MODERN VIEWS ON FOREIGN INVESTMENT IN MEXICO

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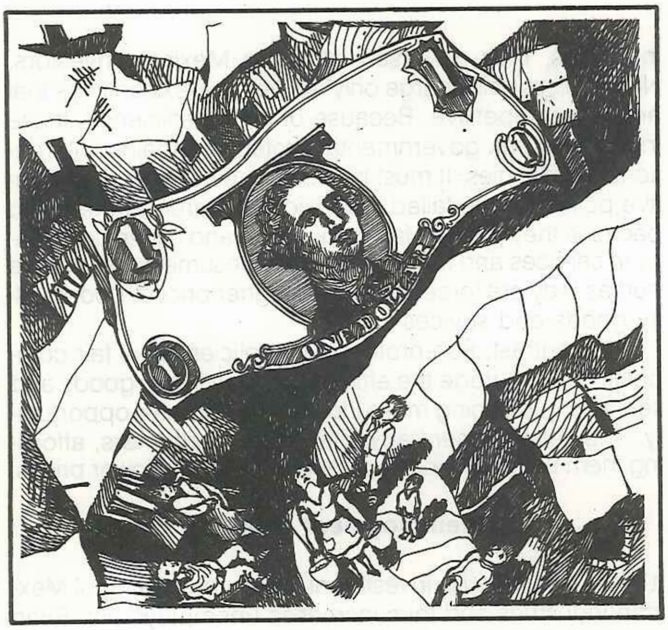

The Mexican government has recently enacted a series of incentives to attract foreign investment, declaring that it can and should play a role in the structural transformation of the country's productive plant. This essay will briefly examine some of the aspects of foreign investment most cited by critics as counterproductive for Mexico.

The Economic Power of Foreign Investors

One claim by critics is that due to the enormous economic power of foreign investors, foreign investment does not solve the country's economic problems, but rather prevents their solution. Historically, this argument was based on turn of the century conditions, when the Mexican economic system was largely financed by foreigners and controlled from abroad. In addition, the industrialized countries made their recognition of the Mexican government contingent upon the country's acceptance of conditions set by foreign investors. In those days then, foreign investment represented a real threat to Mexico's economy and sovereignty.

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Today, foreign firms in Mexico account for only 4.5 percent of total investment in the country, and the legitimacy of the Mexican government is beyond question. In light of these new circumstances, it is unrealistic to think that a few foreign investors can manipulate the Mexican economy or challenge the legality of the Mexican government. Currently, the power of foreign investors might be decisive in one sector or another, but not in the Mexican economy as a whole.

Exploitation of Natural Resources

Foreign investors are accused of exploiting Mexico's natural resources, at the expense of Mexicans. Foreign corporations here do not make their profits by exploiting natural resources, but rather by managing and training Mexicans who work in the manufacturing, marketing and service sectors. According to figures from the Under Secretariat for Regulating Foreign Investment, the distribution of foreign investment in 1985 was as follows:

Extractive	1.28 %
Agrobusiness	0.08 %
Manufacture	71.42 %
Services	20.35 %
Commerce	6.87 %

Clearly only a very small percentage of foreign invest-

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ment goes into the exploitation of natural resources.

Disadvantages of the Maquila Program

An increasingly important component of foreign investment enters Mexico through the maquila program, by which foreign-made parts are assembled at low wage, Mexican manufacturing plants and the finished products shipped back across the border at reduced duty rates. Critics argue that Mexico's development should not be based on maquila (in-bond) industries. This charge, however, only takes into account one angle of the situation. It simply condemns the economic success of foreign investors without considering the benefits for Mexican workers. Nor does it evaluate the maquila program in relation to its specific role in the Mexican economy.

This program reflects the unique economic relationship between Mexico and certain markets in developed countries. It generates thousands of new jobs and ranks second in foreign exchange earnings. The program per se is not intended to solve Mexico's complex economic problems, nor to meet all the demands of foreign corporations.

A Threat to Mexico's Economic Independence

The argument that foreign investment threatens Mexico's economic independence is rooted in the legal conception of the state as an independent entity. Foreign investment is viewed as endangering the country's independence because it signifies economic and technological dependence on foreign sources. These fears grow out of confusions regarding the meaning of independence. One thing is an independent government as a legal concept, a necessary component of the state; another is independence as a word denoting the absence of dependence or total freedom from outside controls. The legal conception of independence has nothing to do with the diverse forms of economic and technological dependence characterizing international relations today.

The restrictions on a nation's freedom, resulting either from the norms of international law or contractual agreements, do not affect its independence in the least. As long as those restrictions do not place one country under the legal authority of another, the former remains an independent nation, however extensive and burdensome its obligations may be.

