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Private Sector Trade Politics in Mexico

STROM C. THACKER
Boston University

ABSTRACT *Business plays a critical yet poorly understood role in trade policymaking. This paper develops an analytical framework that focuses on the distribution of business trade preferences, the forces that cause those preferences to change, and the ability of different groups to exert political influence over policy. It then applies this framework to Mexico in the 1980s and 1990s. Large, exporting firms increased their weight due to shifts in the international context, the condition of the domestic economy, and previous government policies. Policymakers granted political access to actors whose economic and political leverage had risen, typically those who controlled numerous investment resources and sought out a direct role in policymaking. Many of these actors also favored free trade. Business participation in trade policy reflects these patterns. Large, outward-oriented firms played an increasingly important role in Mexico's adoption of free trade policies over the 1980s and early 1990s.*

1. Introduction[1]

Business plays a critical role in economic policymaking. Important advances have been made in our understanding of the influence of the private sector on macroeconomic and financial policymaking, but we lack a similar theory of business participation in trade policymaking. Which elements within business favor open or closed trade policies? Which are likely to have their preferences heeded, and why? Traditional economic analysis has juxtaposed class-based and sectoral theories of trade policy interests, but these theories define interests incompletely and generally do not address the questions of political access and policy influence. Given a particular constellation of interests, a political analysis is necessary to understand why one set of interests wins while another loses. Theories of macroeconomic and financial policy that emphasize the impact of capital mobility, asset liquidity and private investment decisions on government policy do not generally address the trade question, perhaps because it is difficult to specify the trade policy interests of different segments of business based on these considerations alone.[2] This paper brings together and modifies these different approaches to take the first step in formulating a theory of business participation in trade policy. This approach proceeds by defining interests, assessing the relative strength of competing factions, and outlining the condi-

Correspondence: Strom C. Thacker, Department of International Relations, Boston University, 152 Bay State Road, Boston, MA 02215, USA. E-mail: sthacker@bu.edu

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tions under which different groups will have the political access necessary to act on their interests.

My main purpose here is to address the business side of trade politics. For example. I consider the role of the state primarily as a secondary concern, as it relates to business. Also, I do not include labor or other interest groups in my analysis. Furthermore, though this paper takes several international-level factors into account in its approach to business participation, it does not explicitly address the role of external forces like the International Monetary Fund, the World Bank, or the U.S. government. A full treatment of trade politics would have to take these and other factors into account. My purpose here is to take the first step of helping to build a better understanding of how and why different segments of the business community participate in the formation of trade policy, and why some groups succeed while others fail. I therefore leave aside the independent role of other actors and actual policy outcomes in favor of a more narrowly focused examination of the dynamic relationship between business interests and trade policy.

The first section delineates a conceptual framework that focuses on the relationship between business interests and trade policy. The framework breaks down this relationship into three components: (1) the private sector's distribution of policy preferences; (2) the relative strength of competing interests; and (3) the degree of political access for these different groups. The second section constitutes the bulk of the paper and applies this conceptual framework to the Mexican case by examining the evolution of these three indicators from the late 1970s to the early 1990s. As an initial step in the theory-building process, this paper does not offer a rigorous empirical test of competing hypotheses. Rather, it serves a heuristic purpose in mapping Mexico's private sector trade policy interests and influence. In drawing some suggestive lessons from Mexican trade policymaking episodes, I hope to raise new questions and illuminate potential new research areas.[3] The conclusion discusses some of the implications and limitations of this approach.

2. Business interests, structure and political access

In this section, I sketch out a conceptual framework that delineates the interrelationship between business interests and trade policy. By providing some analytic grasp on the private sector's participation in trade policy, this framework highlights three dimensions. First, the trade policy preferences of the various strata within business must be identified and explained. What kinds of policies do different actors favor, and why? How strong are these preferences? Second, given this mapping of preferences, the relevant power cleavages within the private sector need to be demarcated and explained. What determines the power of certain business interests? What is the internal balance of forces within business, and what causes it to vary over time or across cases? Third, not all actors enjoy equal access to policymakers. We must also explain when and why state leaders heed different kinds of societal trade preferences. Which business pressure strategies are most effective in securing this access, and why?

The first component of this framework to be analyzed is the distribution of policy preferences within the business community. Traditional economic theories make varying but unambiguous predictions about the trade policy preferences of different groups within the private sector. The Stolper–Samuelson theorem implies that business comprises a single, class-based interest group opposing labor. In a capital-scarce country, business would be expected to oppose free trade uniformly while labor supported it.[4] Divisions within both business and the labor movement suggest that the assumptions of this theory may be unrealistic in some cases. Magee, Brock and Young test the Stolper–Samuelson theorem and find that neither business nor labor presented united fronts for or against trade liberalization in the United States.[5] They find instead that the Ricardo–Viner–Cairnes model does a better job of explaining U.S. trade politics. Parting from Stolper–Samuelson, this model assumes that factors of production are immobile within a country and cannot shift from a losing to a winning sector, so that both labor and capital within an industry either gain or lose jointly as a result of liberalization. The immobility assumption yields a definition of interests along sectoral rather than class lines. Business and labor in the import-competing sector tend to oppose opening together, while both actors within the export sector generally support further liberalization. Though not explicit tests of Stolper–Samuelson, several analyses of the impact of trade liberalization on Mexican labor show that opening has not had the anticipated positive effect on wages. Since 1982, Mexico's real wages have fallen significantly, with periodic fluctuations, as Mexico liberalized its trade regime.[6] Because Stolper–Samuelson predicts that labor (the abundant factor) will gain from free trade, Mexico's wage declines suggest that class alone cannot explain trade policy preferences. Sectoral location may play a more significant role.[7]

Contemporary theories of international trade and strategic trade policy suggest that considerations beyond comparative advantage and relative factor endowments affect the competitiveness of firms. This implies that cleavages other than class or sector, which determine competitiveness in the Stolper–Samuelson and Ricardo–Viner–Cairnes models, can be used to help define a particular firm or group's trade policy interests. For example, Krugman and others have argued that a firm's competitiveness is often related to the nature of individual markets and the size of the firm.[8] Where oligopolistic markets exist and economies of scale give competitive advantages to large firms, size will also affect a firm's trade policy preferences. Under these conditions, larger firms will be more competitive internationally and therefore more likely to favor free trade. Smaller firms will be more protectionist.

Finally, the discussion of factoral and sectoral trade theories suggests that we should treat factor mobility as an independent variable, rather than as an assumption. The political economy literature on capital mobility and macroeconomic policy suggests that the international mobility of capital is key to understanding the formation of macroeconomic policy, as Maxfield and Winters have shown,[9] but its effect on trade has not been studied in detail. The greater the liquidity and mobility of a firm's assets, the stronger will be its ability to adjust to changes in policy. Assets can be relocated not just outside of the country (e.g., when a devaluation is anticipated), but also internally from one sector of the economy to another (e.g., from the import-competing to the export sector). Mobility facilitates adjustment: the more mobile an actor's assets, the less likely she is to oppose free trade. Assuming that free trade offers potentially greater returns, as traditional economic theories suggest (particularly in a stagnant domestic economy like that of Mexico in the 1980s), she is likely to support free trade. In summary, if trade preferences are determined by sector, size and asset type, cleavages within the private sector should be drawn and measured along these same lines.

