

**Large Family Firm Groups and New Competitive
Conditions in Mexico Since 1995:
Tendencies and Challenges**

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I . Introduction

The objective of this article is to analyze the evolution and challenges of the large “family” firm groups² (LFGs) in Mexico since the 1995 crisis. We will consider this evolution, in its relation with the new competitive conditions and the problems for economic development of the country.

The macroeconomic reforms applied during 1990- 1994 in Mexico promoted a switch from a “protectionist” market context to an open economy one. The outcome was a segmented national economy where a growing international commerce and a stagnated local market coexist. That implies that Mexican economy may have problems with its long term development. Under those conditions and the pressure produced by the increased presence of foreign firms in the country, some LFGs have managed their strategies to become successful multinational firms of a regional scope in the three Americas. The cost of this strategy for the national economy is that those LFGs have moved their demand for intermediate goods from local providers to foreign ones, and so contributed to built the stagnated local market mentioned above. After the 1995 crisis, the LFGs confronted huge economic and financial problems because of their relatively weak competitive positions in foreign markets and because they had financed their international expansion with foreign debt, meanwhile they lost their financial arms because of the bankruptcy of their own banks.

Thus, the LFGs have been forced to develop new strategies under the changing conditions of the global economy, at the same time that the country needs to find ways to rearticulate its foreign and local markets to recover growth trend in a long term. As a preliminary conclusion, this study suggests that the LFGs can be a relevant actor to consolidate the local market and the internal industrial linkages, using their market power to demand to local

2 The large “family” firm group (LFG) is a traditional corporate structure in Mexico, developed along the twenty century, and particularly since the 1950s. There are characterized by the fact that the owners of the controlling shares are a family or a single person, and by their oligopolystic market power in the local markets under the Import Substitution Industrialization (ISI). The radical economic switch toward an open and market-ruled economy because of the macroeconomic reforms promoted by the Government in the first middle of the 1990s created a huge challenge for those LFGs, and they have to learn to compete under the global economy conditions. For an analysis of the LFGs under this circumstance and their limits, see Garrido (1998, 1999) and Hoshino (2001).

SMEs (small and medium enterprises), intermediary products for its export production. But, this requires a new economic reform to promote the links.

To argue this hypothesis, first, we will present the main problems of the new economy that has emerged since the structural changes in the 1990s. Second, the evolution of the system of industrial firms will be considered showing an increased concentration of economic power in the largest firm. In the following point, we will show that the emergence of FDI, particularly the in-bond firms, is a relevant factor to explain the changes in the large firms. Finally, we will explore the situation and the perspectives of the LFGs. We will conclude with some considerations about the policy implications of the situation, in order to rearticulate the LFGs' evolution and the national economic development of Mexico.

II. The Mexican Economy and the Crisis of 1995

The economic crisis in 1995 set a turning point in the brief economic expansion that began with the macroeconomic reforms in the beginning of the 1990's.³

This crisis was so extraordinary in its proportion that it was called the worst one in the modern Mexican economic history⁴. Nevertheless, after the first huge disequilibrium, this crisis led to a rapid recovery as indicated with the macroeconomic figures in Table 1.

Table 1 Evolution of Macroeconomic Indicators 1995-2002

	1995/ 01	95/ 06	95/ 12	96/ 06	96/ 12	97/ 06	97/ 12	98/ 06	98/ 12	99/ 06	99/ 12	2000/ 06	00/ 12	01/ 06	01/ 12	02/ 05
Inflation	10.23	24.46	35	40.49	34.38	23.32	20.63	15.21	15.93	18.23	16.59	10.04	9.49	7.16	6.37	4.72
Foreign Exchange Rate	6.2	6.28	7.75	7.6	7.89	7.97	8.15	9.1	9.95	9.55	9.6	9.95	9.8	9.15	9.26	9.79
Cetes Rate 28 days	37.7	47.56	48.65	27.72	27.24	20.11	18.89	19.53	33.53	20.98	16.45	15.57	16.98	9.46	6.29	6.67

Note: CETES: Certificates of the Treasury

Source: Author's elaboration based on INEGI.

After the initial shock provoked by the crisis, the inflation rate decreased rapidly to the level unknown in the country, while the interest rates decreased remarkably to very low levels in

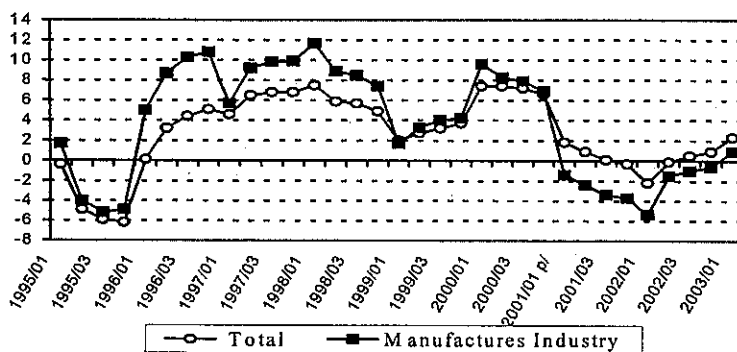
3 The main changes promoted with this reform was to open the economy to foreign competition, to reduce the participation of the State in the markets, and to promote the activity of the private firms as the leading actor of the economy. For an analysis of the process that led into that 1995 crisis, see Garrido (1996).

4 For an analysis of the cyclical crisis in Mexico since 1976 and the new conditions since 1995, see Garrido (2003)

real terms, and the exchange rate stabilized at around 9.50 pesos per dollar with growing overvaluation in real term. All this has created the perception that the situation of Mexican economy is good enough, and consequently that a favorable environment for business has emerged in the country.⁵

On the contrary, a more detailed analysis shows the existence of troublesome aspects which have developed in the Mexican economy during these years. The Gross Domestic Product, and the industrial production in particular, have experienced strong fluctuations, up to the present recession as shown in Figure 1.

Figure 1 Total GDP and Manufacture GDP 1995-2003
(Annual variation quarterly rate)



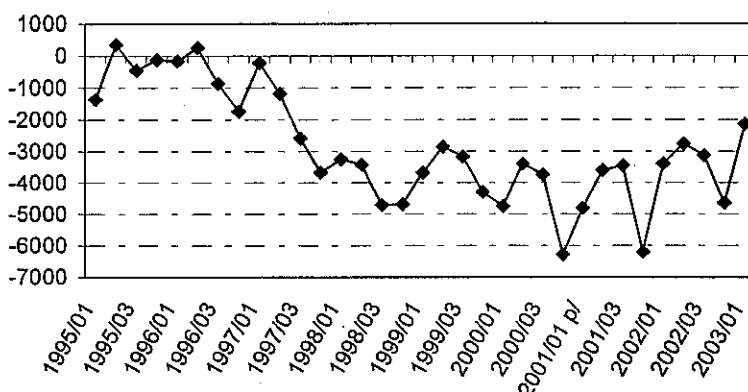
Source: BIE- INEGI

The rates of the both measures met a strong fall in the 1995 crisis, then recovered rapidly in 1996, and continued doing so until 2000. The recovery was stronger in the manufacturing production than in the whole economy. In the early 2001, the manufacture production was back to a recession along with the trends of the international economy, in particular with that of the

⁵ The defenders of the market-oriented reforms accept that the achievements of these reforms for Mexico and Latin America are still limited. However, they do not consider that this is the result of such reforms, but of the lack of some other reforms to complete the structural change. So they claim the need of a "second generation" reform to complete the pending issues from the "first generation" applied in the 1990's. Broadly this second generation reform should promote the State reform, an institutional change for the government's entities that cover the human resources development and also the reform of the legal aspects relevant for the firms. For an analysis of these themes, see Camdessus (1997), Navia and Velazco (2002), Kucynsky and Williamson eds.(2003).

USA. These trends in the national economy have been accompanied by unfavorable balances in the foreign trade, as we can see in Figure 2.

Figure 2 Commercial Balance 1995- 2003 (Millions of dollars)

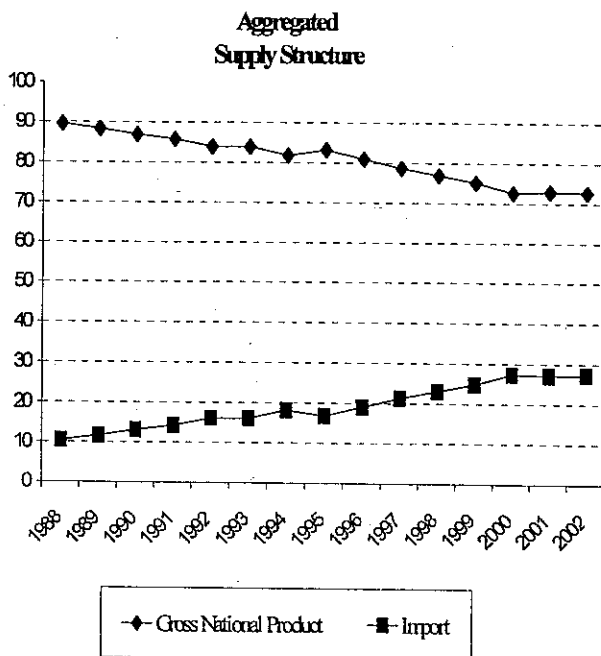
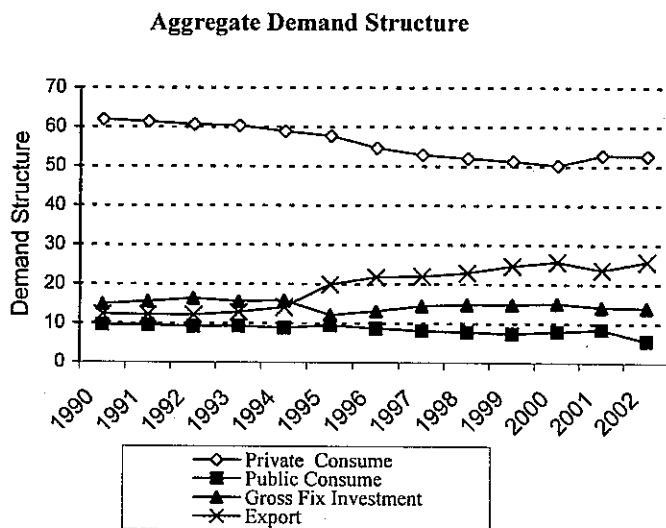


Source: BIE- INEGI

The trade deficit has been steadily growing since the middle of 1996, which has been financed by the foreign capital inflows (short term capitals and FDI). The amount of the foreign inflows has surpassed the need to cover the commercial balance, thereby putting pressure towards the overvaluation of the Peso. The growing trade deficit was a result of the growth of the exports at a lower rate than that of the imports. This shows the new inelasticity created by the exporting model based upon the imported intermediate inputs.

