

Privatization of Mexico's public enterprises and the restructuring of the private sector

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PRIVATIZATION OF MEXICO'S PUBLIC ENTERPRISES AND THE RESTRUCTURING OF THE PRIVATE SECTOR

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I. INTRODUCTION

THE decade of the 1980s was of historic significance in the development of Mexico's economy. The economic crisis brought on by the country's external debt problem which surfaced in 1982 compelled the government to abandon its long-standing development strategy. It totally reversed course, swinging 180 degrees away from its strategy of industrialization through import substitution characterized by protected domestic markets, controls on foreign direct investment, and the active participation of government in the economy, and turned to a development strategy based on neo-liberal principles of trade liberalization, the easing of controls on foreign investment, and the wholesale withdrawal of government participation in the economy. Following this complete about-face in economic strategy, the Mexican economy experienced a transformation of unprecedented scale, a process still ongoing today.

This study will focus on the policy of privatizing the public enterprises, which was one part of the Mexican government's new strategy for dealing with its massive deficit. At the same time it will explore the relationship between this policy and the remarkable restructuring of the private sector which took place within the transformation of Mexico's economy during the 1980s. A central part of the examination of this privatization policy is an analysis of the entrepreneurs and investors who acquired the public enterprises and became the prime actors who carried forward the process of privatization. These themes have been selected for examination for the following reasons.

Firstly, the reason for exploring the relationship between privatization and the restructuring of the private sector is because of the extremely close relationship between the privatization of public enterprises and the restructuring of the private sector. As will be seen later in this study, there was an extremely dynamic relationship between the two with private sector restructuring (which began with the nationalization of the banks in 1982) helping to prepare the way for privatization, while at the same time privatization kept pushing along the restructuring of the private sector. Just how important this interaction has been becomes clear particu-

larly when the progress Mexico has made in its privatization program is compared with that of other countries. Mexico stood fourth in the world, behind only England, Germany, and Japan, in the amount of revenues it earned from the sale of public enterprises between 1988 and 1992. Among developing countries it stands far and away at the top [15, p. 15].¹ Thus this author sees the aforementioned dynamic relationship between privatization and the restructuring of the private sector as an important factor for the successful results, even from an international perspective, that Mexico has achieved in its program of privatization.

Secondly, the reason for concentrating analysis on the entrepreneurs and investors who were the prime actors of privatization is because they bring out most clearly the interaction between privatization and the restructuring of the private sector. This study will examine who acquired what enterprises and why, and what the backgrounds of these people were; it will then examine how these people were involved in the overall economic activity of the 1980s. In this way the components of the aforementioned "dynamic relationship" between privatization and restructuring can be exhibited more clearly. Moreover, an analysis of the prime actors of Mexico's privatization process is important for a better understanding of Mexico's economy since going through privatization. Privatization brought about the expansion of the private sector, and entrepreneurs and investors who acquired public enterprises can be expected to play leading roles in this newly expanded private sector. By paying attention to these people, the state of the Mexican economy following privatization can be more clearly understood.

The remainder of this study is composed of the following sections: Section II presents a summary of Mexico's privatization program; Section III examines the entrepreneurs and enterprises that acquired the large-scale public enterprises; Section IV examines the relationship between the privatization process and the restructuring of the private sector while also looking into the backgrounds of the people examined in Section III; and Section V sets forth the conclusions of this study, and the significance of Mexico's privatization program in the restructuring of its private sector.

¹ The author was unable to obtain figures for 1987 or earlier. According to Schwartz and Silva Lopes [15], privatization of public enterprises in developing countries progressed rapidly during the 1988-92 period. The privatization of public enterprises has now become a worldwide trend, but the initial moves in this direction were first taken in England in the early 1980s under the Thatcher government. Thereafter in the mid-1980s, privatization also began to take place in the United States, Japan, and the advanced countries of Europe (see [17]). When seen in relation to this worldwide trend, Mexico had achieved outstanding results in privatization through the sale of public enterprises even prior to 1987, and this was especially true when compared with other developing countries.

II. SUMMARY OF MEXICO'S PRIVATIZATION PROGRAM

Three points of Mexico's privatization program will be summarized in this section: (1) the withdrawal of the federal government from production of goods and services; (2) the effect of privatization on the federal government's financial affairs; and (3) the speed at which privatization was carried out.

A. *The Federal Government's Withdrawal from Productive Activities*

Under its policy of import substitution, the Mexican government had taken an active part in the country's productive activities of goods and services, and public enterprises came to be the primary operators in these fields of business. These enterprises became involved in a vast range of industries which included oil well drilling and refining, mining, electric power, sea food processing, sugar refining, fertilizer production, primary petrochemicals, iron and steel, automobiles, railroads and railroad car manufacturing, telephone operations, airline services, streets and roads, and processing and distribution of basic consumer goods. In some of these businesses public enterprises held a monopoly [16, p. 73] [10, pp. 120–21] [3, pp. 156–74]. Under such economic conditions, privatization brought about profound changes.