The second component of this framework focuses on how the balance of certain preferences within the business community may change. I begin by arguing that changes in the overall balance of competing interests can influence business participation in trade policy. Rather than take this distribution of preferences as exogenous, I seek to explain these changes.

Three broad factors serve to alter the internal balance of forces within the business community in terms of trade policy interests. First, the international context influences firms' preferences and strength, by influencing the sectoral allocation, size and distribution of assets of firms within the private sector. To give one example, if a country's primary export markets are protected (aside from its own country's policies), the exporting sector will be less likely to increase its weight within the business community. In a more favorable context, export-oriented firms are more likely to prosper and become more economically influential. Second, the status of the domestic economy affects the prospects of serving the domestic market. If the country is in crisis and overall demand is low, import-competing firms will suffer while export-oriented firms will prosper, at least relatively. Third, government policy can change both the preferences and level of influence of actors within the business community. Monetary, financial, trade and other policies can modify business interests and favor certain groups over others (e.g., exporting versus import-competing, large versus small, mobile versus fixed asset holders). Such policies can create positive (or negative) feedback loops by advantaging certain groups that support (or resist) reform in the future.

The third component of this framework focuses on the ability of business to influence trade policy. Given a particular distribution of preferences, which group's interests will policymakers heed? In the most basic pluralist model, the stronger (however defined) of two or more competing groups would be expected to determine policy, but the state typically has some leeway in choosing its coalition partners, and the pluralist model does not directly consider the varying receptiveness of state leaders to different potential societal allies. Two opposing views on this question have been put forth. Frieden adopts demand-side, pluralist assumptions to argue that the interests and lobbying capabilities of fixed asset holders determine state policy.[10] These actors have little choice but to exert political pressure because the immobility of their assets precludes an economic response, and politicians will simply respond to the group that presents the strongest and most forceful political demands. Bates and Lien and Winters argue precisely the inverse by incorporating the supply-side of policymaking.[11] State leaders' political survival depends on maintaining a stable tax base, steady employment and economic growth. The easier it is for investors to relocate assets to another political jurisdiction and the higher the dependence of the state on those assets, the more power the controller of the assets has to influence policy. This makes policymakers vulnerable to the investment decisions of private capital controllers. The soft whispers of mobile asset holders may therefore be more effective politically than the impassioned pleas of fixed asset holders, who in any event have nowhere else to turn if their cries are ignored by the state. I posit that these two positions are not mutually exclusive, nor are the two options. I extend Hirschman's original framework by suggesting that it is possible for an investor to engage in simultaneous strategies of exit (relocation) and voice (political protest).[12] As Schneider and Maxfield note, business often 'votes twice', once at the polls and again in its investment decisions.[13] An actor's political access depends on the effectiveness of these two strategies. All else being equal, mobile asset controllers who also seek out a direct role in policymaking will have better access to the politicians who make policy.

3. The private sector in Mexico

Trade policy interests

Trade policy interests are a function of the sector, size and asset mobility of a business enterprise, usually a firm or conglomerate. This sub-section explores the nature and distribution of these interests in Mexico from the late 1970s through the early 1990s, a period that witnessed a major overhaul of the Mexican trade regime.

Sector. Mapping Mexico's economic geography provides a reasonable proxy for measuring the overall distribution of sectoral power. Businesses in the northern part of the country tend to be both more oriented toward the U.S. and international economies (in terms of both inputs and outputs) and relatively independent of state protection, control and patronage. Firms in the center of the country, near the Mexico City metropolitan area, have historically depended more heavily on the domestic market and state protection. Thus, northern firms should be more likely to be located in the export sector of the economy, while central and southern businesses are more apt to compete with imports. The shifting relative dynamism across regions reflects, among other things, the changing nature of private sector trade interests in the 1980s and 1990s.

A rapid transformation within Mexican business since the early 1980s has favored the northern, internationally integrated firms at the expense of inward-oriented firms. The strong presence of business in northern Mexico is nothing new, but since 1982 it has become more dynamic than the rest of the country (due in part to the rapid growth of the *maquila* sector). Velasco Arregui compares the growth of industry in the northern versus central regions by comparing the number of industrial workers insured by the Mexican Institute of Social Security (IMSS) from 1981 to 1991.[14] Table 1 summarizes these findings, which demonstrate that industrial growth in northern areas, as measured by formal employment, far outpaced the rates for the country as a whole. By 1991, the northern industrial belt accounted for almost 31% of total national industrial

TABLE 1. Regional distribution of industrial employment,[1] 1981 and 1991

Region	1981	Percent of 1981 national total	1991	Percent of 1991 national total	Percent change, 1981–1991
Northern Industrial Belt	474,170	21.3	950,177	30.9	100.4
Center Industrial Belt	1,321,021	59.3	1,505,142	48.9	13.9
Other regions	433,688	19.5	622,681	20.2	43.6
National totals	2,228,879	100.0	3,078,000	100.0	38.1

Notes: Percentages may not add up to 100 due to rounding. The geographical regions are defined as: NIB: Baja California, Sonora, Chihuahua, Coahuila, Nuevo León, Tamaulipas, Aguascalientes; CIB: Metropolitan area-valley of Mexico, Jalisco, Veracruz, Puebla; Other regions: All other areas of Mexico.

[1] Defined as the number of industrial workers insured by the Mexican Institute of Social Security (IMSS). Excludes the informal sector.

Source: Velasco Arregui (1993), p. 169, from INEGI data.

employment, nearly one and a half times its 1981 proportion.[15] At the same time, the center industrial belt lost its dominant position, dipping from nearly 60% to less than 50% of the national total. The Mexico City metropolitan area absorbed much of this loss, declining from a 45% share of total industrial employment in 1981 to a 34% share in 1991. Over that same decade, the number of industrial workers employed in the Mexico City metropolitan area grew by just 4.5%.[16]

The actual trade policy preferences of business appear to follow the economic geography of Mexico reasonably closely. When asked in a 1988 survey for the National Bank of Mexico (Banamex) if they hoped that liberalization would deepen or at least continue, northern business leaders led with 89% agreement, followed by the northwest with 75%. The metropolitan Mexico City area (63%), center (61%) and east regions (60%) had lower rates of agreement.[17]

In addition to geographical proxies, some have measured shifts in Mexico's sectoral mapping by looking at the evolution of intra-industry trade. In particular, higher levels of intra-industry trade reflect the adoption of modern corporate strategies linking trade and investment decisions in the context of imperfectly competitive markets, subtle product differentiation, and vertical integration. To the extent that private actors pursue these strategies, it suggests that they are becoming more competitive by emulating business practices employed in the developed countries.[18] This is especially relevant for Mexico in light of its high volume of trade with the United States.

Intra-industry trading firms have become more economically weighty since the 1980s. According to Pérez-Motta, Mexico's intra-industry trade grew from 7% of total trade in 1982 to 17% in 1987 and 30% in 1990.[19] The number of product groups in which at least 50% of Mexico's trade with Latin America, North America, Western Europe, and Southeast Asia was intra-industry increased from forty-two in 1980 to sixty in 1987. Most of this increase took place in the North American region, where the number of Mexico's product groups with at least 50% intra-industry trade increased from twenty-one to forty-one.[20] It is likely that there is a significant overlap between the shifts toward intra-industry trade and the geographic sectoral trends described above. Many of the intra-industry product groups are classified as new, capital-intensive industries with medium to high technological content,[21] the areas where much of the dynamic growth in the northern area of the country has taken place.