That instable characteristic of the new economic structure of Mexico, demonstrated by the trend of commercial imbalance, has been accompanied by the structure of aggregate demand and supply illustrated in Figure 3. As the figure shows, the new economic model is one of the export-led growth style, but complemented with a stagnated local demand (public and private, investment). In the other hand, the structure of the supply side shows that the local production measured by the gross national product (GNP) has declined while the imported products has become an increasing part of the aggregate offer. This is because the policy reforms have promoted the competitiveness of export production using imported intermediate inputs instead of local inputs. Those figures show a segmented economy with a growing international market and a stagnant local market.

Figure 3 Structure of the Aggregate Demand and Supply 1990-2002
(As a percentage of total)



The current Mexican economic organization has another relevant factor, because almost all of the commercial banks have been acquired by foreign firms as a consequence of the 1995 crisis (Table 2).

Table 2 Institutional Property of Mexican Banks (June 2003)

Bank	Assets		Type of Property
	Stocks	%	
BBVA/ BANCOMER	435,088.51	25.22	Foreign
BANAMEX/CITIBANK	424,551.60	24.6	Foreign
SERFIN/ SANTANDER	209,805.27	12.16	Foreign
BANORTE	197,072.37	11.42	National
BITAL/ HSBC	159,696.44	9.26	Foreign
The rest: 15 foreign banks	168,320.37	9.76	Foreign
The rest: 11 national banks	130,706.79	7.57	National
Foreign Banks Total	1,397,462.19	81%	
National Banks Total	327,779.16	19%	

Source: Comisión Nacional Bancaria y de Valores (CNBV).

Furthermore, the shift in the ownership of the banks also implies that LFG's lost their financial branches. It has had significant influence upon the LFGs' strategic development, as we will discuss later.

In sum, the national economy has developed contradictory tendencies. While the macroeconomic conditions appear relatively favorable, the performance of the foreign trade is adverse, and there is a disarticulation of the internal and international markets, which may have severe impact on the development of the country in the long run.

III. The Evolution of the Industrial Firm System ⁶

Considering that the economic reforms was aimed to improve the activities of private firms instead of the State intervention, it is important to see what was the evolution of the industrial firm system as a core of the economic activity, and in the context of the competition of the LFGs. We use the economic census of 1988, 1993 and 1998 for the analysis as seen in Table 3.⁷

In this table, we have information for the total plants at the three census, with details about the small, medium and large plants for the same years. All the registered information in this table includes the in-bond assembly plants, although that concept was not presented as such in the 1988 and 1993 Census⁸.

First of all, we observe a progressive evolution in the number of plants, employment level, total gross production (TGPV) value, total gross capital formation (TGCF) and the Gross Aggregate Value (GAV), thought this tendency could be influenced by the years when the census were made. The year 1988 was one with a lower performance because the Mexican economy was in a crisis; while 1993 and 1998 were a couple of upsurge moments of the economy. In general, the progressive activity in the sector indicate that the firms' infrastructure and the productive capabilities of industry was preserved during those years, although this could be achieved through accelerated births and deaths of firms, particularly of the small ones.

When we consider the plant's sizes, we find diversified performance. For the small plants, we see growing figures for the number of plants, employment, and TGPV, but with a lower rate of growth than those registered nation wide. On the other hand, the medium plants have a similar evolution to the one developed by the manufacturing industry as a whole, in terms of the increase in the number of plants, employment, and production levels.

Finally, large plants have the most striking performance. On one hand, there is an increase in the number of plants and employment by 50% from 1993 to 1998. The impressive

6 See the Secretaría de Economía's "Business Developing Plan 2001-2006" (Plan de desarrollo empresarial 2001-2006) for the government's proposal to face the difficulties and the differences in the firm system.

7 See Garrido (2002) for details of the performance of firms during the period.

8 The in-bond industry began in Mexico 1965, because of governmental rule that authorized firms to import goods to be exported after they did some few local transformations, mostly profiting local low salaries. As we will show later, this in-bond industry has an accelerated rate of growth after the NAFTA agreement.

Table 3 Small, Medium, and Large Industrial Plants in the 1988, 1993 and 1998 Census

Stratum and year	Economic Units	Total employed personnel	Thousands of pesos of 1993						
			Total Remu- nerations	Net Fixed Assets	Gross Capital Formation	Total Gross Production	Total Inputs	Gross Added Value	
Total									
1988	11,610	2,125,561	38,162,827	259,742,292	15,913,310	350,538,671	224,944,976	125,593,695	
1993	13,903	2,378,079	63,906,509	224,958,354	17,361,697	456,892,653	296,721,975	160,170,678	
1998	15,952	3,143,896	65,675,764	278,522,023	28,740,737	562,285,724	377,255,153	185,030,571	
Small									
1988	7,004	380,801	4,248,032	15,237,051	1,451,410	39,163,727	26,360,189	12,803,538	
1993	8,414	461,825	8,801,896	23,000,456	2,007,481	55,297,954	36,147,542	19,150,412	
1998	9,147	504,111	7,513,794	22,122,478	2,026,819	58,542,555	39,490,108	19,052,446	
Medium									
1988	3,758	805,778	12,980,502	56,246,750	3,566,616	112,589,401	71,636,582	40,952,819	
1993	4,542	961,400	24,841,292	83,691,377	7,290,685	158,113,564	99,945,466	58,168,098	
1998	5,431	1,178,509	22,555,619	99,446,897	8,753,554	184,835,828	119,760,177	65,075,651	
Large									
1988	848	938,982	20,934,294	188,258,490	10,895,285	198,785,544	126,948,205	71,837,338	
1993	947	954,854	30,263,322	118,266,521	8,063,531	243,481,135	160,628,967	82,852,168	
1998	1,374	1,461,276	35,606,351	156,952,648	17,960,363	318,907,341	218,004,867	100,902,474	

Source: Author's elaboration based on the President's First Annual Report, 2001.

1/ Based on the 1989, 1994 and 1999 Economic Census data; We adopted the new criteria for the firms stratification as published on March 30, 1999 on the "Diario Oficial de la Federación". That is based on the number of the employees instead of the previous one which was based on both the number of employees and the net sales. In the micro, small, medium and large stratum's from the industry, commerce and services formation. The stratification rates for the number of employees differ from one sector to another; There used to be criteria definition for the businessmen only, then the criteria were extended for commerce and services. For the industry, plants with 30 or less employees are considered to be the micro; 31 to 100 employees as the small one; 101 to 500 employees as the middle-sized one; and over 501 as the large ones. 2/ Producer Economic Units for 1988 and 1993 and Producer and Auxiliary Economic Units for 1998. 3/ Producer and Auxiliary Economic Units for 1988 and 1998 Producer Economic Units for 1993. 4/ It is the sum of the total remunerated employees average total and non-remunerated ones of the economic units. The average for every Economic Unit is calculated dividing the sum of the employed personnel who worked during June 30 and December 31 by two. The remunerated Average Personnel is the remunerated personnel per Economic Unit Average sum and the Non-remunerated personnel Average is the sum of the Non-Remunerated personnel averages per economic unit. 5/ It consists in all the salaries and Non-remunerated personnel Average is the sum of the Non-Remunerated personnel averages per economic unit. wages payments made by the Economic Units to the remunerated personnel during the year, as well as the additions to those payments for profits distribution and social services. 6/ It is the return cost value or the market price of all those durable goods owned by the Economic Units up to December 31 every year that are used in other goods and services' production and last more than a year. 7/ It is the resulting value of the total inputs value subtraction to the gross total production this shows the added value to the inputs during the productive process until they become finished goods.(Generated Wealth). This added value has not deducted the fixed assets depreciation payments.

growth is also observed in the GAV and TGPV while the growth is even more notable in the case of TGCF which doubled the registered amount in the same period.

As a conclusion of this analysis, we can say that the performance of the different sizes of plants seems to correspond to historical patterns, as small plants are more sensitive to internal market conditions, medium-size plants behave along the general tendency, and the large ones' dynamics increases in a greater proportion than the others, which has created an increasing economic concentration. We have to remember that large and medium firms are under firms that have several plants, therefore, more than 2,300 medium and large plants are, in fact, under a few hundred of large firms, in other words, concentration under even lesser economic groups. At the same time, this last point brings about a new question: what kind of firms explain those widechanges in the larger plants during the five year period 1993-1998? This is important for our analysis of the LFGs because it can help us to understand the changes in competitive conditions for those kind of firms. In the next section, we will show that this change is due to the impact provoked by the important increase on foreign direct investment (FDI) during the period.

IV. The Large Foreign Firms

In general, the foreign firms have had increased their presence in the Mexican firm system during the recent years because of the NAFTA agreement and for the competitive advantage of relatively low local salaries in relation to those in the USA⁹. This produced an increased participation of foreign firms in many different economic areas, in the manufacture industry in particular¹⁰. Investment by foreign firms can be classified in three different groups, according to the nature of the investment.

On one hand, we find foreign firms which bring in new investment or reinvest their profits in the case of the already settled firms. This kind of investment increases the productive capacity of the country. On the other hand, we have the foreign firms that buy existing Mexican firms in a classical merger and acquisition process (M&A). This kind of investment only

9 The North American Free Trade Agreement begun in 1994, and created strong incentives for foreign firms to invest in Mexico, trying to capture the benefits of operate under this umbrella that makes easier to sell from Mexico to the USA. This incentive was complemented with a second one, the low local salaries compared with USA.

10 See Dussel et al. (2003) for a wider analysis of the conduct of the direct foreign investments in the 1990s.

produces a shift of the property rights to foreign firms. Finally we have the foreign firms that come to Mexico and install in-bond plants, developing phases of a specific productive process within an international production chain. This kind of investment has strong impact on employment, buy inputs in foreign markets, and contribute very little to produce value added in the country.

Table 4 shows the amounts of foreign investments according to the types explained above. As we can see, the total foreign investment in 1995 had an abrupt downturn in comparison with 15 thousand million dollars in 1994, but it recovered later, and even registered a historical 26 thousand million dollars in 2001¹¹. With all this, the new investments have been fluctuating between 30 and 60 per cent of the total, although in 2001 they reached a record of 75% of the total.