Privatization was not formulated as a separate self-contained policy. It was one of the methods undertaken as part of a larger policy for detaching public enterprises from the government. Other methods used were liquidation, termination, integration, and transfer. In 1982 there were 1,155 public enterprises in existence. From that year until March 1989, about 30 per cent of 790 public enterprises that the federal government approved for divestiture were separated through privatization [5, April 24, 1989]. A noteworthy feature of the public enterprises that were subjected to privatization was the large number that were large-scale enterprises. There were two reasons for this. One was the favorable effect that the sale of these enterprises would have on government finances, on government employment policy, and for the assuring of stable production. This made privatization an appealing method for the government to divest itself of public enterprises. The second reason was that many of these large-scale enterprises were leading companies in their respective business sectors, and it was expected that it would be easy to get buyers for these companies. To date most of the enterprises in the fields of business listed in the above paragraph have been privatized and moved over to the private sector. The only exceptions have been oil well drilling and refining and electric power, and there are no plans at present to privatize the businesses in these fields.

B. *Recovery of Federal Government Finances*

Along with the restructuring discussed above, another important objective in the

privatization policy was to stabilize the economy through reduction of the government's debt. After 1982 the government deficit rose sharply due to the fall in revenue from petroleum exports and the increase in the government's debt repayment burden. To repress inflation and stabilize the exchange rate, the government had to reduce its debt. It was expected that the securing of revenues from the sale of the large-scale enterprises and the reduction of expenditures through the shedding the unprofitable enterprises would contribute to reducing the debt, and this expectation was in fact realized.

During the Salinas government, the revenues secured from the sale of public enterprises were deposited in a contingency fund (*fondo de contingencia*). The government stated that from December 1990 to June 1993, a total of 57.5 billion new pesos in revenues from sales were deposited into the contingency fund. When calculated at U.S.\$ 1 = 3,177.56 old pesos which was the average exchange rate on the open market in December 1992, this amount came to around U.S.\$ 18.1 billion. The 57.5 billion figure could be broken down into 38.9 billion new pesos in payment for privatized banks (equal to U.S.\$ 12.2 billion), 14.9 billion new pesos for *Teléfonos de México (TELMEX)* (U.S.\$ 4.7 billion), 1.9 billion new pesos for other enterprises (U.S.\$ 600 million), and 1.9 billion new pesos in revenue from interest (U.S.\$ 600 million) [5, July 24, 1993]. These figures are for only part of the period of the Salinas government and do not include those for the time of the de la Madrid government. Thus it can be presumed that total revenues from privatization rather exceed the 57.5 billion new pesos figure.² Concerning the method of payment, the Mexican government could have used bonds issued for repayment of the public external debt, meaning that it could have capitalized the debt. Argentina took this course and capitalized a huge part of its debt.³ But considering the large amount that has been deposited into Mexico's contingency fund, it would appear that the capitalization of its debt has not been so large. The greater part of the amount held in the contingency fund has been allocated to repaying the principal and interest on the country's domestic and external debt [13, p. 129].

C. *Rapid Advance of Privatization under the Salinas Government*

The policy of divesting public enterprises was implemented from around the mid-1980s, but large-scale public enterprises in particular began to undergo rapid privatization from December 1987. At that time, according to Lustig, it was announced that the sectors where government ownership and control would be retained were petroleum exploration, well drilling, and refining, primary petrochemicals, electric power, railroads, and the distribution of basic foodstuffs; at the same

² For example, the total proceeds just from the sales of Nos. 3, 4, and 8 (*Trigo Industrializado CONASUPO*) in Table I on pp. 40–45, which were carried out from June 1993, came to 4.2 billion new pesos (U.S.\$ 1.3 billion) [5, July 19, 1993] [5, September 20, 1993] [5, October 4, 1993].

³ See [11] [14].

time it was tacitly implied that the government would withdraw from such fields as telephone operations, airline services, iron and steel, transportation equipment, chemicals and fertilizers, mining, and sugar refining [8, p. 107].

The reason for coming out with a plan at this time to broaden divestiture to include large-scale public enterprises was due to the political and economic conditions that prevailed during the latter half of the 1980s. In 1985 international petroleum prices dropped sharply, and in September of that year Mexico suffered a large earthquake; both of these events increased the strain on the federal government's already straitened financial circumstances. Also during that time there was a change in the power balance within the government between the faction pushing for privatization and that advocating a slower more caution approach. The nomination in October 1987 of Salinas, an advocate of privatization, as candidate to be the next president apparently strengthened the influence of the faction promoting privatization.⁴ Yet another factor was the progress in the restructuring of the private sector which came to be the prime actor of the privatization process. As will be shown later, the nationalization of the banks at the start of the 1980s and the boom of investment in securities during the latter half of that decade spurred the restructuring of the private sector and helped in preparing the way for the privatization process. In other words, had there not been the securities boom, the implementation of privatization would have been difficult because of insufficient liquidity on the part of the buyers.