In terms of trade policy preferences, firms involved in intra-industry trade typically have extensive linkages with the international (or regional) economy and would therefore be expected to favor free trade and oppose protectionism.[22] For example, Wise suggests that, 'the tendency for producers to demand trade liberalization and to support regional integration agreements rose in tandem with the higher levels of intra-industry trade'.[23]

Size. Small and large firms in Mexico have experienced two reversals of fortune since the 1970s. Between 1975 and 1980, the percent of total fixed investment accounted for by small firms in the industrial sector increased from 2.1 to 27.5%, while the share of large firms fell from 66.5 to 39.1%. In the 1980s, however, the internal structure of the private sector became even more concentrated than before. By 1988, small firms' share of total fixed investment was just 3.2%, while large firms accounted for 87.3%.[24]

Firm-level data show similar tendencies.[25] Between 1987 and 1992 alone, the ratio of the top five-hundred firms' sales to gross domestic product (GDP) grew by more than 50%, from 0.20 to 0.31.[26] In other words, by 1992, nearly one-third of Mexico's GDP was accounted for by the sales of the top five-hundred firms in the country.[27] The same trends can be observed within the uppermost echelons of the private sector. Excluding Pemex and all other state-owned companies, my analysis of data published by *Expansión* indicates that the sales of the top ten private (both foreign and domestic) firms in Mexico as a percentage of GDP nearly doubled in ten years, going from 4.2% in 1982 to 8.3% in 1992.[28]

Many of these top firms belong to one of Mexico's many business conglomerates, or 'groups', that link together under a single system of ownership a number of different enterprises, either within a single sector or across various sectors of the economy. Data published by *Expansión* on the top business groups in Mexico exhibit patterns of economic concentration similar to what has occurred at the level of the individual firm. Garrido's analysis of the top fifty-nine business groups (excluding Pemex) shows that their total sales expressed as a percentage of GDP increased from 11.9% in 1987 to 15.3% in 1990, before dropping slightly to 14.7% in 1991.[29] Furthermore, the level of concentration within these groups was quite high and rising during this period, with the top ten groups' share of the total sales of the top fifty-nine groups increasing from 44% in 1987 to 56% in 1991.[30] In terms of the private sector alone, the total sales of the top ten private (both foreign and domestic) groups in Mexico increased more or less steadily from the mid-1980s onward, moving from 4.0% of GDP in 1984 (the first year of the data series on groups) to 8.5% of GDP in 1990, before declining slightly in 1991 and 1992.[31]

Most scholars support the notion that large enterprises should be more adaptable to economic opening,[32] although Luis Rubio claims that in Mexico the 'small and medium-sized firms, in spite of their declarations to the contrary, are actually much better at adapting to and surviving in a competitive environment'.[33] In the Mexican case, the biggest traders are almost exclusively large firms, as indicated in the annual lists of the most important exporters and importers published by *Expansión*. While not all of the large firms are pro-free trade, nearly all of the most important exporters and importers are large firms. For example, in 1993, each of Mexico's top four exporters (Pemex, General Motors, Chrysler and IBM, in descending order) were also ranked among the top five firms in the country. More generally, every firm listed in the top one-hundred exporters that year was also listed among the top five-hundred firms in the country.[34] By contrast, the smaller firms tend on the whole to be more closely wedded to state protection and producing for the domestic market. Very few of them have extensive ties to the international economy. Furthermore, to the extent that an industry is characterized by economies of scale, larger firms will be more competitive internationally. The growth of intra-industry trade described above suggests that large domestic and multinational firms have strongly pursued such economies of scale since the 1980s. The rebalancing of Mexican business toward large firms and groups and their greater overall levels of adaptability and competitiveness helped shift the balance of private sector preferences toward free trade.

Assets. I argue that the mobility of an actor's capital assets helps determine her ability to adjust to changes in the trade regime and therefore her trade policy preferences. Frieden identifies three types of capital assets, in descending order of mobility: financial, equity, and fixed or sector-specific.[35] I employ two criteria to measure the distribution of interests according to the mobility of assets in a given international context.[36] First, the ability to trade assets depends on the development of national capital markets. Without effective financial and equity markets, for example, an investor would find it much more difficult to shift from one activity to another. Second, the overall distribution of capital assets in a country provides useful information upon which to base an assessment of the evolution of private sector trade policy interests.

Mexico's capital markets developed rapidly after the early 1980s. In the financial sector, the nationalization of the banks in 1982 temporarily restricted national capital markets. By the mid-1980s, however, the ex-bankers had been indemnified, 34% of the bank stocks had been sold back to the private sector, and all of the banks' non-bank financial operations had been re-privatized. The most important of these measures was the creation of a parallel private financial market centered around the non-bank financial institutions, such as stock brokerages, exchange houses, insurance companies, guarantee companies and mortgage companies.[37] Back in private hands, these operations grew rapidly in the context of Mexico's volatile financial markets of the 1980s, while the state-owned banks stagnated. The net result of these developments was the rapid growth in the availability of credit on the parallel private markets, which were accessible only to the largest two-hundred corporations on the Mexican stock exchange.[38] The reprivatization of remaining bank shares between 1990 and 1992 further strengthened private capital markets by placing control of the largest banks into the hands of a small group of financiers who had made their fortunes in the speculative markets of the 1980s.[39]

Mexico's portfolio markets also prospered in the 1980s. Stock brokerage houses began to flourish after their mid-1980s reprivatization, as they became the preferred institution for channeling private credit. The Mexican stock market, though volatile, boomed. The end-of-year Price and Quotation Index increased in real terms by 432% between 1987 and 1992, while capitalization grew by 602%. Average daily trading volume nearly tripled between 1988 and 1992. Commercial paper, a short-term money market instrument, was first issued in 1980. In the bond markets, Treasury Bills (*Cetes*) were introduced in 1978, and the U.S.-dollar indexed Federal Treasury Bonds (*Tesobonos*) came out in 1989.[40] In May 1989, the government issued a new interpretation of the foreign investment law that allowed greater foreign participation in equity and bond markets, as well as direct investment. The net result of these changes was dramatic. For example, total foreign investment in Mexico increased by 557% between 1988 and 1992, but only a small portion of this increase took place in the fixed assets direct investment sector. By 1992, portfolio foreign investment, which was not technically permitted before 1989, reached $13.6 billion, or 71.6% of total foreign investment.[41] The development of national capital markets and the growth of mobile capital assets within the economy facilitated business adjustment and helped transform private sector interests in Mexico in a manner favorable to trade opening.

The shift in the internal structure of the private sector

The evolution of private sector trade policy interests in Mexico detailed above suggests that the distribution of business enterprises according to sector, size and assets shifted in favor of free trade interests and against protectionists. Three general factors help explain these shifts in the internal structure of the private sector in Mexico: the international context, the domestic economy, and government policy.