Table 4 Foreign Investments in Mexico(FDI and M&A) (1994- 2003)^{1/} (in million dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		Acum.1994-2003 ^{2/}	
										Jan.-June		2003 ^{2/}	
										Value	%	Value	%
TOTAL	15,045.6	9,647.9	9,951.7	14,175.8	12,248.0	13,054.7	16,075.3	26,204.0	14,622.5	5,216.7	100.0	136,242.2	100.0
New investment	9,745.4	6,960.0	6,295.7	10,461.6	6,094.8	5,610.2	7,042.3	19,402.5	7,459.0	1,514.5	29.0	80,586.0	59.1
Profits Re-investment	2,366.6	1,572.0	2,589.7	2,150.0	2,864.0	2,303.5	3,784.5	3,733.0	2,133.2	1,511.6	29.0	25,008.1	18.4
Accounts between Firms	2,038.8	-250.4	-350.2	-116.1	1,178.7	2,363.0	2,265.5	896.3	2,986.8	1,195.2	22.9	12,207.6	9.0
In-bond Firms	894.8	1,366.3	1,416.5	1,680.3	2,110.5	2,778.0	2,983.0	2,172.2	2,043.5	995.4	19.1	18,440.5	13.5
M&As	1,839	785	4,100	8,691	4,604	2,448	7,320	12,500	Total M&A (1994-2001) 39,5115.6				

Source: FD from Secretaría de Economía. Dirección General de Inversión Extranjera. M&A from Thompson Consulting data base.

1/ It is important to note that FI and M&A information are of different sources and that the second is not included in the first one.

It is interesting to note that new investments account for around 60% of the FDI, and that between 1994 and 1997 (years between the national census of 1993 and 1998) it registered a little

11 It is necessary to say that the significant part of the FDI in 2001 was explained by the acquisition of Banamex by Citibank for 12.5 millions dollars.

bit more than 40% of these new investments for the period 1994- 2003. On the other hand, the importance of reinvestments of profits has fluctuated so that we can see their share growing from 15 to 26% of the total and getting 29% during the first semester of 2003.

We also refer another important mode of foreign investment in Mexico, such as the mergers and acquisitions (M&A), as seen on the last line of Table 4¹². The figures only give a comparative idea of this kind of investment in relation to the other kinds of FI, because those M&A registered for each year can be produced through several years. But, the total amount registered between 1994 and 2001 inform of the all M&A realized during this time, so this data give a more approximated indicator to show the importance of this kind of FI. To see the meaning of the M&A in the property structure of firms in Mexico, it is useful to mention that the total M&A transactions reported during this time correspond to 819 Mexican firms of different sectors sold to foreign investors. This figure is relevant considering that according to the 1997 Economic Census, it was the total of approximately 33,000 medium and large plants, and that total represents a much smaller number of firms in the Mexican Economy. All this means that M&A produces a significant property transferring from Mexican to foreign firms, weakening the relative position of the local entrepreneurial actors in the firm system as a whole.

Now we consider the economic sectors where the FDI took place since 1994, presented at Table 5. We can see that the FDI has been concentrated in the manufacture, commerce and financial sector. The latter is related with the bankrupt of banks and foreign acquisition already mentioned, while the case of commerce is referred mainly to the large supermarket firms sold to the US firms.

On the other hand, the FDI in the manufacture represented 50% of the total, and this has been concentrated in a few industrial sectors as we can see in Table 6. Although relative amounts fluctuate through time, it is clear that there is a dominant share of the metal products sector, followed by that of food and tobacco, and the chemical industry on the third place.

In relation with our previous discussion about the extraordinary growth in the number of large manufacturing establishments, we can see, on Table 6, that in the period between 1994 and 1997 a little more than 40% of the total FDI was concentrated in the manufacturing sector for the

12 For a wider analysis of the mergers and acquisitions in Mexico during the 1990s, see Garrido (2001).

Table 5 Main Sectors with Foreign Direct Investments in Mexico ^{1/}

(in million dollars)

Sectors	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		Acum. 1994-03 ^{2/}	
										Jan.-Jun.		Value	%
										Value	%		
TOTAL	10,640.2	8,326.3	7,712.2	12,141.9	8,205.3	13,054.7	16,075.3	26,204.0	11,400.7	4,156.8	100	117,917.4	100
Agriculture	10.8	11.1	31.8	10.0	28.7	80.9	91.3	4.6	4.8	0.0	0.0	274.0	0.2
Extractive	97.8	79.1	83.8	130.2	42.4	127.1	178.3	35.4	197.0	7.6	0.2	978.7	0.8
Manufacture	6,186.9	4,849.6	4,712.3	7,292.0	5,112.0	8,931.9	9,154.3	5,558.8	5,052.8	2,248.3	54.0	59,098.9	50.1
In-bond Firms	894.8	1,366.3	1,416.5	1,680.3	2,110.5	2,778.0	2,983.0	2,172.2	2,043.5	995.4	23.9	18,440.5	15.6
Water and Electricity	15.2	2.1	1.1	5.2	26.6	139.5	116.8	280.6	30.8	57.0	1.4	674.9	0.6
Construction	259.4	26.2	25.5	110.4	117.4	129	170	73.5	109.8	36.8	0.9	1058	0.9
Commerce	1250.7	1009	727.1	1900.4	941.8	1224.6	2,216.6	1,510.2	1,419.0	531.1	13	12730.5	11
Transport and Communication.	719.3	876.3	428	681.5	435.9	228.5	-2,363.7	2,889.3	740.6	229.2	5.5	4864.9	4.1
Financial Services ^{3/}	941.4	1066	1215.2	1103.3	729.3	729.9	4,760.4	14,383.6	3,088.6	852.6	21	28870.3	25
Other Services ^{4/}	1158.7	406.9	487.4	908.9	771.2	1463.3	1751.3	1468	757.3	194.2	4.7	9367.2	8

Source: Secretaría de Economía. Dirección General de Inversión Extranjera.

1/ For the 1994-1998 period, the Foreign Direct Investments (FDI) is integrated with the amounts informed to the RNIE up to June 30, 2003, and made real in the same year, plus the fixed assets imports of the in-bond firms. Since 1999, we include the new investments out of the Stock Capital, profits reinvestments and accounts between firms informed to the RNIE. 2/ From January 1, 1994 to June 30, 2003. 3/ Financial, administrative and rental of Services. 4/ Services for the community, social services; hotels and restaurants; professionals, technical and personal.

1994-2002 period. This may help to explain partially the increase in the number of large establishments.

Another important type of foreign direct investment is the in-bond assembly plants. As we can see on Table 6, the share of investment in the in-bond firms in the total FDI is unsteady, fluctuating between 10 and 20% of the total. However, the importance of the investment in the in-bond firms is larger if we take its share in the FDI in the manufacturing industry, where their share goes up to 30% of the total.

Table 6 Foreign Direct Investment in the Manufacturing Sector

(in million dollars)

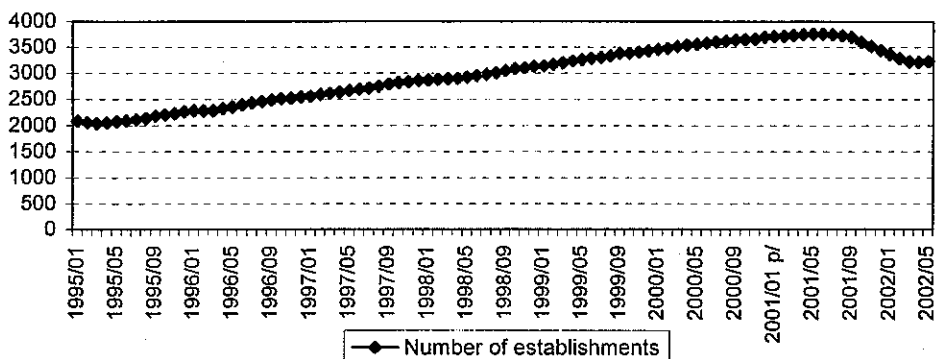
Subsector	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		Acum.	
										Ene.-Jun.		1994-03 2/	
										Valor	Part. %	Valor	Part. %
Manufacturing	6186.9	4849.6	4712.3	7292	5112	8931.9	9154.3	5558.8	5052.8	2248.3	100	59098.9	100
Food, Beverages and tobacco	1807.8	651.2	502.2	2952.9	730.9	991.7	1197.6	962.4	341.5	428.9	19	10567.1	17.9
Metal products, machinery & equipment	1888.7	2892.6	2212.3	2755.4	2326.3	5371.2	4232.6	3035.3	2667.1	1018.1	45	28399.6	48.1
Chemical Industry, Oil & Coal	645.5	573.1	1196.9	815.4	1162.8	955.5	1332.6	380	1031.2	368.7	16	8461.7	14.3
Non metal mineral products	51.2	89.6	29.7	5.8	14.2	230.9	143.3	96.2	-77.9	8.9	0.4	591.9	1
Basic Metal Industries	1342.3	142.5	324.8	105.7	54.3	268.5	286.2	184	-1.4	27.8	1.2	2734.7	4.6
Other subsectors	451.4	500.6	446.4	656.8	823.5	1114.1	1962	900.9	1092.3	395.9	18	8343.9	14.1
In-bond Firms	894.8	1,366.3	1,416.5	1,680.3	2,110.5	2,778.0	2,983.0	2,172.2	2,043.5	995.4	44.27	18,440.5	31.20

Source: Secretaría de Economía. Dirección General de Inversión Extranjera.

1/ For the 1994-1998, FDI is integrated with the date presented by RNIE up to June 30, 2003 and made real in that year, plus the fixed assets imports from the in-bond firms. Since 1999, we include the new investments out of the Stock Capital, profits reinvestments and accounts between firms informed to the RNIE. 2/ From January 1, 1994 to June 30, 2003.