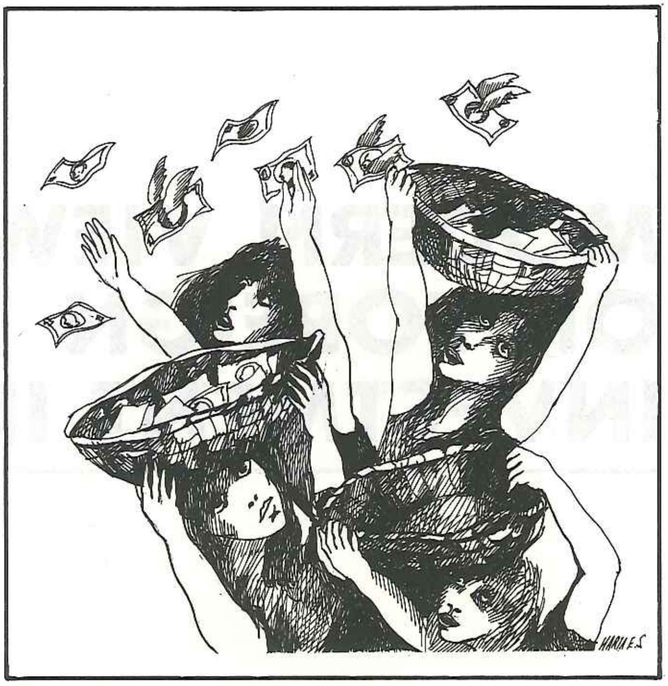
The United States of America presents a perfect example of how foreign investment does not jeopardize a state's legal independence. The U.S. continues to be an independent nation, even though there is more accumulated foreign investment there than in any other country in the world.

Mexico's development should not be based on maquila industries

Mexican Investors Are Adversely Affected

Critics argue that foreign competition displaces Mexican industries, thus adversely affecting Mexican investors. Nonetheless, this charge only applies to Mexican firms that are non-competitive. Because of their inefficiency, these industries seek governmental protection against international companies. It must be noted, however, that protective policies have failed in Mexico and around the world because they prevent fair competition and foster inefficiency in services and manufacturing. Consumers, in turn, are hurt as they are forced to accept higher priced, poor quality goods and sevices.

In contrast, non-protectionist policies allow fair competition, encourage the efficient production of goods and services, producing more income and greater opportunity. They also present advantages for consumers, affording them better services and quality articles at lower prices.

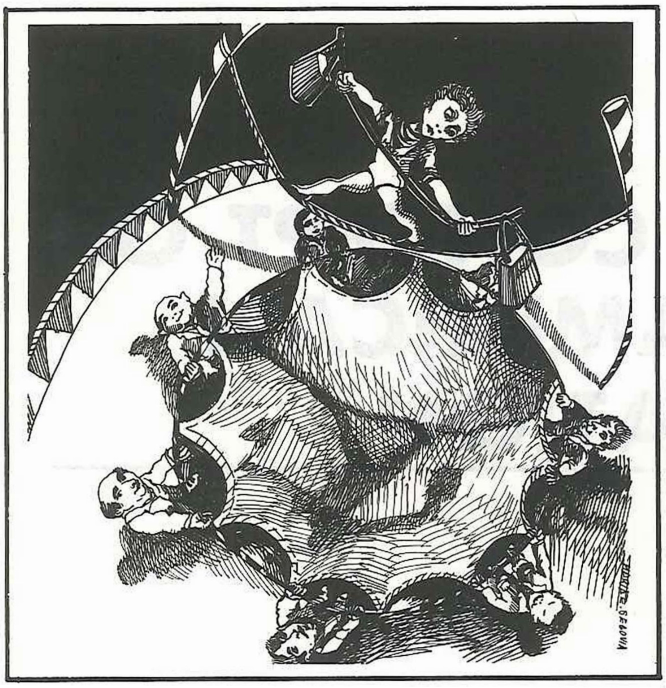


Unemployment Goes Up

It is said that foreign investment forces the closing of Mexican industries and thus increases unemployment. Even though new capital and technology may temporarily contribute to unemployment when they cause obsolete Mexican industries to shut down, the available data suggest that in the long-run, and at least in certain sectors, foreign investment creates more jobs in Mexico than the same amount of local capital investment.

Today, all nations are competing to attract foreign investment

According to the National Commission on Foreign Investment, in 1985 foreign investment in manufacturing amounted to more than 343.8 billion pesos and created 147,447 new jobs, or 0.43 jobs per million pesos invested. According to the National Accounts System 1960-1985, prepared by the Programming and Budget Minis-



Jobs were created when new foreign enterprises required parts which could be produced by national industries

try, during the same year, national investment in manufacturing was 2.4 trillion pesos, creating 15,166 new jobs, or only 0.006 per million pesos invested.

Competitive international industries may also indirectly generate more jobs. Case studies in Kenya, Nigeria, Brazil, India and Singapore support this view. Jobs were created when new foreign enterprises required parts which could be produced by national industries; others were created for marketing the finished products. In short, the available data support the conclusion that, in general, foreign investment generates more new jobs than unemployment.

Conclusions

To understand the role of foreign investment, we must first place Mexico in the context of the world economy. Not only does foreign investment promote efficiency, generate foreign exchange earnings, decrease unemployment and increase wealth, but it is also part of the reality of the modern world. In primitive market conditions, products were made and sold in the same nation; today, all nations compete to attract foreign investment by liberalizing their policies.

In this context, then, the Mexican government needs to enact measures that facilitate greater productivity and successful competition in international markets. This is the real world the Mexican government should deal with. While it is illusory to think that investment and trade policies alone can solve Mexico's problems, they are indeed an important means for improving its economy. The time has come to shed 19th century approaches to the Mexican economy, as we enter now onto the threshold of the 21st.□