International context. Two aspects of the international context contribute to the distribution of business trade preferences. First, patterns of international financial integration and international capital mobility have favored the larger, more outward-oriented firms by granting them preferential access to finance and credit. Large firms' closer ties to the international economy have enabled them to take advantage of the integration of international financial markets that gathered momentum in the late 1970s and early 1980s. The largest firms in Mexico, mostly large Mexican conglomerates and multinational subsidiaries, had preferential access to mobile capital assets, especially foreign lending. These conglomerates normally link industrial concerns with, among others, the financial sector. The large firms' close ties to the international financial system gave them access to low-cost dollar financing, which the banks would reserve 'for their privileged customers.'[42] Meanwhile, smaller firms relied on the expensive and limited domestic banking sector for credit.

Second, the degree of openness of foreign markets can provide opportunities or constraints to exporting interests. When the principal export markets are relatively closed, as they were throughout much of the 1950s and 1960s, the balance of forces within business would be expected to lean toward the import-competing sector. If foreign markets begin to open up, as they did from the 1970s through the 1990s with the Kennedy, Tokyo and Uruguay Rounds of the General Agreement on Tariffs and Trade (GATT), these new opportunities help strengthen export interests. The behavior of foreign investors in Mexico and other countries confirms this idea. In the immediate postwar period, multinational corporations served the domestic market principally.[43] As opportunities to export increased in later years, foreign and domestic investors began to use Mexico as an export platform. The rapid growth of the *maquila* sector during this time was part of a rebalancing away from the import-competing sector toward the export sector.

The domestic economy. The post-1982 economic crisis and the government's policy response furthered the rebalancing of business interests in Mexico. Negative real rates of economic growth, inflation, high real rates of interest, restrictions on government spending, and abysmally low domestic demand shifted economic opportunity away from the domestic market and toward external markets. These changes facilitated the shifts within Mexican business in favor of large, export-oriented, mobile asset controllers. For example, thousands of small firms went bankrupt in the 1980s because of stagnant domestic demand, rising inflation, greater foreign competition, and high credit costs.[44] In the post-bank-nationalization period the wide disparity between cost of credit in the private parallel and official state-controlled financial markets also led to a greater divergence between small and big business. Large firms' preferential access to the parallel market's cheaper credit in the 1980s favored the financially connected conglomerates at the expense of the smaller independent firms. In a context of domestic stagnation, trade liberalization abroad, and a consumption boom in the United States, those segments of Mexican business that served foreign markets fared much better than their domestically oriented counterparts in the 1980s.

Government policy. This paper intentionally adopts a business-centric view of trade politics. Nevertheless, in addition to the independent role that government leaders play in trade policy, they also influence the makeup and behavior of business actors. Effective state leaders seek out powerful societal allies to further their own policy and political goals. The most politically and economically successful state policymakers are often those who are able to align themselves with the more powerful elements of the business community, including those whose strength grows as a result of state policy. 'Reform results when political movements secure sufficient backing from the reform-minded interests that they capture power and use their control over the government to impose reform programs."'[45] The state itself can effect changes in society that may later detract from or enhance the state's capacity to govern. These consequences may be planned or unanticipated. The ability of groups within the state to recognize opportunity and forge ties with key members of the private sector therefore influences private sector trade politics.

Several types of government policies have altered the balance of forces in the private sector in ways that favor the free trade constituency. The administrations of Miguel de la Madrid (1982–88) and Carlos Salinas de Gortari (1988–94) adopted banking policies that significantly influenced the private sector balance of forces. First, they fostered the emergence of the lower-cost parallel private financial market. Second, they eventually reprivatized the banks into the hands of a new group of business elites who had made their fortunes on the volatile parallel financial markets of the 1980s. These policies strengthened the largest business conglomerates and those with ties to private financial institutions, and weakened the smaller firms that were forced to rely strictly on the high-cost bank credit market. Government financial policy hastened the development of the new, financially linked private sector elite that would be more amenable to free trade.

Another set of policies that helped transform the state's potential and existing private sector constituencies was the government's overall package of stabilization and structural adjustment reforms. One important component of this program was the privatization of much of the state enterprise sector of the economy. In addition to the banks, several other state-owned companies have been privatized since the early 1980s. Between 1983 and 1992, 215 state-owned enterprises were sold off, and another 594 were closed, merged or transferred by the state.[46] Altogether, from 1982 to 1993, the Mexican state divested itself of some 942 parastatal entities, and by 1993 only 213 remained in state hands.[47] Some of the more prominent examples of the privatized firms include companies from the sugar, automobile, food processing, tobacco, fertilizer, copper, airline and telecommunications industries.[48]

Essentially starting from scratch and economically streamlined, these privatized companies typically have a different economic and political perspective than most of the small, medium and even large protected industries that began to develop in the 1940s and 1950s. Furthermore, the larger domestic and foreign business conglomerates have made most of the purchases of the most expensive and most prominent parastatal firms. The Cananea mining company, for example, was auctioned to Jorge Larrea's Grupo Industrial Minera México, which now controlled nearly 95% of national copper production and 6% of world production.[49] And Teléfonos de México (Telmex), Mexico's telecommunications monopoly, went to Carlos Slim, who had made his fortune as the head of the Inbursa brokerage group in the 1980s, and his Grupo Carso, which bought 20% of Telmex's stock and 51% of its voting options.[50] The acquisition of these companies fortified the development of the new, independent, financially connected entrepreneurial class.

Decreases in fiscal expenditures also contributed to the decline of the state-dependent business sector in the 1980s. Many of these firms had previously received high levels of direct and indirect subsidies from the government. In conjunction with rapid inflation and decreased domestic demand, the efforts to cut back on government spending hit these firms hard, sending many into bankruptcy. In addition, many of these firms had in the past sold a high proportion of their products to the parastatal sector (often at artificially inflated prices) and/or received subsidized inputs from state-owned firms. When the government sold off the bulk of the state enterprise sector, many state-dependent firms found themselves in an uncomfortably precarious situation. Public sector revenues to small and medium industries fell from 473.6 million pesos in 1980 to 282.6 million pesos in 1991.[51]

The government's policy on privately held debt gave a boost to the largest firms and groups during the 1980s. In 1983, the government established the Fund for Exchange Risk (FICORCA) to provide financial assistance to indebted private firms.[52] The government set up FICORCA as a mechanism through which it would protect private borrowers from the risk of currency devaluation by covering the difference between the exchange rates at which the private sector took out and repaid dollar-denominated loans. This fund subsidized approximately 50% of the private sector's debts, for a total of $12 billion, but most of these benefits accrued only to the very largest firms.[53] For example, just twenty large groups and firms accounted for 80% of FICORCA's resources.[54] Moreover, these large businesses 'were those that assumed the leadership of the non-traditional export expansion' associated with Mexico's new export-oriented development model.[55]

The final component of the government's stabilization and structural adjustment programs that fostered shifts within the business sector was the positive feedback loop fostered by trade reform itself. Once the reform process had gained a certain degree of momentum after mid-1985, it began to feed off itself to begin creating a new group of pro-export interests and weakening or even eliminating many import-competing interests in the private sector. This mechanism helped clear the path for the liberalization measures that followed, providing greater potential support for each subsequent round of reform. Many of the firms that had opposed trade reform in the late 1970s and early 1980s had either adjusted or gone out of business by the latter part of the decade. Thus, trade policy shifts are not entirely exogenous. Earlier reforms can gain momentum and help boost potential business support for free trade in later policy episodes. As Mexico's trade reform progressed in the 1980s, free trade gradually gained more support within the private sector. Reforms that a narrow group of government policymakers pushed through in 1985 with the support of the World Bank generated a broader base of private support for free trade in the 1987–88 Economic Solidarity Pact talks and the 1991–92 North American Free Trade Area (NAFTA) negotiations.[56]