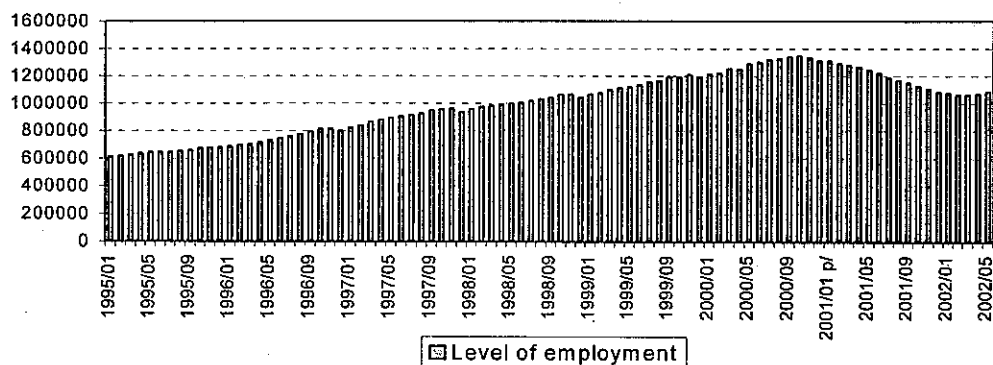
As we know, those in-bond assembly plants are also important for Mexico because of their impact on exports, where they represent 50% of the total, and because of their capability to create jobs. As we can see for the period 1995 - 2001, jobs created by the in-bond firms more than doubled from 600 thousand to one million 300 thousand. This was correlated with a similar magnitude of growth in the number of establishments, which also doubled, from 2 thousand to 3,800 in the same period. All this can be seen on Figure 4 and 5.

Figure 4 Evolution of the In-Bond Assembly Plants 1995-2002



Source: INEGI

Figure 5 Employment and Evolution of the In-Bond Assembly Plants 1995-2002



Source: INEGI

The increase of the in-bond assembly plants is also important in order to explain the increase of medium and in particular of large manufacturing plants, which was considered before. In the first approach, this can be deduced of the fact that the average size of the in-bond assembly plants has over 350 workers, as we can see on Table 7. This size belongs to the medium plants in the census. Due to the available information through newspapers, we know that there are in-bond assembly plants with more than 5 thousand workers, for example in Ciudad Juárez, and we also know that the owners of those plants spread their business in many medium-sized plants, which altogether form one large establishment.

Table 7 Evolution of the Average Size of the Plants of In-Bond Firms

1995- 2002 (number of employees)

YEAR	AVERAGE SIZE
1998	334
1999	339
2000	350
2001 p/	353
2002	318

Source: INEGI

The impact of the in-bond assembly plants' upon the manufacture firm system in Mexico can be shown when we compare the increase in the number of medium and large establishments between 1993 and 1998 with that of the in-bond assembly plants for the same period, as shown in Table 8. Without any intention to assert that there is a simple relationship between two, the relative importance of the increase of the in-bond assembly plants is significant when we compare it with that of the medium and the large plants.

Table 8 Comparison between Manufacturing Plants from the Census and In-Bond Firms

Plant Size	Increase in the number of plants between 1993 and 1998	Increase of the in-bond plants between 1993 and 1998
Medium	889	987
Large	427	
Total:	1,316	987

Source: Author's elaborations based on INEGI's Economic Census.

Nevertheless, there was a fall in the number of the establishments of the in-bond assembly plants between June 2001 until May 2002. What is more important was the fall in the number of jobs they generated which started in October 2000 and lasted until march 2002. Almost 300 thousand jobs were lost during the period, as seen on Figure 5.

Since October 2000 we can see a slight recovery, but what is worrying is that this decrease in employment could not be a temporary phenomenon, but it could be a result of the loss of competitiveness of Mexican in-bond firms, compared with their counterparts in other countries, such as China. This could be due to the increase in labor cost in terms of the dollar in Mexico, plus the effects from changes of the taxation regime which was brought in under the NAFTA. This could mean significant changes in the manufacture firm system as Katz (2001) discusses, and it may have deep effects in the social equilibrium of the whole country because of the impact of the in-bond assembly plants on the employment during the last decade.

As synthesis of this section, we can say that the foreign firms have brought changes to the large firms in Mexico during the second half of the 1990s in several ways. A mix of direct investment, transfer of the property rights because of M&A, and development of the in-bond industry have increased the role of the large foreign firms in the country. This means a new competitive structure in the large firm sector of the country, and implies a huge challenge for the Mexican LFGs.

V. The Large Family Groups after the 1995 Crisis

The crisis of 1995 produced different and contradictory changes in the LFGs, that are still in process. To introduce the analysis, we will present a brief description of the situation of these LFGs before the crisis.

1. Changes of the LFG in the early nineties

As mentioned before, the LFGs confronted a great challenge at the end of the 1980s because of the economic reforms undertaken by the government when it opened the economy to the foreign competition. This implies a extraordinary change to the LFGs, that used to move in a "protectionist" context.

In general, it is possible to say that those LFGs gave a proactive answer to that new competitive conditions, with strategies that they adapted to the new competitive conditions

without losing their peculiar characteristics as LFGs, in terms of their traditional ownership and government¹³.

Although the ideology of the economic reformers promotes a free market world, the LFGs assume strategies more close to the "Visible Hand" approach (Chandler 1977). These strategies combine a set of different aspects, and they change along the time, but we can point out some fundamental factors in general. One was the defense of its local markets. They do it by using their market power and by establishing strategic alliances with foreign competitors. Another was their attitude toward their competitiveness. They tried to enhance their competitiveness by restructuring firms within the groups and by modernizing plants in the country. The third issue was the business structure. In many cases, they diversified their business, mainly buying banks at the moment of the privatization of the banking sector in 1990. The fourth factor was the governance of the LFGs which has transformed to be a most modern and professional management but still under the family control. Finally, a very important issue was the reaction of the LFGs to the context of the global competition of the 1990s, driven by challenge of "To eat or to be eaten" that has emerged with the worldwide wave of M&A. The Mexican LFGs, as well as others in Latin America, chose to confront the new competitive conditions of the open economy with a very quick movement to increase their size, developing international production to search the markets, in the sense of Dunning (1988). They realized a wide set of M&A operations in different countries in the Americas, and even in Europe and Asia. As a consequence of this strategy, the LFG has become multinational firms of an American scope, and in the case of Cemex, it has come to be a global firm. The outcome of this processes in 1997 is shown in Table 9.

The strategy of international expansion has been taken by firms of different countries in Latin America, but only a handful of them succeed in this objectives. Mexican LFGs has got a leading position in this regional competition altogether with Brazilian and Chilean firms. Table 10 shows the ranking of a sample of 50 large firms in Latin America in 1994.

But this strategies to promote an accelerated increase of the size of the LFGs by the internationalization of its production, had two important problems that will be evident after the

13 For the analysis of the LFG transformation in the context of the macroeconomic reforms as well as the strategies taken for the internationalization as a way to face the new conditions of competition, see Garrido (1998, 1999).

Table 9 Geographical Distribution of the Multinational LFGs (1997)

LFG/ Firm internationalised	Sector of activity	North America		Central America								The Caribbean countries			South America							Europe					Asia					
		United States	Canada	Panama	Belize	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Dominican Rep.	Puerto Rico	Trinity y Tobago	Venezuela	Colombia	Argentina	Chile	Peru	Brazil	Bolivia	Ecuador	Holland	Spain	France	United Kingdom	Germany	Philippines	Indonesia				
LFGs Diversified																																
1	Alfa- Alpek																															
	Petroq- Short Fibres polyester																															
2	Carso. Carso Global																															
	Desc - Agrobios																															
3	Emp. La Moderna-Seminis																															
	Agro industry																															
4	Emp. La Moderna-Seminis																															
	Beverages/ Beer																															
5	Visa- Fensa Cerveza y Coca Cola																															
	Beverages/ Beer																															
6	Vitro Vidrio Plano, Cristalería, Envases																															
	Glass, Crystal Cans																															
LFGs Specialized in a Line of Products																																
7	Bimbo																															
	Bakery																															
8	Cemex																															
	Cement																															
9	DINA																															
	Trucks and Buses																															
10	Geo																															
	Construction																															
11	Gruma																															
	Industrialized Corn																															
12	Grupo Posadas																															
	Hotels																															
13	Televisa																															
	TV, Radio and Press																															

Source : Basave (1993) and documents from the firms.

Table 10 Ranking of 50 Large Firms in Latin America M(50), 1994

(in million dollars)

Rk	Sectorial					
M	Leadership				Type of	
(50)	(L)	Firm	Country	Sector	property	Total Sales
1	L	Autolatina (Ford & VW)	Brazil	Automobile	P*	9,660.3
2	L	Telmex	Mexico	Telecommunications	P	8,635.5
3		Fiat	Brazil	Automobile	P*	6,099.6
4		General Motors	Brazil	Automobile	P*	5,873.2
5	L	Souza Cruz (BAT)	Brazil	Tobacco	P*	4,290.0
6	L	Vitro	México	Glass	P	4,194.7
7		Chrysler	México	Automobile	P*	4,001.7
8	L	Gessy Lever	Brazil	Hygiene/ Cleaning	P*	3,445.5
9		Carso	México	Tobacco	P	3,348.1
10	L	Cemex	México	Cement	P	3,146.6
11	L	Codelco	Chile	Mining	E	2,993.4
12		Telesp	Brazil	Telecommunications	E	2,952.2
13	L	Visa	Mexico	Beverage/Beers	P	2,776.5
14	L	Alfa	México	Steel	P	2,773.5
15		Vale do Rio Doce	Brazil	Mining	E	2,760.9
16		CSN	Brazil	Steel	P	2,653.4
17	L	Nestlé	Brazil	Foods	P*	2,538.1
18		Copersucar	Brazil	Foods	P	2,340.9
19		Sabritas	México	Foods	P*	2,220.0
20		Grupo Acerero del Norte	México	Steel	P	2,170.0
21	L	Copene	Brazil	Petrochemical	P	2,104.5
22		Telefónica	Argentina	Telecommunications	P*	2,099.6
23		Usiminas	Brazil	Steel	P	2,084.7
24	L	ICA	México	Construction	P	2,048.3
25		Embratel	Brazil	Telecommunication	E	2,025.9
26	L	TELEVISA	México	Mass media	P	1,904.3
27		Modelo	México	Beverage/beer	P	1,878.2
28		Brahma	Brazil	Beverage/ beer	P	1,870.0
29		Bimbo	Mexico	Food s	P	1,795.4
30	L	Desc	México	Auto parts	P	1,637.3
31		Coca Cola	Argentina	Beverage/ beer	P*	1,627.1
32		Massalin (Philip Morris)	Argentina	Tobacco	P*	1,409.8
33		Procter & Gamble	México	Hygiene / Cleaning	P*	1,360.0
34		Encol	Brazil	Construction	P*	1,203.8
35	L	Basf	Brazil	Chemistry	P*	1,180.9

36		Philip Morris	Brazil	Tobacco	P*	1,156.1
37		Industrial Minera	México	Mining	P	1,148.5
38	L	Kimberly-Clark	México	Paper	P	1,146.6
39		Celanese	México	Chemistry	P	1,075.8
40		Rhodia	Brazil	Petrochemical	P*	1,068.0
41	L	Transportación Marítima,	México	Shipping	P	1,000.9
42		Hoechst	Brazil	Chemistry	P*	975.1
43		Papeles y Cartones	Chile	Paper	P	925.3
44		Grupo Tribasa	Mexico	Construction	P	908.6
45		Grupo Mexicano de	Mexico	Construction	P	898.6
46		Cydsa	Mexico	Petroquimichal	P	885.5
47		Robert Bosch	Brazil	Auto parts	P*	875.0
48		Klabin	Brazil	Paper	P	825.1
49		Avon	Brazil	Hygiene / Cleaning	P*	790.0
50		Colgate-Palmolive	México	Hygiene / Cleaning	P*	789.0

Type of Ownership : P: Local ownership P*: Foreign ownership E: State ownership

Source: Author's elaboration based on "Las 500 mayores empresas en América Latina"
Revista América Economía,

Table 11 R&D Expenditures by Source of Financing, Share(%) in National Total, 2001

	Business enterprises	Other (other national sources + abroad)	Government
Mexico (1999)	24	15	61
Korea	72	3	25
Japan	73	9	18
United States	68	5	27
Canada	42	27	31

Source: OECD, MSTI database, May 2003.