III. ACQUISITIONS OF LARGE-SCALE PUBLIC ENTERPRISES

Table I shows the large-scale public enterprises (excluding banks) that were privatized and the entities that acquired them. The "acquiring entities" shown in the table are the names of the individuals and enterprises that acquired public enterprises as announced by the government. The enterprises put up for acquisition include preexisting enterprises as well as new ones set up specifically for privatization. For the newly established enterprises, the table shows the capital subscribers and subscribing enterprises to the extent that these have been made known; these are shown in the column labeled "primary subscribers or subscribing enterprises in the acquiring entities." Table II shows the banks that have been privatized and the names of the representatives of the individuals or enterprises that made the acquisitions as announced by the government. Subsection A below will discuss the investors that acquired of the large-scale public enterprises, while Subsection B will deal briefly with those that acquired the nationalized banks.

⁴ Salinas, who held the post of Secretary of Programing and Budget in the de la Madrid government, essentially represented the faction promoting privatization, while Francisco Labastida Ochoa, who was Secretary of Energy, Mines and State Industries, represented the faction advocating caution [12, June 2, 1986, p. 10].

A. *Acquisitions of Large-Scale Public Enterprises*

This subsection will begin by examining the importance of foreign investment in the acquisition of Mexico's privatized public enterprises. Among the enterprises listed in Table I, it is possible to ascertain those that were acquired solely by foreign investment. The only acquisitions in this category are: No. 6 where an Indian company (Grupo Caribbean Ispat) acquired a portion of the plants only, No. 8 where a multinational (Unilever) acquired a portion of the plants only, No. 15 where an Australian company (Kelpie Industries de México) acquired one subsidiary only, No. 19 acquired by a Canadian company (Bombardier), No. 27 acquired by two Japanese companies (Kyowa Hakko Kogyo Co. and Sumitomo Corp.) who were already minority shareholders before privatization, and No. 30 acquired by an American company (Grupo Sonoco de México).

With the coming of privatization, a consortium of entrepreneurial investors was organized (which will be noted later), and this group ascertained that the following acquisitions were carried out with the participation of foreign investment: No. 1 with American (South Western Bell) and French (France Cable and Radio) participation, No. 5 with Belgian (Union Miniere) participation, No. 6 with American (Coutinho Caro Co.) participation, No. 11 with Dutch (Hoogovens) and American (Mission Energy Co.) participation, and No. 13 with the participation of an American bank (Chase Manhattan Bank) and an individual investor (James Goldsmith). But in all of these cases, the majority of the subscribed capital was provided by Mexican investors. Thus it can be said that the importance of foreign investment in the acquisition of Mexico's public enterprises has not been very big. This contradicts the claims of Petrazzini who examined a number of acquisitions of privatized Mexican public enterprises and emphasized the importance of foreign investment in these acquisitions. His findings, however, were biased because all four examples, Nos. 1, 13, 19, and 27, that he studied happen to have foreign investment participation [11, pp. 61–66]. From an overall perspective, the overwhelming majority of acquisitions of public enterprises have been by Mexican investors.

There are two reasons why Mexican investors have been the principal buyers of public enterprises. One is that while restrictions on foreign capital participation have been greatly eased when compared with the era before privatization, in some specific industries these restrictions still remain.⁵ This is in contrast with Argentina which has made preferential arrangements for the participation of foreign investors

⁵ The Regulation of the Law Promoting Mexican Investment and Regulating Foreign Investment, promulgated in May 1989, stipulates that (among the industries listed in Table I) no foreign investment is allowed in airline companies, television broadcasting, insurance, or gasoline stations; foreign investment can be up to 34 per cent in coal, iron ore and phosphorus mining and refining; it can be up to 40 per cent in secondary petrochemicals, automobiles and automotive parts; and up to 49 per cent in the fishing industry, copper mining and smelting, and telephone services.

TABLE I
ENTITIES THAT AQUIRED PRIVATIZED LARGE-SCALE PUBLIC ENTERPRISES

No. / Enterprise Names	Field of Activities	Aquiring Entities ^a	Primary Subscribers and Subscribing Enterprises in the Aquiring Entities
1. Teléfonos de México	Telephone operations	Grupo Carso (10.4%) South Western Bell (U.S., 5%) France Cable and Radio (France, 5%) Sindicatos de Telefonistas de Rep. Mex. (4.4%)	Carlos Slim Helu
2. Mexicana de Cobre Mexicana de Acido Surfúrico	Mining Mining	Fomento Indus. del Norte de México	Grupo Industrial Minera México
3. Red Nacional de Televisión Televisión de Chihuahua Cía. Operadora de Teatros Estudios América	TV broadcasting TV broadcasting Movie theaters Movie studios	Grupo Radio Televisora del Centro	Ricardo Salinas Priego Hugo Salinas Rocha Hugo Salinas Price Alberto & Moises Saba
4. Aseguradora Mexicana Aseguradora Hidalgo	Insurance Insurance	Grupo Financiero Mexival-Banpais	Angel Rodríguez Sáez
5. Cía. Minera de Cananea	Mining	Mexicana de Cananea	Grupo Industrial Minera México Union Miniere (Belgium)
6. Siderúrgica Lázaro Cárdenas Las Truchas	Iron and steel	Siderúrgica de Pacífico Grupo Caribbean Ispat (India)	Grupo Villacero Enrique Cimet Coutinho Caro Co. (U.S.)
7. Fertilizantes Mexicanos Unids. Inds. Bajío, Camargo, Minatitlán Unid. Ind. Pajaritos Unid. Ind. Lázaro Cárdenas Unid. Ind. Torreón Unid. Ind. Coatzacoalcos Unid. Ind. Guadalajara	Fertilizer prod.	Sind. de Trab. de la Ind. Quim. Petroquim. Carboquim. Similares y Conexos de la Rep. Mex. CTM Agro Inmuebles, Agrofosfotados, Agronitrogenados, Agroadministración Grupo Empresarial del Bajío Fertirey Servicios y Materiales Industriales de Minatitlán	Industrias Peñoles