A new business elite emerges. The cumulative effect of these multiple changes within the Mexican private sector has been the emergence and fortification of a new, corporate, northern-oriented, outward-looking, multinationally-linked, big business elite. Two aspects in particular distinguish this new elite from other historical and contemporary segments of the business community. First, it is characterized by a culture and business structure that is corporate rather than family based, hierarchical, oriented toward external markets, and more likely to form alliances and joint ventures with multinational corporations (MNCs) doing business in Mexico. Many of Mexico's largest and most important business conglomerates have gone public by selling shares on the Mexican Stock

Exchange (BMV) only as recently as the 1980s and early 1990s. Many firms also separated ownership and management by placing control over management in the hands of a director general who is not an owner or shareholder in the company.[57]

These changes have closely paralleled many of the shifts that have occurred with respect to sector, size and assets. In particular, the large, outward-oriented, northern business groups have adopted this new corporate culture much more readily than others. Generally, 'the most profoundly affected by this process appear to be the most internationalized groups and the groups that emerged from the process of privatization'.[58] Most of the groups that fit this categorization are in the northern state of Nuevo León, where the industrial center Monterrey is located. In summary, these changes involve 'on the one hand, a new organizational culture (a corporate culture), and, on the other, elitism, pragmatism and an ideology of globalism, widely shared by management and shareholders.'[59]

Second, this new corporate culture, along with shifts in the size, mobility and sectoral distribution of economic resources, has given rise to the consolidation of power by a small number of new business people. This new business class controls, by means of a system of interlocking management and boards of directors, many of Mexico's most important business conglomerates. Garrido's analysis suggests that the actual number of people who control the top firms in Mexico is even smaller than might be readily apparent, due to overlapping networks of ties between the management of different groups spanning across several sectors of the economy. For example, several of the largest business groups in Mexico have as many as eight board members in common.[60] Garrido uses the term 'big business' (*grandes empresarios*) to refer to those people in positions of ownership and/or control over two or more conglomerates or groups. In his study of the boards of directors of both financial and non-financial large businesses listed on the Mexican Stock Exchange, thirty-three of the 111 board members studied participated in the boards of two or more groups, conglomerates or financial enterprises. Some of these people sat on the boards of as many as ten or fifteen such entities. Many of these board members linked together various non-financial business concerns with a number of different types of financial operations, such as private banks, stock brokerages, insurance companies and investment funds, that control large amounts of investment resources. The growing presence of these big business leaders, 'shows the existence of a small national nucleus of economic control', across multiple sectors of the economy.[61] Many of these new leaders are relatively young and have made the bulk of their fortunes since the 1980s, and a good number of them also took an active part in the auctioning off of the many state-owned enterprises during the Salinas administration.[62] Together with the management of MNC subsidiaries, these big business elites represent a new generation of private sector leadership in Mexico.

Political access

The degree of political access gained by different segments of the private sector depends on two related factors. First, the strategies that business adopts in order to pressure state leaders affect its ability to participate in policy making. Second, the receptiveness of state leaders to different economic and political strategies helps determine the access of different private sector groups.

Business strategies. Exit, which Hirschman defines as 'withdrawal from a relationship with a person or organization',[63] was the dominant strategy for the Mexican private sector for several decades. Since the early 1980s, however, voice, or political protest, has begun to gain favor among some segments of the business community. Those groups that had both exit and voice options at their disposal obtained more direct political access and more influence in the policy-making process. Some relied solely on the indirect influence of exit, while those who did not have the exit option (because their assets were fixed) were typically left out of the policymaking process despite their often vocal protests.

Historically, the private sector preferred not to involve itself directly in the messy politics of Mexico: 'Businessmen left politics to the PRI in return for a promise that their profits would be guaranteed and their interests would not be compromised.'[64] If businesspeople were unhappy with current policy, they could disinvest from the Mexican economy and send their capital abroad, thereby exerting a strong, if indirect, pressure on the Mexican government to change policy.[65] The economic instability associated with the crisis of the 1980s was no exception to this rule, and the greater degree of international capital mobility made it easier for the private sector to exercise its exit option. While precise measures of capital flight are impossible to make, Lustig's conservative estimate places cumulative net capital flight from 1981 to 1982 alone at $18 billion.[66] Dornbusch estimated Mexico's total accumulated flight capital at $60–100 billion.[67] This exodus of private capital from Mexico is reflected in the low growth rate of private investment, which not only slowed in real terms but also actually turned sharply negative, declining by 11.1% in 1982 and 17.7% in 1983.[68]

The implicit bargain in which business agreed to forsake a direct role in politics in exchange for the maintenance of a stable investment climate has been called the 'alliance for profits'.[69] This system, established during the administration of Manuel Avila Camacho (1940–46) to assuage business alienation that had resulted from the populist measures of the Lázaro Cárdenas (1934–40) regime, remained remarkably stable until the mid-1970s. A series of redistributive measures undertaken by Luis Echeverría (1970–76), including 1975 land expropriations in the state of Sonora, began to undermine private sector confidence in its silent partnership with the state. Partly in response to these measures, a group of private sector leaders associated with the exclusive Mexican Businessmen's Council (CMHN) founded the Business Coordinating Council (CCE).[70] The CCE is a peak organization that represents some 900,000 businesspeople from virtually every sector within a structure that brings the leading business organizations in Mexico together under the same institutional roof.[71]

José López Portillo's 1 September 1982 executive decree that nationalized Mexico's private banking system and imposed strict exchange controls dealt the crippling blow to private sector confidence and the alliance for profits. As in the past, this move caused the private sector to engage in rapid exit. Although capital flight eased up after the nationalization and the imposition of exchange controls, the rate of private sector investment plummeted even faster in response to what business viewed as an encroachment upon its rights by a capricious state.[72] Data collected in Maxfield's mid-1985 survey of two-hundred Mexican businesspeople linked the lack of investment directly to the bank nationalization. Seventy-four percent of those surveyed indicated that confidence in the government was an 'extremely important' variable affecting their investment decisions, and 92% said that confidence in the government was at least 'important' to their investment decisions. Only 9% said it was 'not very important'. Of the various policies of the López Portillo administration that could have decreased investor confidence, 96% of those surveyed felt that the bank nationalization was an 'extremely important' policy that decreased investor confidence. The remaining 4% said it was 'very important'.[73]

Perhaps the most striking result of the bank nationalization was its inducement of a sustained, vigorous political reaction by the private sector. For many businesspeople, the government had broken an unwritten rule of the game by violating the norm of private property. Given the powers of the state specified in the Mexican constitution, the state could potentially undertake similar measures in the future.[74] José María Basagoiti, a director of the Employers' Confederation of the Mexican Republic (COPARMEX), summarized business's fears succinctly when he stated, 'anything could happen in Mexico' after the bank nationalization.[75]

After the bank nationalization, various parts of business began to supplement their use of exit with voice, defined as 'any attempt at all to change, rather than to escape from, an objectionable state of affairs … known sometimes also as '"interest articulation"'.[76] Business increased its voice-related activities to levels not seen since the Revolution by participating in daily political life in Mexico through business organizations and political parties, especially the leading opposition National Action Party (PAN), beginning in the early and mid-1980s.

