIGN INVESTMENT LAW	1993 FOREIGN INVESTMENT LAW
Agriculture and livestock	100% (government approval required)	49%
Cooperative production societies	0%	10%
Forestry. Cable TV. Investment companies. Maritime services	0%	49%
Autoparts. Bus/ truck construction	40%	49% rising to 100% in Jan. 1999
Construction	Up to 100% with government approval	49% (up to 100% with government approval) rising to 100% in Jan. 1999
Secondary petrochemicals	40%	100%
Financial leasing. Foreign exchange dealers. Insurance.	30%	49%
Bus terminal administration. Bus and truck land transportation of passengers and freight.	Up to 100% with government approval 0%	0% rising to 49% in Dec. 1995, to 51% in 2001, and to 100% in 2004.
Drilling services for oil and gas. Private education institutions,	Up to 100% with government approval.	49%
Periodicals	100% with government approval	49%
Real estate in restricted zones Residential Business	 30-year trust 30-year trust	 50-year trust 100% (government approval required)

Source: Banco de México, The Mexican Economy 1994, Mexico City, 1994.

- *Activities in which prior approval by the National Commission for Foreign Investment is required for foreign investors to hold a majority interest*: Include maritime transport and certain port services; administration of air terminals; cellular telephony; construction of pipelines for the transportation of oil and oil derivatives; oil and gas drilling; legal services; private education; credit information associations; securities rating institutions, and insurance agents.

Subject to a screening procedure, foreign investors may be permitted to acquire up to 100% of the capital stock of companies engaged in the last group. The screening procedure is also applied to acquisitions exceeding 49% of the equity of a Mexican corporation if the total value of assets of that company exceeds 25 million dollars. Where the screening procedure applies, the investor must submit an application to the National Commission on Foreign Investment (CNIE). Approval is automatic if a formal response is not received in 45 working days of the date of presentation of the application. Only four criteria can be taken into account by the CNIE in reaching a decision: the project's impact on employment and worker training, its technological contribution, compliance with environmental provisions, and its impact on productivity. Performance requirements are proscribed altogether for both domestic and foreign firms. The maquiladora industry will continue to benefit from the "one stop" approval system. The only additional general requirement for foreign investors is a registration with the National Registry of Foreign Investments (RNIE), for statistical and export verification purposes.

Foreign investors wishing to invest in activities reserved to Mexican nationals may acquire shares in companies engaged in these sectors through the Neutral Trust Mechanism. "Neutral" shares carry essentially pecuniary rights, but no significant corporate rights and are not considered as foreign investment when computing the ceilings on foreign investment that apply to specific sectors. In the case of real estate ownership, Mexican companies with foreign participation will be allowed to own land for non-residential use in restricted border (within 100 km) and seacoast (50 km) areas, upon registration with the Secretariat of Foreign Affairs. Special conditions hold for the financial sector, which has also been subject to liberalization.[9]

As can be easily appreciated, these changes brought about by the NAFTA and the new FDI Law are meant to further facilitate Mexico's integration into the new international economic order, in general, and the North American cluster of the Triad, in particular, by bringing the Mexican FDI legislation and norms into line with international practices and established norms.

5. Conclusions

Mexico's integration in the North American cluster of the Triad has sharply intensified in the last decade. Interrelated and cumulative forces related to international trade, foreign investment and the transfer on technology all push in that direction. Foreign investment has been a particularly important element, involving both direct foreign investment and indirect financial investments. Transnational corporations, responding to factors on three different planes, that is, those related to the international product markets, those involving their individual corporate strategies, and those linked to changes in national macroeconomic and sectoral policies, have become central actors in this process by way of establishing their integrated international or regional production and market systems. These TNCs, by way of FDI, have begun to specialize their Mexican operations, such that they play a progressively more defined role in the international or regional production systems. New investment in more modern plants and the restructuring of existing operations are evidence of this process. New entrants, in the form of large TNCs not previously present in Mexico and smaller, mainly U.S., TNCs entering foreign markets for the first time, have also played an increasingly important role.

Although of a much smaller dimension, large Mexican conglomerates are also globalizing their activities through direct investment abroad, primarily in the US. Mexican access to the international capital markets mainly by way of new financial instruments, such as ADRs, coupled with strong inflows of repatriated capital have been instrumental in financing this international expansion of the leading conglomerates in the country. In this sense, Mexico's integration into the North American cluster of the Triad is clearly a two-way affair.

In summary, synergy among the new competitiveness in international product and capital markets, new globalizing corporate strategies, and reconsidered national policies in newly industrializing countries (including a new attitude towards foreign direct investment) has resulted in a kind of new international industrial order. In this context, Mexico, almost alone in Latin America, has obtained an outstanding position among the recipients of foreign investment. In the case of Mexico, the logic of the globalization process for TNCs, Mexico's proximity to the North American market, and various other competitive advantages have replaced the domestic market as the main attraction for foreign investors. Export-oriented foreign direct investment was the most dynamic element in the economic environment in Mexico.