TABLE I (Continued)

No. / Enterprise Names	Field of Activities	Aquiring Entities ^a	Primary Subscribers and Subscribing Enterprises in the Aquiring Entities
Unid. Ind. Monclova		Efrain Dávalos Padilla	
Unid. Ind. Salamanca		Nitroamonia de México	
Unid. Ind. Querétaro		Velpol	
		Agrogen, Promotora Inmobiliaria Mérida	
8. CONASUPO			
Trigo Industrializado CONASUPO	Wheat milling		
Leche Industrializado CONASUPO	Milk products		
Unid. Ind. Aguascalientes		Operadora de Lacteos de Aguascalientes	
Unid. Ind. Delicias		Operadora de Lacteos de Delicias	
Industrias CONASUPO	Food processing		
Planta Tultitlán		Unilever (U.K., Holland)	
Planta Monterrey 1		Agroindustrias Integradas del Norte	
Planta Nuevo Laredo, Mexicali		Hidrogenadora Nacional	
Maiz Industrializado CONASUPO	Corn milling	Promotora Empresar. de Occidente (80%)	Grupo Xacur
		Fideicomiso Molinero (10%)	Raymondo Gómez Flores
		Conf. Nac. de Productores Rurales (10%)	
9. Ingenios	Sugar refining		
Calipam, Plan de San Luis,		Consorcio Industrial Escorpión	Enrique Molina Sobrino (Grupo Embotellador Mexicano)
San Cristóbal		Grupo Beta San Miguel	Eneko Belausteguigoiti
Queseria, Ponciano Arriaga,			
Fco. Ameca, Alvaro Obregón		Consorcio Industrial Sucrum	Juan Gallardo Thurlow (Grupo Embotelladoras Unidas)
José Maria Martínez, Lázaro			
Cárdenas, Independencia, El			
Dorado			
Melchor Ocampo, San Sebastian,		Unión de Productores de Cana, CNC	
Santa Clara			
Alianza Popular, Pedernales,		Ingenios Santos	
Puruaran			
Emiliano Zapata		Molienda Industrial Azucarera	Pablo & Israel Brener
San Gabriel Veracruz,		Grupo de Inversionistas de Anermmex	
Cuatotolapam, Plan de Ayala			
Puga		Consorcio Aga	

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TABLE I (Continued)

No. / Enterprise Names	Field of Activities	Aquiring Entities ^a	Primary Subscribers and Subscribing Enterprises in the Aquiring Entities
10. Aeronaves de México	Airline services	Icaro Aerotransportes	Gerardo de Prevoisin Pedro Cerisola Carlos Abedrop Dávila Enrique Robinson Bours Bancomer Aeroméxico pilots labor union
11. Altos Hornos de México	Iron and steel	Grupo Acerero del Norte Grupo Industrial Alfa	Xavier Autrey Alonso Ancira Hoogovens (Holland) Mission Energy Co. (U.S.) Grupo IMSA
12. Consorcio Minero B. J. Peña Colorada	Mining	Grupo Acerero del Norte Grupo Caribbean Ispat	Xavier Autrey Alonso Ancira Hoogovens (Holland) Mission Energy Co. (U.S.) Grupo IMSA
13. Cía. Mexicana de Aviación	Airline services	Grupo Xabre	Pablo & Israel Brener Carlos Abedrop Dávila Chase Manhattan Bank (U.S.) Isaac Becker James Goldsmith Isaac Saba family Erias & Eduardo Sacal
14. Tereftalatos Mexicanos	Petrochemicals	Petrocel	Grupo Industrial Alfa
15. Grupo DINA Plásticos Automotrices	Buses, trucks, & automotive parts	Kelpie Industries de México (Australia)	

TABLE I (Continued)

No. / Enterprise Names	Field of Activities	Aquiring Entities ^a	Primary Subscribers and Subscribing Enterprises in the Aquiring Entities
Motores Perkins Moto Diesel Mexicana Plásticos Automotrices Dina Motores Dina Camiones Dina Autobuses		Workers union of the company Grupo Ruvesa Consortio G Consortio G Consortio G Consortio G	Gómez Flores family Covarrubias Valenzuela family Peña Méndez family Casa de Bolsa Multivalores
16. Mexinox	Metal processing	Ahorroinox	Thyssen (Germany)
17. Grupo Industrial NKS	Metal processing	Promotora de Empresas GM	
18. Minera Real de Angeles Minera Lampazos Química Fluor	Mining Mining Chemicals	Promotora Frisco Empresas Frisco Empresas Frisco	Grupo Carso Grupo Carso Grupo Carso
19. Const. Nac. de Carros de Ferrocarriles	Railroad cars manuf.	Bombardier (Canada)	
20. Petroleos Mexicanos Cía. Operadora de Ext. de Serv. Hules Mexicanos	Gasoline stat. Rubber	Hidrosina DESC, Sociedad de Fomento Industrial	
21. Servicio de Telerreservaciones		Sertel	
22. Cía. Minera Autlán	Mining	Grupo Ferrominero	Serv. Financ. Promot. de Empresas Arzac Grupo Minero B y Regiomet
23. Astilleros Unidos de Veracruz	Ship const.	Sokana Industries	
24. Turboreactores	Service indus.	Corporación Mexicana de Aviación	
25. Tubacero	Mining	Joseph Woldenberg	