The significant efforts of the de la Madrid administration to win back investor confidence by reversing part of the nationalization failed to halt the politicization of the private sector. The mid-1980s witnessed a greater degree of agreement within business that a more politically active strategy was necessary to protect their interests. This politicization was channeled primarily through business organizations and the political parties.

The ruling Institutional Revolutionary Party (PRI) is organized into three separate corporatist structures representing labor, peasants and the popular classes. Since business is not officially represented within this schema, business organizations have historically been the principal outlet for the expression of private sector concerns, even though they are officially prohibited from engaging in 'political' behavior.[77] In the 1980s, COPARMEX and the National Chamber of Commerce (CONCANACO), along with the peak organization CCE, were the most strident defenders of the political rights of business. These groups initiated the 'Mexico in Freedom' movement, organizing demonstrations in the fall of 1982 in several cities to demand political democracy and the reversal of the 'socializing actions' taken by the state since 1970.[78] Though the Mexico in Freedom movement eventually petered out, other types of business political activity continued to flourish through the rest of the decade and into the 1990s.

The most noticeable use of the voice strategy by business was its electoral participation, which was most prominent within the PAN. The PAN experienced unprecedented success in the 1980s, much of it occurring at the regional level, where its support was more highly concentrated.[79] The PAN's first measure of success was in 1983, when it fared well in the municipal elections in Chihuahua.[80] The 1986 governor's races in Chihuahua and Sinaloa, however, presented the first truly troublesome electoral challenge to the PRI. The PAN ran business leaders Francisco Barrio Terrazas in Chihuahua and Manuel J. Clouthier del Rincón in Sinaloa. Each lost, but there were widespread suspicions of fraud perpetrated by the PRI.[81] Determined to fight on, the PAN eventually took two governorships by 1992, winning in Baja California in 1989 and in 1992 in Chihuahua, where Barrio Terrazas was the victor. The PAN continued to make electoral gains off and on throughout the 1990s in local and state elections, eventually culminating in its victory in the 2000 national elections, when the PAN's Vicente Fox became the first non-PRI candidate to win the presidency since the PRI's creation in 1929.

The goals of the private sector in exercising voice were not merely to exact specific short-term policy concessions. Instead, they desired to challenge the legitimacy of the system itself and secure a permanent role in the political system so that they could more directly protect and promote their interests in the future. Though still effective, exclusive reliance on exit now seemed inadequate to some parts of the business community. Rather than just exercising a sort of veto power over policy, business now wanted a direct say in its formulation. In particular, the excessive power of the PRI and the executive branch came under business attack. The private sector's ultimate goal was to play an active part in making policy and governing the country, that is, to share power. As the then-president of COPARMEX, Alfredo Sandoval, declared in 1985, 'instead of reacting, we want to participate in the process of making decisions over the long-term.'[82]

State receptiveness. The receptiveness of the state to the threat of business's exit depends on the state's structural dependence on private investment. The government's responsiveness to voice is a function of its electoral vulnerability. Mexican officials became more receptive to both exit and voice during the 1980s, giving business a larger role in economic policymaking by the end of the decade. Those groups within business that exercised both strategies played the largest role in Mexico's trade reform, beginning in the mid-1980s and continuing through the early 1990s.

The state becomes more susceptible to capital flight and private sector disinvestment when the rate of economic growth falls and when the state has few alternative resources that it can substitute for private investment. When economic growth is slow or negative, the position of state leaders becomes more precarious as society begins to question their political legitimacy. Rates of economic growth in Mexico fluctuated between very low positive values and negative values throughout most of the 1980s. I hypothesize that the marginal utility of investment rises as the overall rate of growth slows, so the state becomes more sensitive to changes in the rate of private investment in a sluggish economy.[83] This makes state leaders more susceptible to disinvestment and capital flight during a crisis period. These conditions held in Mexico throughout the decade of the 1980s.

Faced with economic stagnation, the state can sometimes replace private investment with its own resources.[84] During the 1970s, the Mexican state had ample access to foreign lending from private transnational banks. It also began to receive high petroleum revenues after the discovery of large oil deposits in Mexico and the oil price shocks of 1973 and 1979. In 1982, net transfers of private foreign lending to Mexico turned negative, where they remained until 1990.[85] Mexican crude oil production also began to level off in 1982. Combined with the 1985–86 fall in world petroleum prices, this led to a sharp decline in state revenues.[86] The Mexican government's deficit increased from approximately 6% of GDP in 1981 to over 14% in 1982. It fell back down to the 7–8% range in 1983–84, before rising again to approximately 13% in 1986 and 1987.[87] The lack of alternative investment resources to raise Mexico's low rates of economic growth left the state vulnerable to the exit strategies of business in the 1980s.

Government leaders also became more sensitive to electoral pressures during the 1980s. Before 1983, no party had successfully challenged PRI rule at any level since its creation in 1929. Beginning in 1983, and increasingly after 1985, the PAN presented a real threat to PRI governance in local and state elections, eventually taking control of several municipalities and governorships before winning the presidency and taking control of the largest number of seats in Congress in 2000. But the greatest threat to PRI dominance in the 1980s came when a group of former PRI politicians led by Cuauhtémoc Cárdenas, the son of former president Lázaro Cárdenas, formed the leftist Democratic National Front (FDN) to compete in the 1988 presidential elections. The official results gave the PRI's Carlos Salinas de Gortari 50.4% of the votes, but only after an alleged late-night computer breakdown that opposition leaders claim the PRI used to steal victory from Cárdenas.

The PRI's response to claims of electoral fraud was a carefully crafted strategy of rapprochement with business and the PAN and combativeness toward the Democratic Revolutionary Party (PRD), which succeeded the FDN in 1989. The PRI began to recognize PAN victories at the local and state levels and in congressional races, in exchange for continued PAN allegiance to the electoral system. Meanwhile, the PRD continued to accuse the PRI of committing fraud in PRD strongholds, including Cárdenas's home state of Michoacán.[88] In addition to recognizing certain PAN victories, the PRI also began to incorporate business leaders into its ranks and run its own business candidates in areas where business was strongest, including the states of Sinaloa, Sonora, Nuevo León and Chihuahua. The government also began to adopt many elements of the PAN's market-oriented economic policy platform. To facilitate this process, state leaders moved aggressively to establish more effective policy alliances with outward oriented business organizations and firms.

The role of business in trade policy. A detailed empirical application of this framework to actual policy outcomes lies beyond the scope of this paper. Such an approach would require a broader explanation that focused on the role of political coalitions in economic policymaking.[89] This section simply traces the evolution of business's role in Mexican trade policy and offers only suggestive evidence of the effectiveness of this participation in affecting policy outcomes. The main goal here is to provide an understanding of the interests, makeup and strategies of business, an influential, though certainly not the only, actor in trade policy.