Foreign investment continued to increase in the first half of 1994, in spite of political uncertainties derived from the Chiapas uprising, the assassination of the official presidential candidate and kidnappings of important businessmen. Coupled with economic turbulence in the form of increased U.S. interest rates and relatively slow domestic economic growth, both of which had a negative impact on short-term financial investment in Mexico, FDI by transnational corporations remained strong.[10] According to international analysts, the results of the presidential election, which the official candidate won by a large margin, suggest that Mexican economic policy will remain on the same track and that foreign investors will continue to play an increasingly important role in the country's integration into North America.[11]

NOTES

1. The ECLAC computer software known as Competitive Analysis of Nations- CAN was used for all calculations regarding international competitiveness. For conceptual and methodological details, see the article by its inventor, O. Mandeng, "International Competitiveness and Specialization", CEPAL Review, 45, December, 1991.

2. Similar data from the Mexican operation of Nissan are not available. See América Economía, 65, September, 1992.

3. Foreign portfolio investment includes purchases by foreigners of debt instruments in the domestic market, such as bonds, commercial papers and certificates of deposit, plus equity-related investment comprising international equity placements through American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs), holdings in country and regional equity mutual funds, and direct purchases of shares in local stock exchanges by residents outside of the concerned country.

4. Rule 144A permits institutional investors, accredited in the United States, to buy and sell issues which are not registrated in the Security and Exchange Commission. This new norm made it possible for Mexican enterprises to organize ADR issues in a more rapid way, without the costs and terms required for normal registered issues. Under Regulation "S", U.S. investors can resell their privately placed securities outside the United States, either: a) to a buyer that he reasonably believes resides outside the United States or b) on a designated stock exchange.

5. In December 1990, Moody's Investor Service agency assigned a Ba2 credit rating to Mexican sovereign debt, below the bracket of "investment grade" securities, and it assigned a Ba3 credit rating to the Mexican Brady bonds. In July 1992, for the first time, Standard & Poor's Corp. upgraded Mexico's external debt rating to BB+, the highest rating assigned by this firm within the bracket of securities of "non-investment grade", which represented an implicit upward revision in relation to the rating assigned by Moody's Investor Service.

6. The New York Stock Exchange presently lists some 2,400 joint stock companies of which 160 are foreign ("La otra cara de la Bolsa de Nueva York", Estrategia, 1507, p. 35, Santiago, Chile, 4 May 1994).

7. Between 1987 and 1990 the overall production of passenger cars in the United States remained more or less constant at the 6 million unit level, however, the share of the U.S. Big Three fell from 5.5 to 4.8 million while that of the Japanese transplants and joint ventures rose from 0.5 to 1.3 million units (or, from less than 8 to almost 22 percent of the total). See U.S. Department of Commerce, Foreign Direct Investment in the United States, Washington, D.C., 1991, p. 55.

8. Although Mexican investments in developing countries are much smaller than those in the US and Europe, important ventures have taken place also in Central and South America. Some examples are the investments of the bread producer Bimbo in Guatemala and Chile, the tortilla producer Maseca in Costa Rica, the airline Aeroméxico in Peru, CEMEX in Venezuela, and Televisa in Chile (Peres, 1993 and América Economía, 80, February 1994, p. 27).

9. The changes in the legislation regarding foreign direct investment in the financial sector have been as important as the changes affecting other production or services sectors. In 1990, long-standing restrictions on foreign investment in the financial sector were liberalized. As a result, foreign investment of up to 30% of common stock was permitted in Mexican commercial banks and holding companies, and securities intermediaries (brokerage houses and securities specialists). However, foreign financial institutions still could no operate subsidiaries or branches. In December 1993, Congress approved new amendments to financial legislation allowing financial institutions, based in a country with which Mexico has signed an international agreement, to establish fully-owned subsidiaries in Mexican territory. According to the NAFTA, this provision will be phased in gradually, with interim individual and aggregate limits placed on the market share of U.S. or Canada-based banks, brokerage houses, and insurance companies. In particular for the banking sector, the aggregate net capital market share allowed to subsidiaries of NAFTA-based financial institutions will rise in steps from 8 percent on January 1, 1994 to 15% on January 1, 2000. During this period, the size of individual foreign banks will also be limited and may not represent more than 1.5% of the net capitalization of the Mexican market. Mexico maintains a restriction on the acquisition of large Mexican banks by foreign banks. For brokerage houses, the maximum aggregate market share applicable during the transition period will rise in steps from 10

percent to 20 percent. There will also be an individual limit of 4 percent. The Secretariat of Finance and Public Credit may deny foreign financial institutions authorization for acquisition or establishment of an affiliate commercial bank or an affiliate brokerage house, if directly or indirectly, it owns shares of industrial or commercial companies established in Mexico.

10. According to the SECOFI, foreign investment reached US$ 8.0 billion in January-July 1994. This figure was 31.6 percent above the that corresponding to the similar period the previous year. More than half of the 1994 flows went to the Mexican Stock Exchange (US$ 4.3 billion). On the contrary, uncertainty negatively impacted purchases of Government peso-denominated debt paper.

11. "Mexico: how the election will shape the economy", Business Week, 22 August 1994, pp. 18-23.

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