1995. The first one was that they developed its new international activity, focusing on its most competitive product, which was in general traditional consumer goods (beer, bakery, corn, etc) or basic intermediate goods (glass, cement). Those LFGs had goods skills in this kind of products because of its experience during the ISI, but when they enter in the international production, they do not assume the need of a strong R&D investment to maintain their competitiveness in the global economy.

As shown by the OCDE statistics, Mexico has the lowest level in private investment in R&D among the OCDE countries, far from Japan or Korea or even of its commercial partner in the NAFTA. See Table 11.

Instead of improving its own R&D capacities, the LFGs prefer to buy technology in the international markets or to have a technological alliance with a world leader firm. So its competitiveness will have limits because of the difficulty to compete with the global giants in the international markets, and because of its limited capacity to innovate.

The second problem derived of the strategy of internationalization assumed by the LFGs, was the way they decide to have a quick increase of its size. The M&A process demands huge amounts of capital, which were not available in the local financial markets¹⁴. Given the new financial relation of Mexico with the international finance because of the Brady Negotiation of the external public debt, the LFGs could solve this problem obtaining the funds in the international financial markets. But when the LFGs decide to do this, they have to articulate a complex strategic financial behavior that should combine cost- benefits impact of the financial structure to maintain the property and the control of the corporation by the family owners¹⁵.

To do this, the LFGs apply a traditional financial strategy of large firms in the developing countries, covering the financial needs using external funds instead of its own funds¹⁶. So they combine debt financing to get the low international financial costs seen in the 1990s, and share financing, done without risking control because they

14 For an analysis of the conditions of the local financial markets with the privatisation of banks and the international financing of the LFG in the early 1990s, see Garrido and Peñaloza (1996).

15 For this analysis, we follow the Jensen and Meckling(1976)'s argument of the owner that sell part of the company but at the same time continue as the agent. So, in this particular structure of ownership the owner-agent has the possibility to implement strategies that increase its total revenues and reduce the revenues of the minority shareholders.

16 See Singh and Hamid (1992).

preferred to issue non-voting right equities. But after the 1995 crisis, under the local financial system's conditions and the changing situation of the international economy, most of these LFGs confront important financial problems because of the impact of the important foreign currency indebtedness, that we will discuss later

This financial strategy of the LFGs in the 1990s can be analyzed considering the information of a sample of the 40 largest firms which participate in the stock market during 1992-2002 ¹⁷. The sample's size is due to the number of the firms that published information during the years of the period. Nevertheless, this is a significant sample considering that only 160 firms are listed in the Mexican Stock Exchange. The monetary values of the data base are expressed in thousands of constant 1990 peso to make time comparison possible.

In Table 12 we can see the outcome of this exercise for the firms' sample. As in the Singh and Hamid's research, we divided the sample of firms in five groups, according to the net assets amount, as it is informed in the table's note. The period was segmented in four intervals, attending to the country's different economical circumstances since the beginning of the 1990s (1992-1994: the expansion after the reforms; 1995-1997: recession after the 1995 crisis; 1998-2000: economic growth; 2000-2002: another economic contraction).

The table shows broadly the sample firms' preference for a very little use of their own funds as a financing source, what is different according to each period's circumstances and the relative size of the net assets. What is more, on the smaller assets size firms, the own funds account for the last periods has a deficit position. For the foreign financing, predominance of the equities usage compared with the debt contract is remarkable, although this varies according to the referred periods and also because the net assets size.

17 In this analysis, we followed the exercise done in Singh and Hamid (1992), where they discuss the differences of the corporate finance of the firms in the developing countries and that in the developed countries during the 1980s. Mexico was included in the argument. In the paper, they showed that the firms in the developing countries used more debt funding and equities than their own funds, compared to the firms in the developed countries. Having access to external funds, these conglomerates try not to risk their own funds, which in one way or another, are made a side by the group of control.

TABLE 12 Evolution of Financial Strategies of the 40 Largest Manufacturing Firms in the 1990s (ordered by quarter of the year Q_n)

	Net assets Average**	Net Assets Increase	Profit Rates		Profits Before Taxes ***	Profits After Taxes ***	Domestic Financing	Foreign Financing (debt)	Foreign Financing (Shares)	Profits Return
			PBT	PAT						
1992 – 1994										
Q1	41,844,316	42.3	6.6	4.4	70.03	78.2	2.5	21.4	76.1	1.9
Q2	12,621,708	68.3	6.3	2.6	20.20	14.2	0.2	24.5	75.3	2.4
Q3	5,830,802	54.9	4.8	2.5	7.13	6.3	0.3	15.6	84.1	2.3
Q4	1,746,359	56.8	6.3	2.5	2.78	1.9	0.0	13.0	87.0	2.6
Q5	382,079	179.4	-1.5	-3.7	-0.14	-0.6	-4.0	9.7	94.3	0.3
1995 – 1997										
Q1	55,793,872	2.2	14.5	11.9	71.3	74.2	13.6	44.3	42.1	-1.8
Q2	16,436,370.3	1.3	13.3	9.4	19.3	17.3	10.4	40.3	49.3	-1.0
Q3	6,850,675	11.7	14.3	10.6	8.6	8.1	13.1	28.4	58.4	-2.6
Q4	2,405,402	31.0	10.3	8.2	2.2	2.2	9.3	11.0	79.7	-1.0
Q5	68,199	82.5	-229.5	-243.5	-1.4	-1.9	-242.6	271.5	71.2	-0.9
1998 – 2000										
Q1	50,936,781	-0.9	12.8	8.9	70.15	73.6	11.9	38.6	49.5	-3.0
Q2	15,804,060.7	-7.6	11.1	6.3	18.92	16.2	8.3	25.0	66.7	-2.0
Q3	7,074,871	-3.8	11.5	8.0	8.75	9.3	9.8	32.3	57.9	-1.8
Q4	2,813,411	-4.2	7.1	2.2	2.16	1.0	3.8	25.2	71.0	-1.6
Q5	373,556	4.5	0.6	-1.1	0.03	-0.1	-0.6	27.0	73.5	-0.5
2001 – 2002										
Q1	49,305,577	-0.4	10.6	6.2	64.05	64.4	9.3	38.0	52.7	-3.1
Q2	14,854,924	1.5	16.0	10.3	29.11	32.3	12.9	25.8	61.3	-2.7
Q3	6,740,261	7.6	9.5	3.9	7.81	5.5	7.2	9.6	83.2	-3.3
Q4	2,006,357	-3.6	-1.7	-2.7	-0.42	-1.1	-1.0	41.8	59.2	-1.7
Q5	126,509	6.2	-35.8	-42.0	-0.55	-1.1	-26.6	123.6	3.1	-15.4

Source: Author's elaboration based on Mexican Stock Market data – Economatica Data Base.

*Percentages with respect on the net assets average ** Thousands of pesos from 1990 up to 31/12/ for that year *** The percentage was calculated with respect on the total profits before and after taxes. PBT: Profits before taxes. PAT: Profits after taxes.

Q1: Net Assets: 40 to 60 millions pesos from 1990; Q2: 12 to 17 millions; Q3 5 to 8 millions; Q4 : 1 to 3 millions; Q5: 60 to 400 thousand pesos

Finally, the continuous punishment to the shareholders' right is a remarkable aspect, that can be seen in the negative sign of the profits return. We consider this as a 'insiders' policy practiced by the family control group, who offset the low profits with incomes coming from other means in spite of the minority shareholders. This situation could be kept without the minority shareholders giving up this investments, because they got high incomes with the shares' constant price increases during the 1990's stock market upsurge. Consequently, our exercise seems to confirm a strategic pattern of conduct for the LFGs with regard to their project funding, using the foreign financing as a preference in particular on equities, under the limitations we already discussed.

2. The Evolution and Trends of the LFGs after the Crisis of 1995

The crisis of 1995 meant a lot of complex changes for the LFGs, creating new trends and defies for its future development. Considering the limits of scope of this article, we will outline two main questions relevant to explain those changes.

The first one was the transformation of its corporate structure because of the bankruptcy of banks during the 1995 crisis. As we mentioned before, during the financial reform of 1990, these LFGs reestablished their traditional corporate structure as industrial and financial conglomerates, when they bought commercial banks and then organized them into a universal bank structure. Since 1995, the Mexican banks have gone to bankruptcy, and they were bailed out by the government and finally sold to foreign banks, as we mentioned before. This produced a radical change in the traditional financing conditions of those LFGs, because their international expansion was financed with a combination of funds obtained in their own financial firms and the international financial sources mentioned before¹⁸. The loss of its financial firms, seems to have left those LFGs in a more financially weak situation in general, and with greater foreign exchange risks because of their significant foreign debt that we will consider later.

18 The bankruptcy of the commercial banks also produced an important change in the relative structure of LFGs because some of them pass through these crisis without problem. This is the case of Carso group of the Slim family, who are the owner of Inbursa financial group, with a bank oriented to large business and the most powerful stockbroker firm in the Mexican Stock Exchange. In the context of the stagnation of the performance of the LFG that we will consider later, the Carso group continue growing very fast buying new business in Mexico and outside of the country.