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TABLE I (Continued)

No. / Enterprise Names	Field of Activities	Aquiring Entities ^a	Primary Subscribers and Subscribing Enterprises in the Aquiring Entities
26. Productos Pesqueros de Sinaloa Pesquera del Pacífico Product. Pesque. de Matancita Product. Pesque. de Topolobampo	Fishing indus. Fishing indus. Fishing indus. Fishing indus.	Mexabre	Pablo & Israel Brener
27. Fermentaciones Mexicanos	Chemicals	Kyowa Hakko Kogyo Co. (Japan) Sumitomo Corp. (Japan)	
28. Cía. Industrial de Atenquique	Paper manuf.	Grupo Industrial Durango	
29. Rassini Rheen	Automotive parts	Corporación Industrial Sanluis	
30. Manufacturas Gargo	Packing materials	Grupo Sonoco de México (U.S.)	
31. Hoteles el Presidente	Hotel & restaurants	Turnal	Robinson Bour brothers Jeronimo Arango Antonio Gutiérrez Prieto Carlos Abedrop Dávila
32. Algodonera Comercial Mexicana	Distribution	Industria Algodonera Mex. Grupo Algodar	
33. Pescados Industriales de Mazatlán	Fishing indus.	Pescados Industrializados	
34. Tabacos Mexicanos Planta Desvenadora de Tabaco L. Cárdenas	Cigarettes	Tabacos Desvenados	Cigarros La Tabacalera Mexicana (Grupo Carso)
35. Alimentos Balanceados de México Planta Chihuahua	Animal feed	Semillas Agrícolas Balanceadas de México	Isaac Saba Raffoul
36. Alimentos del Fuerte	Food processing		

TABLE I (Continued)

No. / Enterprise Names	Field of Activities	Aquiring Entities ^a	Primary Subscribers and Subscribing Enterprises in the Aquiring Entities
37. Nueva Nacional Textil Manufacturera	Textiles	Confederación de Trabajadores Mexicanos	
38. Torres Mexicanos	Metal processing		
39. Fundiciones de Hierro e Acero	Metal processing		
40. Mecánica Falk	Machinery		
41. Turbinas y Equipos Industriales	Machinery		

Sources: For enterprise names, "Las empresas más importantes de México," *Expansión*: Aug. 21, 1985; Aug. 20, 1986; Aug. 19, 1987; Aug. 17, 1988; Aug. 16, 1989; Aug. 15, 1990; Aug. 21, 1991; and Aug. 19, 1992. The author also added public enterprises which she considered to be important because of their selling price and their importance to the national economy. For information on privatization, (1) [13, pp. 169–99]; (2) *El financiero*: Oct. 30, 1985; July 13, 1987; Aug. 30, Oct. 19 and 24, Nov. 1 and 25, Dec. 7, 1988; Aug. 23, 1989; June 5, Aug. 21, Nov. 4 and 21, Dec. 11, 1990; Apr. 23, Nov. 25 and 26, 1991; May 8, June 25, Aug. 27, Oct. 7 and 16, Dec. 4, 1992; Feb. 11, Mar. 10 and 15, June 10 and 16, July 19, Sept. 20, Oct. 4, 5, and 8, 1993; (3) *Expansión*, Jan. 17, Nov. 7, 1990; (4) Mercamétrica Ediciones, ed., *Industridata empresas grandes 1991* (Mexico City, 1991); (5) Instituto Nacional de Estadística Geografía e Informática, Sistema de Cuentas Nacionales de México, *Cuentas de producción del sector público, 1980–1988* (Mexico City, 1990); and (6) *El mercado de valores*, Feb. 1, 1988.

Notes: 1. The enterprises in the table are the public enterprises ranked in the list of the top 200 enterprises found in "Las empresas más importantes de México," *Expansión*, Aug. 21, 1985–Aug. 19, 1992. The author has also added public enterprises not included in *Expansión*'s list, but which she felt were important public enterprises. Not in the table are enterprises that were subsidiaries of other enterprises but which were not subject to privatization. Conversely, subsidiaries that were not in the list of 200 companies but which were subject to privatization have been put into the table. In cases where an enterprise was not privatized as a unit, but was broken up and its plants privatized separately, the small-scale plants have not been included in the table.