The role of business in trade policymaking changed significantly from the 1970s to the 1990s. This section contrasts a series of policy episodes to highlight these differences and assess the degree to which shifts in the preferences, makeup and strategies of different elements of the business community affected the role of the private sector in Mexican trade politics. In 1979, President López Portillo negotiated a protocol of accession to the GATT that would lower Mexico's trade barriers to levels consistent with the GATT over a period of several years. In November, the president called for an unprecedented public debate (*consulta pública*) on GATT accession. In March 1980, despite having initially seemed to favor GATT entry, López Portillo declared that Mexico would not join the GATT, citing public opposition and divisions within his own cabinet.

There are various competing explanations for this reversal. Some have argued that the decision reflected societal and cabinet opposition to the move, while others suggest that the increase in oil revenues in 1979–80 brought Mexico out of its balance of payments crisis without having to undergo a painful market opening.[90] With respect to the private sector, business preferences generally leaned toward protectionism. A recessionary international context, the robust state of the domestic economy, and interventionist government policies favored inward looking interests. Small and medium firms gained strength, fixed asset holders predominated, and business strategies were generally non-confrontational. Mexico was also awash in oil revenues and foreign lending, and the dominant position of the PRI was unchallenged electorally. Most businesspeople had little interest in free trade, and only limited access to policymakers. Despite the calling of the public debate, both the protocol of accession and the final decision rested in the hands of the president and his closest advisors. Business participation in trade policy was virtually nonexistent.

Miguel de la Madrid succeeded where López Portillo failed in securing Mexico's entry in the GATT in 1986, but the initial phase of liberalization actually began in 1985. In July of that year, officials from the Bank of Mexico, Mexico's central bank, convinced the president to slash Mexico's non-tariff barriers. This decision was made in conjunction with the input of a small number of financial and banking sector officials within the state and with the support of the World Bank.[91] Business had little voice in the matter, but one of de la Madrid's goals in shifting toward broadly free-market policies was to restore some of the investor confidence that had deteriorated after the 1982 bank nationalization. Business preferences had just begun to move in the direction of free trade and liberalization's business supporters had become somewhat more vocal, but import-competing interests were still strong. Private sector exit was more effective in putting strong pressure on the state, which modified policy partly as an attempt to attract greater investment flows. Business voice had just been initiated and did not yet pose a serious hindrance to the PRI. Few firms or organizations had direct access to policymakers. The role of business in these initial rounds of liberalization was limited, but they set the stage for future episodes that would see business participation increase significantly.

The 1987–88 negotiations for the Economic Solidarity Pact (PSE) marked a critical shift in business trade politics by bringing selected private sector groups into the policymaking process, albeit in an *ad hoc* manner. The pact brought together leaders from the government, business and labor to negotiate a package of policies designed to combat inflation through a series of wage and price controls and the acceleration of trade liberalization.[92] Within business, the balance of forces continued to move in favor of liberal elements, especially after market-oriented government policies, including the 1985 and 1986 trade reforms, began to reshape the internal structure of the private sector.[93]

The international context also became more favorable for exporters as the United States and other developed countries recovered from recession, while opportunities in the crisis-ridden Mexican economy withered. Large firms began to assert their hegemony, domestic capital markets developed, and mobile investment resources assumed a growing share of total assets. The structural dependence of the state remained high, as economic growth lagged, inflation soared, and private investment failed to respond to the conciliatory policies adopted by de la Madrid. Electoral challenges became more troublesome as the 1988 presidential elections approached, especially after the 1987 split of the Cárdenas faction from the PRI. The solution crafted by Salinas and Pedro Aspe, who together directed the state's delegation in the PSE negotiations, was to reach out to a few critical business interests—primarily the large financial–industrial groups that were more likely to favor liberalization—by including them in the peak level negotiations.[94] In summary, business preferences began to shift in favor of free trade, and critical elements within the private sector gained privileged political access to the policymaking process.

The negotiations for the North American Free Trade Agreement represent big business's formal incorporation into the trade policymaking apparatus. In 1990, Jaime Serra, then Minister of Trade and Development (SECOFI), issued an invitation to the leadership of the CCE to organize the business community to consult with government negotiators regarding the NAFTA negotiations. In response to this invitation, the private sector formed the Coordinating Council of Foreign Trade Business Organizations (COECE). COECE brought together the various private sector trade policy interests in one organizational body for the first time. Over time, COECE secured an important role in the negotiations, serving as a forum for business–government consultation before, during and after the negotiations. While COECE was officially open to all, the largest and most internationally integrated firms played the most active and direct roles in the negotiations. Small and medium firms usually relied on the appropriate business organization to represent their interests indirectly.[95]

The NAFTA negotiations represent the high point of business participation in Mexican trade politics, at least for the large, internationally oriented firms. Such firms and organizations had gained strength within the private sector as a result of better economic opportunities abroad, stagnation at home, and the continued effects of earlier market reforms that shifted the balance of forces within business. The degree of concentration in the economy and the power of large private firms rose sharply, while domestic capital markets developed rapidly as they were effectively opened to foreign participation. The capital asset base of the country shifted decisively in favor of more mobile financial and portfolio capital assets. Perhaps most critically, the firms that enjoyed the greatest degree of political access during the NAFTA negotiations were typically those that were able to employ effectively both exit and voice strategies.

One of Mexico's goals with NAFTA was to attract greater investment flows. Government documents and public statements by Salinas, Serra and Mexico's Chief Negotiator, Herminio Blanco, indicate that the government was extremely concerned with attracting these powerful firms' mobile investment resources.[96] With respect to voice, few representatives of these firms had actively participated in electoral politics, but many of them had been involved in efforts to increase the private sector's participation in policymaking through such organizations as the Mexican Business Council for International Affairs (CEMAI). The members of these and similar groups carried through these efforts into COECE after being actively courted by state leaders and given a prominent role in the NAFTA negotiations.

4. Conclusion

The interests, makeup and political access of different segments of the business community help determine their role in trade policymaking. This brief exploration of the Mexican case shows that the trade policy preferences of business in Mexico shifted from the import competing to the export sector over the course of the 1980s and early 1990s. The decisive shift seems to have come after 1985, suggesting that government initiative is crucial in the determination of private sector preferences. The definition and distribution of preferences, however, does not tell us who is likely to gain political access to policymakers. Such access appears to be consistent with different groups' use of pressure strategies and the state's susceptibility to those tactics. Exit became a more effective strategy as large, mobile asset controllers acquired greater weight within the private sector at the same time that the state relied more heavily on private investment. Business also simultaneously pushed for a greater voice in policymaking. State leaders granted such political access preferentially to the large, outward-oriented firms who had gained in strength and whose structural power had increased.

A thorough explanation of trade policy outcomes would have to take into account a host of other factors, especially the role of the state in forging coalitions with business and other actors.[97] Specifically, one would have to examine the balance between free trading and protectionist interests within the state. The institutional configuration of the state is another important variable. For example, the power of the presidency in the Mexican system has ceded policymakers greater autonomy to make policy and to forge winning political alliances with members of the private sector.

This paper aims to help fill an important gap in theories of trade policy making. Existing approaches do not adequately address the crucial role that business plays in trade policy formation and implementation. Traditional economic analysis provides an incomplete vision of business interests. It also does not explain how those interests differ over time or across cases, nor the degree of political access granted to specific groups. More recent theories of macroeconomic and financial policy cannot be imported directly into the study of trade because they are unable to specify trade policy preferences. However, certain aspects of these theories do help us understand why particular groups gain political access while others languish outside the main circles of power. This paper offers an explicitly political framework to understand more fully when and why different segments of the private sector seek to participate in trade policymaking, and why some groups have better political access than others. In a context of political change like that which Mexico and other countries have been undergoing in recent years, the role of pivotal societal actors like business in policymaking will merit closer scrutiny.