The second relevant question we want to point out is, that the crisis of 1995 developed the economic and financial limitations of the LFGs' strategies that we already presented in the first part of this section. This made the LFGs face the risk to loose part or the total of their firms in favor of other national or foreign firms, opening an unusual situation for the system of firms in the country.

To analyze these economic and financial performance of the LFGs since 1995, we will consider the same sample of the 40 large Mexican firms presented before. We will begin with the economic performance. In order to simplify the data, we will only use the data from 1995 and 2002, to show the changes between both years.

First we consider the tangible assets variation, that can be seen on Table 13. We have a wide range of sizes among the firms included in the sample, that is representative of the firms that are quoted in the Mexican Stock Exchange. Also, it is necessary to note that in this sample we have firms belonging to LFGs (in some cases more than one) and some few foreign firms. Thus, the sample is representative of a set of large firms in the country, wider than LFG.

About the trends of the tangible assets of these firms among 1995 and 2002, we can say first that the top ten of the ranking belong to LFGs and there were no major changes in the structure of participation, what we interpret as an evidence of the continuity in the situation of this kind of firms in the country after de crisis. Second, it is relevant to indicate that only one third of the firms increased their assets in more than ten per cent during 1995-2002 which was the cumulative increase of the GDP for this years, while the others stay steady or went down in this measure. Even, we can see seven of them (Ahmsa, Savia, Sinec, Dina, Qmma, Syncro, Qtel, Ponderosa, and Ecko) that suffer huge reduction in it assets, and even collapsed, for instance, Dina, Ahmsa, and Qtel who went to bankruptcy.

As the second indicator of performance we present in Table 14, the sales (on the left side) and local/ foreign market structure (right side) evolution between the same years. We can point out that as in the previous table, the sales ranking shows the leadership of the LFGs and the continuity on the structure of the firms participation inside that variable's ranking. In respect to the sales, it appears two different groups: one which has maintained the same level or have had a heavy downturn in its sales in real terms, and the other which has increased the sales from 20% to 300 % during this

Table 13 Tangible Assets Ranking* in 1995 and 2002 (June)

1995			2002			Assets 2002 to
Pos.	Firm	Assets	Pos.	Firm	Assets	Assets 1995 ¹
1	CEMEX	46,864,630	1	CEMEX	45,778,273	0.98
2	ALFA	24,922,611	2	ALFA	22,810,965	0.92
3	AHMSA*	22,900,195	3	GMODELO	14,844,719	1.57
4	VITRO	14,339,476	4	HILSAMEX	10,764,176	0.83
5	HILSAMEX	12,907,595	5	VITRO	10,526,118	0.73
6	GMODELO	9,443,622	6	GRUPO DURANGO	8,836,480	1.57
7	APASCO	7,287,474	7	KIMBERLY	7,741,525	1.08
8	KIMBERLY	7,188,842	8	BIMBO	7,509,762	1.09
9	TAMSA	7,009,323	9	APASCO	6,050,377	0.83
10	BIMBO	6,906,391	10	GRUMA	5,689,384	1.23
11	GRUPO DURANGO	5,634,986	11	TAMSA	4,358,185	0.62
12	SAVIA	5,523,599	12	PEPSI	3,329,827	1.01
13	GRUMA	4,627,591	13	KOF	2,924,042	0.91
14	PEPSI	3,285,280	14	IHCB	2,564,509	3.85
15	KOF	3,217,133	15	CEMENTOS CHIHUAHUA	2,485,735	1.16
16	SIMEC	2,836,503	16	SAN LUIS CORPORATIVO	2,477,116	1.47
17	GRUPO CONTINENTAL	2,631,796	17	GRUPO SALTILLO	2,310,720	0.91
18	GRUPO SALTILLO	2,550,711	18	MASECA	2,029,144	0.93
19	MASECA	2,191,486	19	CAMESA	1,832,118	2.40
20	CEMENTOS CHIHUAHUA	2,138,349	20	GRUPO CONTINENTAL	1,792,354	1.07
21	SAN LUIS CORPORATIVO	1,680,213	21	SIMEC	1,697,815	0.60
22	DINA	1,515,296	22	PARRAS	1,252,484	1.24
23	SYNCRO	1,333,167	23	SAVIA	1,233,561	0.22
24	PARRAS	1,006,918	24	CMOCTEZUMA	1,117,346	2.00
25	PONDEROSA	947,329	25	HERDEZ	765,701	1.81
26	IASA	782,750	26	GEMBUNIDAS	764,268	1.22
27	CAMESA	763,972	27	JUGOS DEL VALLE	682,112	1.53
28	IHCB	665,883	28	DINA	521,349	0.34
29	GEMBUNIDAS	626,621	29	IASA	511,897	0.65
30	CMOCTEZUMA	557,429	30	QUMMA	272,218	0.35
31	JUGOS DEL VALLE	444,835	31	G.B. INDUSTRIAS	208,625	7.79
32	HERDEZ	423,428	32	SYNCRO	135,908	0.10
33	QUMMA	374,401	33	ECKO	109,410	0.54
34	ECKO	203,118	34	REGIO EMPRESAS	91,547	0.72
35	MACMA	187,687	35	MACMA	89,936	0.48
36	REGIO EMPRESAS	126,521	36	DIXON	49,269	1.37
37	QTEL**	68,240	37	NUTRISA	25,312	1.40
38	DIXON	36,069	38	PONDEROSA	n.c	n.c
39	G.B. INDUSTRIAS	26,778	39	QTEL**	n.c	n.c
40	NUTRISA	18,067	40	AHMSA*	n.c	n.c

Source: Author's elaboration based on the Mexican Stock Market Firms data.

* Tangible Assets = fixed assets + buildings and infrastructure construction + machinery and equipment + other equipments. The assets comparison from 2002 to 1995 is referred to the assets ranking in 2002.

Table 14. Sales and Market Structure Ranking 1995- 2001

Sales Ranking (Thousands of pesos in 1990)						Market Structures ¹				
1995			2002 (July)			Sales 95-02	1995		2002 (July)	
Pos.	Firm	Sales	Pos	Firm	Sales		Domestic	Foreign	Domestic	Foreign
1	ALFA	9,212,142	1	CEMEX	11877107	1.40	0.35	0.65	0.40	0.60
2	CEMEX	8,482,852	2	ALFA	8599768	0.93	0.62	0.38	0.67	0.33
3	VITRO	5,817,597	3	GMODELO	6348450	1.54	0.81	0.19	0.76	0.24
4	GMODELO	4,134,556	4	VITRO	5330151	0.92	0.76	0.24	0.74	0.26
5	SAVIA	4,013,029	5	KOF	3433743	1.42	0.62	0.38	0.83	0.17
6	AHMSA*	3,330,021	6	GRUMA	3379233	1.03	0.46	0.54	0.37	0.63
7	GRUMA	3,277,306	7	KIMBERLY	2869430	0.97	0.94	0.06	0.94	0.06
8	HILSAMEX	2,973,415	8	HILSAMEX	2217848	0.75	0.74	0.26	0.85	0.15
9	KIMBERLY	2,953,682	9	PEPSI	2213984	1.86	1.00	0.00	1.00	0.00
10	KOF	2,413,826	10	GRUPO	1778617	1.35	1.00	0.00	1.00	0.00
11	DINA	1,764,502	11	APASCO	1755570	1.57	0.98	0.02	1.00	0.00
12	MASECA	1,454,639	12	GRUPO	1665901	1.68	0.85	0.15	0.67	0.33
13	GRUPO	1,319,005	13	GRUPO	1262765	1.15	0.51	0.49	0.58	0.42
14	SYNKRO	1,298,731	14	SAVIA	1145303	0.29	0.67	0.33	0.07	0.93
15	TAMSA	1,235,652	15	TAMSA	1144687	0.93	0.31	0.69	0.32	0.68
16	PEPSI	1,189,893	16	SAN LUIS	899709	1.53	0.18	0.82	0.24	0.76
17	APASCO	1,116,442	17	MASECA	870134	0.60	0.99	0.01	1.00	0.00
18	GRUPO	1,095,824	18	HERDEZ	787266	1.22	0.96	0.04	0.94	0.06
19	GRUPO	994,374	19	JUGOS DEL	701959	2.12	0.97	0.03	0.83	0.17
20	SIMEC	706,613	20	IHCB	656331	3.54	0.68	0.32	0.84	0.16
21	HERDEZ	647,725	21	CEMENTOS	624171	1.94	0.53	0.47	0.56	0.44
22	SAN LUIS	588,902	22	GEMBUNIDAS	550905	1.33	1.00	0.00	1.00	0.00
23	PARRAS	457,718	23	CAMESA	522915	2.10	0.35	0.65	0.78	0.22
24	GEMBUNIDAS	393,532	24	CMOCTEZUMA	471853	5.02	1.00	0.00	1.00	0.00
25	JUGOS DEL	331,046	25	PARRAS	408476	0.89	0.53	0.47	0.77	0.23
26	PONDEROSA	323,765	26	SIMEC	360998	0.29	0.63	0.37	0.90	0.10
27	CEMENTOS	322,328	27	DINA	111221	0.06	0.11	0.89	0.92	0.08
28	CAMESA	249,322	28	REGIO	79535	0.51	0.97	0.03	0.97	0.03
29	QUMMA	185,916	29	QUMMA	78680	0.42	0.97	0.03	1.00	0.00
30	IHCB	185,247	30	G.B.	78229	5.68	0.99	0.01	0.52	0.48
31	REGIO	156,158	31	SYNCR0	70206	0.05	0.18	0.82	0.95	0.05
32	CMOCTEZUM	94,017	32	IASA	64190	0.73	0.51	0.49	0.97	0.03
33	IASA	87,631	33	DIXON	58386	1.73	0.72	0.28	0.81	0.19
34	QTEL**	75,097	34	ECKO	58277	0.88	0.95	0.05	0.90	0.10
35	MACMA	69,689	35	NUTRISA	48952	1.99	1.00	0.00	1.00	0.00
36	ECKO	66,125	36	MACMA	33623	0.48	1.00	0.00	1.00	0.00
37	DIXON	33,831	37	PONDEROSA	450	0.00	0.83	0.17	1.00	0.00
38	NUTRISA	24,660	38	BIMBO	n.d	n.d.	n.d.	n.d.	n.d.	n.d.
39	G.B.	13,762	39	QTEL**	n.c.	n.c.	0.02	0.98	0.00	0.00
40	BIMBO	n.d	40	AHMSA*	n.c.	n.c.	0.65	0.35	n.c.	n.c.