2. Where blank rows appear in the table, the author was unable to obtain the necessary information.

^a The ratio of acquisition and nationality of foreign investor are shown in parentheses.

in its privatization program. The second reason is that Mexican entrepreneurs and investors have had the capacity to cope financially with the challenge of privatization. This point will become clearer below when we examine the characteristics of the Mexican investors who acquired public enterprises.

The Mexican individuals and enterprises that acquired public enterprises can essentially be divided into those already prominent prior to privatization and those that have newly arisen to prominence. Cases where the former were the sole entities making the acquisition were: No. 2, acquired by Grupo Industrial Minera México (IMMSA); No. 7, by Peñoles which acquired a portion of the plants only; No. 9, acquired by Grupo Embotellador Mexicano (GEMEX), Grupo Embotelladoras Unidas (GEUSA), and Aga, all which acquired a portion of the plants only; No. 11, by the Alfa group which acquired some subsidiaries only; No. 14, by Alfa; No. 20, by DESC, Sociedad de Fomento Industrial, S.A. de C.V. (DESC) which acquired a portion of the subsidiaries only; and No. 29, by Sanluis. The entities involved in the above acquisitions represent Mexico's preeminent indigenous business groups. With the exception of No. 29, all acquired public enterprises in sectors connected with each groups established business.

Acquisitions that were carried out by leading enterprises and entrepreneurs in alliance with others were: Nos. 3 and 6 where a portion of the subsidiaries only were acquired, and Nos. 11 and 12 where a portion of the stockholdings only were acquired. The founding family of the discount shop chain, Eléctrika, obtained the assistance of the Saba family in the acquisition of No. 3 [5, July 19, 1993]. The medium-sized iron and steel company, Villacero, formed an alliance with other entrepreneurs involved in the iron and steel industry and with foreign-owned enterprises in the acquisition of No. 6 [5, September 9, 1991] [5, November 25, 1991] [4, December 22, 1992, pp. 78–80]. For Nos. 11 and 12 where a portion of the stockholdings only were acquired, the Autrey family, the founding family of the pharmaceutical company, Casa Autrey, formed a consortium with foreign-owned enterprises involved in iron and steel and with the indigenous business group, Grupo IMSA, to make the acquisition [5, November 25, 1991]. No. 6 was the acquisition of a public enterprise in a sector connected with the purchasers' existing business; Nos. 3, 11, and 12 were acquisitions which took the purchasing entities into new fields of business.

Turning next to a discussion of the acquisitions made by newly-rising entrepreneurs and enterprises, acquisitions where these entities were the sole buyers were: Nos. 4, 9 (a portion of the plants), 18, 26, 34 (a portion of the plants), and 35 (a portion of the plants) were acquired. The purchaser of No. 4, Grupo Financiero Mexival-Banpais, was reorganized after its predecessor, Grupo Financiero Mexival (which was organized around the securities company, Mexival) acquired the Banpais Bank [5, June 18, 1991] [5, November 20, 1993]. A subsidiary of the newly formed Grupo Carso acquired No. 18 and a portion of the plants of No. 34;

the Brener brothers acquired No. 26 and a portion of the plants of No. 9; while the Saba family, already mentioned in connection with No. 3, acquired a portion of the plants of No. 35. The Grupo Carso, Brener brothers, and Saba family not only acquired their public enterprises solely on their own, but they also participated in the consortium of entrepreneurial investors discussed below.

Acquisitions by the consortium of new entrepreneurial investors and enterprises were: Nos. 1, 8 (only Maiz Industrializado CONASUPO; hereafter MICONSA), 10, 13, and 15 (a portion of the subsidiaries only) were acquired. The above-mentioned new group, Carso, was central in the acquisition of No. 1, and as was noted earlier it formed a consortium with an American and a French telephone company [5, December 10, 1990]. Central figures in the acquisition of No. 8 (MICONSA) and No. 15 (a portion of the subsidiaries only) were the Gómez Flores brothers who have their base in the city of Guadalajara in Jalisco State. In the acquisition of MICONSA, a corn milling concern, the brothers formed a consortium with upstream and downstream producers in the industry, the former being a national syndicate of small farmers (Confederación de Productores Rurales) and the latter a syndicate of tortilla producers (Fideicomiso Molinero) [5, October 5, 1993]. In the acquisition of a portion of the subsidiaries of No. 15, the brothers joined up with another leading family in Guadalajara and with Multivalores, a securities company [4, January 17, 1990, p. 48]. The Gómez Flores brothers also went together with Multivalores in the acquisition of Banca Cremi, as will be mentioned later [5, June 24, 1991]. In the acquisition of No. 10, which was an airline company, the former banker Carlos Abedrop Dávila, and other entrepreneurial investors headed by Gerardo de Prevoisin formed a consortium with Bancomer (which was still a nationalized bank at the time) and the airline pilots labor union [4, February 15, 1989, p. 26]. In the acquisition of No. 13, also an airline company, the central figures were the above-mentioned Brener brothers, as well as Carlos Abedrop Dávila and the Chase Manhattan Bank; individual foreign and domestic investors also provided capital subscriptions. The noteworthy feature of acquisitions by new entrepreneurs and enterprises was that they all (with the exceptions of Nos. 4, 18, and 34) were ventures into new fields of business for the acquiring entities. In the case of No. 18, the buyer had been a minority shareholder prior to privatization who then purchased government held shares to become the majority holder. Nos. 4 and 34 were acquisitions in business sectors related to those of the acquiring investors.