Notes

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2. Maxfield (1990); Winters (1996).
3. A broader conceptual and empirical examination can be found in Thacker (forthcoming).
4. Rogowski (1989) draws on Stolper–Samuelson to examine the impact of trade on domestic politics. By contrast, this paper reverses the causal arrow by considering the political determinants of different trade policy preferences based on the predicted economic impact of trade.
5. Magee *et al.* (1989).
6. See Zabludovsky (1990), Sheahan (1997), and Heath (1998).
7. See Milner (1988) and Shafer (1994).
8. Krugman (1986).
9. Maxfield (1990); Winters (1996).
10. Frieden (1991a).
11. Bates and Lien (1985); Winters (1996).
12. Hirschman (1970). For example, an investor could withdraw some of his assets from the economy and simultaneously attempt to influence government policy through voice to protect those that he retains or to encourage the restoration of a profitable and stable domestic market to which he may return the withdrawn assets. Voice can also be useful for communicating preferences, which can be subtle and not always readily interpreted, or to capitalize on a high level of structural power at any given moment over a longer period of time by securing a more direct and active role in the policymaking process that may outlast the initial gain in structural power.
13. Schneider and Maxfield (1997), p. 20.
14. Velasco Arregui (1993).
15. *Ibid*., p. 169. A full 56% of the total 1981–91 increase in national industrial employment is accounted for by the seven states comprising the northern industrial belt.
16. *Ibid*.

17. Alduncin Abitia (1989).
18. Wise (1999), pp. 122–123.
19. Pérez-Motta (1991), cited in Taniura *et al.* (1992), p. 53.
20. Baumann (1994), p. 637; Wise (1999), p. 122.
21. Baumann (1994), p. 652.
22. Busch and Milner (1994), p. 269–271.
23. Wise (1999), p. 123.
24. Hernández Rodríguez (1991); INEGI (1993). Size is determined by production value and income. The share of medium-sized firms was 31.4% in 1975, 33.3% in 1980, and 9.5% in 1988.
25. A list of the top 500 firms in Mexico is published annually by the magazine *Expansión*. Because of some occasional problems with missing data and the fact that the data are self-reported, the *Expansión* data on firms and groups should be interpreted with caution. Less attention should be paid to slight differences from year to year than to the overall trends.
26. Garrido (1993), Table 3.
27. Because he excludes Pemex, the state-owned oil company, Garrido actually works with the top 499 firms. These totals would be higher if they included Pemex, the largest firm in Latin America.
28. International Monetary Fund (1994); *Expansión*, various issues.
29. Garrido (1993), Table 16.
30. *Ibid.*, Table 18.
31. International Monetary Fund (1994); *Expansión*, various issues. My analysis of the *Expansión* data takes only private foreign and domestic firms into consideration. Garrido (1992, 1993) also includes state-owned companies, except Pemex.
32. See, for example, Maxfield (1989a).
33. Rubio (1988), p. 39.
34. *Expansión*, 28 September 1994, pp. 118–120.
35. Frieden (1991b).
36. I do not address the overall international mobility of capital here (see below). This discussion is more concerned with the liquidity of capital assets within a particular country.
37. Hernández Rodríguez (1986).
38. Maxfield (1989a).
39. Elizondo (1993).
40. Bolsa Mexicana de Valores (1993).
41. Banco de México (1993).
42. Maxfield (1989b), p. 80.
43. Maxfield and Nolt (1990).
44. Davis (1992); Maxfield (1989a, 1990); Vega (1991).
45. Bates and Krueger (1993), p. 465.
46. Bazdresch and Elizondo (1993), p. 51.
47. Garrido (1993), p. 36.
48. Bazdresch and Elizondo (1993), p. 52.
49. Puga (1993).
50. *Ibid.*; Bazdresch and Elizondo (1993), p. 59.
51. Davis (1992), p. 25.
52. Pozas (1993); Maxfield (1990).
53. *Ibid*.
54. Garrido and Quintana (1988), p. 50.
55. Garrido (1991), p. 23.
56. Cf. Gil Díaz and Zepeda (1991).
57. Salas-Porras (1992).
58. *Ibid.*, p. 152.
59. *Ibid.*, p. 136.
60. Garrido (1992), p. 57.
61. *Ibid.*, p. 28.
62. To cite just two examples, Carlos Slim of the Grupo Carso, which controls the recently privatized Teléfonos de México (Telmex), and the Banamex-Accival group's Roberto Hernández, who began his career as a stock broker, are among the more prominent and widely known members of this leadership.

63. Hirschman (1986), p. 78.
64. Maxfield (1989a), p. 221.
65. In a follow up to his original theory, Hirschman specifically discusses the use of capital flight as exit. See Hirschman (1981), pp. 253–258.
66. Lustig (1998).
67. Dornbusch (1990).
68. Pfeffermann and Madarassy (1992); International Monetary Fund (1994).
69. See Mizrahi (1992).
70. Schneider (1999).
71. Luna and Tirado (1992).
72. Lustig (1998); Pfeffermann and Madarassy (1992); International Monetary Fund (1994); Maxfield (1989a), p. 230. The gap between capital flight and investment after September 1982 is accounted for mostly by the exchange controls and the ensuing diversion of assets into short-term, highly speculative financial markets.
73. Maxfield (1989a), pp. 227, 229.
74. Hernández Rodríguez (1986), p. 247.
75. *Ibid*., p. 260.
76. Hirschman (1970), p. 30.
77. See Camp (1989).
78. Bravo Mena (1987), p. 99.
79. Loaeza (1992).
80. Heredia (1992).
81. Maxfield (1987).
82. Hernández Rodríguez (1986), p. 262.
83. Note that the marginal *private* utility of investment (that is, to the investor) demonstrates the inverse relationship. As the overall level of economic activity slows, the returns to a new investment project fall due to decreased domestic demand. (I am grateful to John Sheahan for pointing this out.) This accentuates the power shift already underway, as the state becomes more dependent on private investment at precisely the moment when investors become less willing to invest. Investors producing for export, who would benefit from the lower labor costs associated with high levels of domestic unemployment and who produce for a much larger international market, can avoid these problems. The relatively greater willingness of export-oriented interests to invest in the domestic economy also helps explain their greater attractiveness as coalition partners.
84. Winters (1996).
85. World Bank, various years.
86. Jenkins (1989).
87. International Monetary Fund (1994).
88. Pastor (1990).
89. See Thacker (forthcoming).
90. See Story (1982), Mares (1985), Helms (1985), Luna *et al*. (1987), and Escobar Toledo (1987).
91. Cronin (1994); Heredia (1994, 1996).
92. Kaufman *et al*. (1994).
93. Gil Díaz and Zepeda (1991).
94. See Hernández Rodríguez (1990) and Kaufman *et al*. (1994).
95. Thacker (1999).
96. SECOFI (1991, 1993); Arriola (1994); Blanco (1994); Puga (1993).
97. See Thacker (forthcoming).

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