Source: Author's elaboration based on the Mexican Stock Market's Firms.

Note: The comparison between the Domestic and Foreign market structures in 1995 and 2002 is for the Firms listed in the Sales ranking 2001

years. In relation to the market structure of sales among local and foreign markets, in 1995 nearly two third of the firms in the sample obtained 10% or more of their sales in foreign markets, which confirms the world market orientation of the economic activity of the large firms in Mexico. But in 2002 we see a relative downturn in this trend, particularly in the smallest firms of the sample, probably due to impact of the international crisis. Combining both sides of the table, one can see a relation among the evolution of sales and the market structure of those sales. That is, in general, the firms more oriented to local market register an increase in their sales, meanwhile those firms with an export orientation see their sales going down. Finally, it is also possibly to see that the sales of a quarter of the firms in this sample see a huge downturn in sales, part of which shows similar downturn of tangible assets in the previous table. (Savia, Simec, Dina, Regio, Omma, Syncro, Ponderosa, Qtel, Ahmsa). In sum, this table shows the dependence of the large firms on the foreign market, but also weakness of the local market to compensate its foreign operations when the latter goes down.

The third indicator of performance of this sample is the profitability of the firms, measured by its return on equity (ROE) as shown in Table 15. In 1995 due to the impact of the crisis, a half of the firms had a ROE under the real rate of interest (9%), and in 2002 we have again a similar picture, now as consequence of the international crisis¹⁹. In general, the interval 1995-2002 shows a very low profit rates for this sample. Along with the bad performance shown by the other two indicators of these 40 firms, it suggests that, in general, their performance has been following an unfavorable tendency.

Both the scanty increase in the assets and the total sales stagnation, the weak commercial expansion towards the international markets and the low, or even negative profitability over capital evolution during the period, suggest an economic vulnerable situation for these Mexican large firms after 1995. Nevertheless to delimit the conclusions, we must say that there is possibility of underestimating the LFGs' situation because of lack of information. It seems to be necessary to remark that a small number of these large firms, yet very powerful, have developed themselves as regional multinational firms. This means that they have important assets in foreign markets and such thing balances their income inflow, where the foreign currency incomes

19 Paradoxically, two firms that went to bankruptcy (Dina and Synkro) show very high ROE's. That was because of financial profits of the firms in financial markets.

Table 15 Capital's Profitability (ROE) 1995 and 2002 (July)

(Net Profit/ Capital)

Firm	1995	2002**
AHMSA*	6.3%	-
ALFA	11.9%	0.5%
APASCO	1.5%	18.0%
BIMBO	n.d	n.d
CAMESA	19.1%	2.1%
CEMENTOS CHIHUAHUA	7.6%	13.3%
CEMEX	20.2%	10.3%
CMOCTEZUMA	5.0%	22.8%
DINA	-27.9%	117.8%
DIXON	11.8%	-1.6%
ECKO	-15.7%	3.2%
G.B. INDUSTRIAS	10.1%	1.5%
GEMBUNIDAS	6.6%	9.7%
GMODELO	5.7%	9.3%
GRUMA	29.7%	1.3%
GRUPO CONTINENTAL	11.2%	19.5%
GRUPO DURANGO	9.0%	-9.4%
GRUPO SALTILLO	8.5%	6.3%
HERDEZ	10.2%	8.2%
HILSAMEX	3.5%	-32.2%
IASA	-16.2%	0.0%
IHCB	12.0%	6.1%
JUGOS DEL VALLE	-1.6%	1.4%
KIMBERLY	18.5%	25.7%
KOF	12.6%	37.4%
MACMA	6.6%	-13.2%
MASECA	17.8%	7.8%
NUTRISA	-1.0%	2.9%
PARRAS	1.2%	-41.6%
PEPSI	-4.9%	8.1%
PONDEROSA	12.0%	-28.8%
QTEL	-37.5%	-3.4%
QUMMA	-7.0%	-19.9%
REGIO FIRMS	1.3%	8.3%
SAN LUIS CORPORATIVO	27.1%	14.3%
SAVIA	15.0%	-14.7%
SIMEC	-11.2%	3.0%
SYNKRO	250.9%	101.6%
TAMSA	2.8%	7.5%
VITRO	4.8%	-7.5%

Real rate of interest: 9 % for 1995; 5% for 2002

Source: Own elaboration based on the firms' financial balances.

create new conditions for the strategy and business management²⁰.

Now we will consider some financial indicators to show that the tensions of the financial strategies which were analyzed before, led to a serious financial fragility, such as the one that these corporations seem to face due to their foreign debt funding.

The first indicator is the relation of the total liability to net worth presented on Table 16, which shows a solvency measure of the firms to back up their bonds. We observe in this table that the common trend after the 1995 crisis was of a downturn in this rate, but then we see it increase as consequence of the firms' indebtedness rises. In some cases, like Ahmsa, Dina, Savia or Vitro, these ratio was very high and led to severe financial problems, and even to bankruptcy. However, in general the ratio appears in a normal level.

However, these indebtedness implications become more clear when we analyze its structure, in terms of its local and foreign currency components and of the short and long run structures for each of them. This can be found on Table 17.

The most important component of the liabilities is contracted with foreign currency in 1995 and 2001, as we can see in the table. This is an outcome of the situation of the local financial system that led those firms to solve its financial needs in the foreign markets.

About the temporal structure of the credit in both currencies, the assets valued in pesos in 1995 were clearly concentrated for the short term, while the liabilities in dollars had a larger balance between both short and long terms. In 2002 there was a tendency to increase local currency liabilities with respect to the ones in foreign currency, but the short-term funding in the local currency remained important. The liabilities valued in dollars are still the main component for financing, but unlike the pesos segment, it shows more balance generally between the short and long term.

Concluding what we have discussed in this section, we can say that in general terms the LFGs had a very weak performance since 1995, as seen in their assets, sales, and the profitability they offer to the shareholders. This seems to show the limits in their competitive forces in the context of the global economy. Also, these firms keep their traditional strategy to finance the investments: using external funds instead of their own funds, issuing debt and non voting rights equities. All this is to implement

20 This topic goes beyond the intention of this paper. See Garrido (1999, 2000) for a further analysis.

Table 16 Total Liability to Net Worth (%)

Firm	1995	1996	1997	1998	1999	2000	2001	2002**
AHMSA*	1.59	1.37	1.58	2.11	2.10	3.37	3.83	-
ALFA	1.27	0.94	1.11	1.44	1.24	1.92	1.92	1.84
APASCO	0.45	0.33	0.28	0.31	0.30	0.69	0.70	0.69
BIMBO	0.41	0.50	0.41	0.65	0.50	0.57	0.78	1.29
CAMESA	0.59	0.45	0.51	0.54	0.42	0.59	0.50	0.55
CEMENTOS	0.43	0.44	0.40	0.39	0.35	0.67	1.06	1.04
CEMEX	1.22	1.29	1.18	1.04	0.84	1.06	0.99	1.14
CMOCTEZUMA	0.08	0.12	0.07	0.12	0.11	0.29	0.27	0.23
DINA	3.12	3.67	4.44	8.65	1.23	6.92	-3.27	-2.79
DIXON	0.11	0.12	0.33	0.31	0.21	0.54	0.57	0.74
ECKO	0.70	0.84	0.44	0.62	0.64	0.48	0.54	0.47
G.B. INDUSTRIAS	1.29	2.12	2.16	3.69	6.16	1.15	1.32	1.34
GEMBUNIDAS	0.18	0.24	0.23	0.25	0.32	0.52	0.52	0.41
GMODELO	0.08	0.09	0.11	0.10	0.10	0.28	0.26	0.24
GRUMA	1.36	0.54	0.61	0.70	0.81	0.91	0.82	0.76
GRUPO CONTINENTAL	0.58	0.52	0.38	0.28	0.19	0.43	0.33	0.30
GRUPO DURANGO	1.33	1.34	1.27	1.52	1.32	2.73	1.73	1.94
GRUPO SALTILLO	0.50	0.43	0.52	0.59	0.52	0.91	0.76	0.90
HERDEZ	0.79	0.96	1.05	1.34	0.79	1.26	1.29	1.34
HILSAMEX	1.13	0.87	1.01	1.37	1.26	1.66	2.07	2.21
IASA	0.95	1.06	1.14	1.25	1.37	1.14	1.14	1.32
IHCB	0.23	0.16	0.16	0.06	0.12	0.20	0.50	0.59
JUGOS DEL VALLE	0.47	0.61	0.78	0.95	0.93	1.89	1.11	1.24
KIMBERLY	0.75	0.49	0.41	0.45	0.55	0.83	0.91	1.24
KOF	1.13	1.12	1.17	1.18	0.90	0.99	0.85	0.81
MACMA	0.48	0.64	0.67	0.73	0.42	0.69	0.77	0.84
MASECA	0.29	0.31	0.25	0.29	0.15	0.29	0.28	0.24
NUTRISA	0.11	0.08	0.11	0.14	0.21	0.37	0.33	0.22
PARRAS	0.67	0.64	0.80	0.91	1.58	2.86	4.12	5.28
PEPSI	0.62	0.63	0.58	0.86	0.75	1.27	1.27	1.40
PONDEROSA	0.91	0.60	0.59	0.47	0.61	0.44	0.63	0.52
QTEL	2.06	10.22	25.97	4.72	1.88	1.10	1.10	1.10
QUMMA	0.88	0.41	0.18	0.40	0.36	0.63	0.90	1.10
REGIO FIRMS	2.37	1.87	1.95	2.09	1.98	1.08	0.80	0.69
SAN LUIS	4.00	1.84	2.28	4.05	3.69	3.35	4.48	4.42
SAVIA	1.75	1.29	0.25	0.42	1.83	2.18	0.75	0.69
SYNKRO	11.15	2.34	0.72	0.96	0.50	0.70	1.91	0.67
TAMSA	0.69	0.47	0.27	0.27	0.23	0.67	0.65	0.68
VITRO	1.55	1.99	1.46	1.88	1.80	2.47	2.54	2.62

Source: Author's elaboration with the Mexican Stock Market Firm's data.

Note : Qtel case is explained by the Firms' imminent net worth disappearance.