B. *Entities That Acquired Banks*

The entities that acquired the eighteen banks shown in Table II can be divided largely into those that are securities companies and financial groups (*grupo financiero*) organized around securities companies and those that do not belong to the above groups. The only exceptions were the acquisitions of Nos. 6, 12, 17, and 18. No. 6 was acquired by the business group led by Roberto González Barrera,

TABLE II
ENTITIES THAT ACQUIRED PRIVATIZED BANKS

No. / Bank Names	Financial Group / Securities Co. to Which Connected	Representatives of Acquiring Entities	Capital Subscribers
1. Banco Nacional de México	Grupo Financiero Banamex-Accival	Roberto Hernández Ramírez Alfredo Harp Helu José Aguilera Medrano	Lorenzo Zambrano, Max Michel, Angel Lozada, Enrique Molina, and others—approx. 9,000 local investors
2. Bancomer	Valores de Monterrey (later became Grupo Financiero Bancomer)	Eugenio Garza Lagüera Eduardo A. Elizondo Lozano Ricardo Guajardo Touche	Alberto Bailleres, Max Michel, José Calderón, Bernardo Elosua, and others—approx. 5,000 local investors
3. Banca Serfin	Grupo Financiero OBSA	Gastón Luken Aguilar Octavio Igartua Araiza	Claudio X. González, Crecencio Ballesteros, Bernardo Garza, Antonio Madero, Prudencio López, and others—approx. 2,000 investors
4. Multibanco Comermex	Grupo Financiero Inverlat	Agustín F. Legorreta Guillermo Sotil Achutegui	Approx. 4,000 investors nationwide
5. Banca Mexicano Somex	Grupo Financiero Invermexico	Carlos Gómez y Gómez Manuel Somoza José Manuel González	Pablo Aramburuzabala, Alberto Santos, Manuel Senderos, and others—approx. 2,000 investors nationwide
6. Banco Mercantil del Norte		Roberto González Barrera Rodolfo Barrera Villareal Alberto Santos de Hoyos	
7. Banco	Grupo Financiero Privado Mexicano Internacional	Antonio del Valle Ruiz Eduardo Berrondo Avalos Blanca del Valle Perochena	More than 1,000 entrepreneurs and investors nationwide
8. Banco del Atlántico	Grupo Financiero GBM-Atlántico	Alonso de Garay Gutiérrez Jorge Rojas Mota Velasco	Enrique Rojas, Jorge Larrea, and approx. 600 other investors in Mexico, D. F. and the states of Nuevo Leon, Jalisco, Chihuahua, Sonora, Tamaulipas, Guanajuato, Morelos; and others—approx. 1,200 local investors
9. Banoro	Estrategía Bursátil (securities co.)	Rodolfo Esquer Lugo Fernando Obregón González Juan Antonio Beltran López	Approx. 600 investors mainly from northwestern Mexico

TABLE II (Continued)

No. / Bank Names	Financial Group / Securities Co. to Which Connected	Representatives of Acquiring Entities	Capital Subscribers
10. Banca Promex	Valores Finamex (securities co.; later became Grupo Financiero Promex Finamex)	Eduardo A. Carrillo Díaz Mauricio López Velasco José Méndez Fabre	Approx. 300 investors
11. Banca Confia	Abaco Casa de Bolsa (securities co.; later became Abaco Grupo Financiero)	Jorge Lankenau Rocha José Maiz Mier Humberto Garza González	Approx. 3,000 investors mainly from Monterrey
12. Banca B.C.H.	(Later became Grupo Financiero BCH)	Carlos Cabal Peniche Manuel Cantarel Méndez	Approx. 3,500 investors mainly from the states of Chiapas, Tabasco, and Campeche
13. Banco del Centro	Multiva Grupo Financiero	Hugo S. Villa Manzo Luis Felipe Cervantes Coste	
14. Banca Cremi	Multivalores (securities co.; later withdrew Multivalores and became Grupo Financiero Cremi)	Hugo S. Villa Manzo Juan A. Covarrubias Valenzuela Omar Raymundo Gómez Flores	Entrepreneurs from Jalisco State
15. Multibanco Mercantil de México	Grupo Financiero Probursa	José Madriaga Lomelín Jorge Martínez Guitrón José Martínez Guitrón	Approx. 3,000 investors nationwide
16. Banpais	Grupo Financiero Mexival	Julio C. Villarreal Guajardo Policarpo Elizondo Gutiérrez Fernando P. del Real Ibáñez	Approx. 200 Jewish investors in Mexico, D. F. and the states of Nuevo Leon and Tamaulipas
17. Banco de Crédito y Servicio	(Later became Grupo Financiero Bancrecer)	Roberto Alcantara Rojas Carlos Mendoza Guadarrama Ruben Goldberg	Approx. 60 investors in Guanajuato State and Mexico, D. F.
18. Banco de Oriente	(Later became Grupo Financiero Margen)	Marcelo Margain Berlanga	Investors in northern and central Mexico

Sources: (1) "Grupo financiero, la gestación," *Expansión*, Jan. 22, 1992; (2) *El financiero*: June 11, June 18, June 24, Aug. 27, Oct. 29, Nov. 19, 1991; Jan. 27, Feb. 11, Apr. 13, Apr. 24, June 15, June 29, July 7, 1992; and (3) [13, pp. 200–204].

owner and director of Maseca, a Monterrey-based business group milling cornflour and producing tortillas [5, June 15, 1992]. No. 12 was acquired by a new business group led by Carlos Cabal Peniche with operations in Tabasco and other southern states [5, November 19, 1991].