Table 17 Liabilities Structure on Local and Foreign Currency (%)

FIRMS	1995						2002					
	Local Currency			Foreign Currency			Local Currency			Foreign Currency		
	Liabilities			Liabilities			Liabilities			Liabilities		
	SR	LR	T	SR	LR	T	SR	LR	T	SR	LR	T
AHMSA*	9.5%	4.6%	14.1%	27.6%	58.2%	85.9%	n.q.	n.q.	n.q.	n.q.	n.q.	n.q.
ALFA	13.0%	1.1%	14.1%	34.4%	51.5%	85.9%	11.8%	1.1%	12.9%	31.0%	56.1%	87.1%
APASCO	11.7%	0.0%	11.7%	9.8%	78.5%	88.3%	26.1%	0.0%	26.1%	17.2%	56.7%	73.9%
BIMBO	37.0%	0.0%	37.0%	46.7%	16.3%	63.0%	9.0%	22.7%	31.7%	37.8%	30.4%	68.3%
CAMESA	13.3%	0.0%	13.3%	48.2%	38.4%	86.7%	43.1%	0.0%	43.1%	28.4%	28.5%	56.9%
CEMENTOS	3.9%	10.3%	14.1%	22.0%	63.9%	85.9%	5.2%	46.4%	51.6%	9.9%	38.6%	48.4%
CEMEX	1.8%	2.7%	4.5%	28.2%	67.3%	95.5%	2.3%	0.0%	2.3%	32.2%	65.5%	97.7%
CMOCTEZUMA	40.1%	0.0%	40.1%	59.9%	0.0%	59.9%	98.3%	0.0%	98.3%	1.7%	0.0%	1.7%
DINA	7.3%	0.0%	7.3%	11.9%	80.7%	92.7%	25.2%	1.1%	26.3%	13.3%	60.5%	73.7%
DIXON	66.4%	0.0%	66.4%	33.2%	0.4%	33.6%	93.1%	0.0%	93.1%	6.9%	0.0%	6.9%
ECKO	28.6%	35.0%	63.6%	36.4%	0.0%	36.4%	34.8%	39.9%	74.6%	4.7%	20.6%	25.4%
G.B. INDUSTRIAS	99.5%	0.5%	100.0%	0.0%	0.0%	0.0%	34.0%	0.0%	34.0%	56.2%	9.8%	66.0%
GEMBUNIDAS	80.9%	2.4%	83.3%	16.7%	0.0%	16.7%	90.2%	0.0%	90.2%	2.2%	7.6%	9.8%
GMODELO	86.3%	0.0%	86.3%	13.7%	0.0%	13.7%	92.0%	0.0%	92.0%	8.0%	0.0%	8.0%
GRUMA	7.3%	2.3%	9.6%	20.1%	70.3%	90.4%	5.5%	0.1%	5.6%	25.2%	69.2%	94.4%
GRUPO	46.2%	44.4%	90.6%	1.1%	8.3%	9.4%	95.4%	0.0%	95.4%	4.6%	0.0%	4.6%
GRUPO DURANGO	9.7%	4.5%	14.2%	39.6%	46.2%	85.8%	8.6%	0.0%	8.6%	16.5%	75.0%	91.4%
GRUPO SALTILLO	29.1%	3.1%	32.2%	22.6%	45.2%	67.8%	21.8%	0.0%	21.8%	9.0%	69.1%	78.2%
HERDEZ	44.9%	2.1%	47.0%	53.0%	0.0%	53.0%	49.9%	28.0%	77.9%	4.9%	17.2%	22.1%
HILSAMEX	10.3%	1.5%	11.8%	24.1%	64.1%	88.2%	23.3%	2.3%	25.7%	29.7%	44.6%	74.3%
IASA	50.9%	30.7%	81.6%	17.8%	0.6%	18.4%	73.4%	10.5%	83.9%	15.2%	0.9%	16.1%
IHCB	51.6%	0.0%	51.6%	48.4%	0.0%	48.4%	38.1%	0.0%	38.1%	35.7%	26.2%	61.9%
JUGOS DEL	61.6%	11.1%	72.7%	17.5%	9.8%	27.3%	36.0%	0.7%	36.7%	29.8%	33.5%	63.3%
KIMBERLY	11.7%	0.0%	11.7%	38.2%	50.1%	88.3%	41.2%	10.3%	51.5%	12.5%	36.0%	48.5%
KOF	8.8%	0.0%	8.8%	16.0%	75.2%	91.2%	33.1%	0.0%	33.1%	4.7%	62.2%	66.9%
MACMA	46.7%	36.0%	82.7%	2.2%	15.1%	17.3%	71.9%	16.7%	88.6%	7.6%	3.8%	11.4%
MASECA	61.6%	4.6%	66.2%	15.2%	18.6%	33.8%	79.7%	0.0%	79.7%	20.3%	0.0%	20.3%
NUTRISA	100.0%	0.0%	100.0%	0.0%	0.0%	0.0%	100.0%	0.0%	100.0%	0.0%	0.0%	0.0%
PARRAS	28.9%	8.9%	37.8%	42.3%	19.9%	62.2%	5.8%	1.4%	7.3%	51.9%	40.9%	92.7%
PEPSI	15.4%	0.3%	15.7%	13.8%	70.5%	84.3%	30.7%	0.0%	30.7%	0.8%	68.5%	69.3%
PONDEROSA	10.4%	0.0%	10.4%	79.4%	10.2%	89.6%	100.0%	0.0%	100.0%	0.0%	0.0%	0.0%
QTEL	31.2%	8.7%	39.9%	60.1%	0.0%	60.1%	100.0%	0.0%	100.0%	0.0%	0.0%	0.0%
QUMMA	48.5%	14.2%	62.8%	18.8%	18.5%	37.2%	65.4%	4.8%	70.2%	9.4%	20.4%	29.8%
REGIO FIRMS	37.0%	48.9%	86.0%	14.0%	0.0%	14.0%	62.6%	24.2%	86.8%	13.2%	0.0%	13.2%
SAN LUIS CORP	6.0%	0.0%	6.0%	61.8%	32.2%	94.0%	7.5%	0.0%	7.5%	56.1%	36.4%	92.5%
SAVIA	4.3%	0.2%	4.4%	57.1%	38.5%	95.6%	13.7%	0.4%	14.1%	82.9%	3.0%	85.9%
SIMEC	7.0%	6.2%	13.2%	48.6%	38.3%	86.8%	21.6%	0.0%	21.6%	21.2%	57.2%	78.4%
SYNKRO	32.2%	11.9%	44.0%	48.2%	7.8%	56.0%	97.0%	0.0%	97.0%	3.0%	0.0%	3.0%
TAMSA	6.2%	0.0%	6.2%	40.7%	53.2%	93.8%	15.7%	0.0%	15.7%	48.0%	36.3%	84.3%
VITRO	10.6%	30.4%	41.0%	21.1%	37.9%	59.0%	18.9%	7.7%	26.6%	37.4%	36.0%	73.4%

Source: : Author's elaboration with the based on the Firms information.

SR: Short Run; LR: Long Run; T: Total

the strategy of an accelerated growth, while taking care to assure that the controlling group will get income through different perceptions, and on the other hand, to manage the property and control reducing the corporate assaults threats. However, this financial strategy has vulnerable sides because of the possibility of not being able to honor the debt service and the possibility to have exchange rate and interests rates risks in the international markets, where the main component of their liabilities lies. Finally, the low performance of the stock markets after their previous fall with the 2001 crisis in the USA could lead to foreign businessmen's reaction, when the low profits could not be offset by the hike in the share's prices as happened in the past. This could mean that to keep financing through shares, these firms will face pressure to increase the distribution of the profit, or to change the corporate control if the latter never comes.

Thus, the LFGs perspective is problematic, and it is strongly determined by the international market path on which they operate and by the capability to manage their economic and financial positions. The predictable evolution is that the processing the tensions provoked by the market's contraction, can drive some of these conglomerates to transfer their property's control to foreign firms. That already has happened in the case of Savia, Dina, and Synkro. However there are some cases, such as Grupo Modelo and Carso, that have another strategy to undertake very little foreign currency credit.

VI. Conclusions and Policy Suggestions

The perspective of the LFGs at their interplay with the national economy and the financial system is highly problematic.

As we have discussed, the national economy presents a contrasted configuration with concerning disequilibria factors. On this respect, the government's point of view coincides with the international institution's recommendations. That is, it was not enough with the reforms introduced in the 1990's, and thus the second wave of reforms is needed (institutional aspects, electricity generation, etc.) to reach a constant growth in the national economy. Under these recommendations, the policy options to enhance the macroeconomic order are very limited because of the rule of the international markets today and the relationship of Mexico with the USA. The absolute priority given to the price stability is achieved sacrificing the local market dynamics, while the opening to foreign market stops the local competitive development, and finally, the

need to keep foreign funds flowing into Mexico sets the obligation to keep the macroeconomics and opened economy conditions, because under the current economic order, the finance of commercial balance disequilibria depends on them.

As we have argued, in this context the heterogeneous frame of the national firms faces complex challenges. The SMEs can not find economic and financial conditions to overcome their traditional backwardness and to undertake a competitive configuration according to what the global economy demands. The successful LFGs seem to face limits to maintain its dynamics of international growth, both because of the conditions in the markets they operate and because of the difficulties that emerge from their financing strategies. At the same time, the foreign firms are growing their participation in the Mexican economy, and this is problematic. First, because of the exhaustion in the competitive advantage of Mexico for the in-bond assembly firms; second due to the fact that the foreign acquisition of Mexican firms generates unstable conditions because their decision centers are outside Mexico and their objective are conditioned to global business games under the conglomerates' decisions.

Accordingly, if there are not new political events that can modify the tendencies, it is likely that foreign acquisition of Mexican firms continues, thus worsening the internal market and increasing risky position for the LFGs.

Nevertheless, this is not an inevitable situation, nor one without an exit. It is possible to imagine new paths to have an economic organization with a successful long term insertion in the global market along with the creation of a dynamic domestic market and development of a progressive innovation system to make the competitive capabilities endogenous²¹. For this kind of strategy, the LFGs can be a very powerful tool at the same time that they can find a better long term way of growth for themselves. This means that the LFGs can rearticulate the Mexican economy by increasing their demands to the local SME firms, in a logic to generate growing systemic competitiveness. Altogether, this means to generate a virtuous circle of economic development for the long run in the country, undertaking the collective mission to make the market economy organization for this to be possible.

21 We have the Messner (1998) argument on systemic growth as a reference.

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