The acquiring securities companies and financial groups organized around securities companies can be divided into two groups based on whether or not their heads were bankers before the country's banks were nationalized in 1982. The groups that acquired Nos. 2, 3, 4, 7, and 9 were headed by former bankers: No. 2 was acquired by the banking group that had owned and operated the Banca Serfin until 1982 [7, pp. 142–48]; No. 3, by a consortium formed between part of the banking group that had owned and operated the Banco Nacional de México (Banamex) and the banking group that had owned and operated Banpais [7, pp. 148–53]; No. 4, by the other part of banking group that had owned and operated the Banamex; and No. 7, by the banking group that had owned and operated Banco de Crédito y Servicio (BANCRESER) [5, September 17, 1990] [4, December 19, 1992, p. 398]. The acquisition of banks other than those listed above were for the most part undertaken by entrepreneurial and investor groups led by new entrepreneurs who arose from the securities business.

The above presentation provides an overview of the individuals and enterprises that bought up Mexico's major public enterprises. The next section will take a closer look at the backgrounds of these buyers and relate them to the overall movement of the Mexican economy in the 1980s. In this way we can study the interaction that took place between privatization and the restructuring of the private sector.

IV. PRIVATIZATION AND THE RESTRUCTURING OF THE PRIVATE SECTOR

From the examination presented in the above section, it can be seen that the entities that acquired public enterprises can be divided largely into two categories. One is made up of enterprises and entrepreneurs prominent before privatization and which formed the core of indigenous business groups; also in this category are entrepreneur groups that owned and operated banks prior to nationalization. These entities grew up under Mexico's policy of import substitution and became important players supporting this policy. The other category is made up of new entrepreneurs and enterprises that arose during the restructuring of the private sector in the 1980s.⁶ The remainder of this section will for the most part examine the former bankers and banking groups and the new entrepreneurs and enterprises in the second category.

⁶ This author has already dealt with the indigenous groups in the first category in another study which examined their makeup and the factors promoting their growth (see [6]), and these will not be dealt with here.

A. *The Rise of New Entrepreneurial Forces*

The new entrepreneurs and enterprises that rose to prominence during the 1980s fall into two groups. One is made up of those that arose during the early and mid-1980s and used privatization as an opportunity to further enhance their position. The other group comprises new entrepreneurs and enterprises that took the opportunity offered by privatization itself to rise to eminence. Examples in the first group are (1) the business group, Carso, (2) the Brener brothers, and (3) entrepreneurs who rose up in the securities business and came to head a financial group. Examples from the second group are the Gómez Flores brothers and Carlos Cabal Peniche.

1. *Acquisitions that took advantage of bank nationalization and the securities boom*

We will first look at the rise of entrepreneurs and enterprises in the first group. Two prominent events in the history of Mexico's economy were instrumental in their rise. One was the nationalization of the banks in the early 1980s, and the other was the securities investment boom during the latter half of the 1980s. The first group of entrepreneurs and enterprises were those that rose to prominence by skillfully using the opportunities produced by these two events.

In 1982 the government nationalized the private banks in an effort to prevent the country's external debt problem from destabilizing the economy. Soon after nationalization, the government paid large compensations to the old stockholders while simultaneously selling shares in the enterprises that were affiliated with the newly nationalized banks. Many of these affiliated enterprises were among Mexico's leading companies, and the sale of shares in these enterprises brought about a substantial shift in the makeup of their ownership. Many of the investors who had previously held shares in the big banks used their compensation payments to buy back the securities companies and other financial institutions that had been affiliated with the banks. They shifted the center of action over to the securities exchange market which the government had been seeking to nurture and strengthen. The banking groups that have used the latest reprivatization program to reacquire banks were these former holders of banking shares who were instrumental in bringing on the 1980s securities investment boom and making the stock market a central player in the Mexican economy. Some of these former bankers have joined up as investors with newly influential entrepreneurs and their business groups and now take part in their business operations.

By joining former banking groups, the securities business sector gained new strength, and during the latter half of the 1980s this sector experienced an unprec-

edented business boom.⁷ This boom was caused in part by the enormous quantity of bonds which, as already noted, were issued by the government to finance its swelling deficit. It was also fueled by the huge amount of capital that flowed into the stock market. This was money that flowed back into Mexico after fleeing abroad during the first half of the 1980s, or which had been deposited in banks until their nationalization, or surplus capital held by companies which saw no other attractive investment opportunities because of the depressed economy [9, p. 514]. Both the government's enormous bond issue and the huge inflow of capital were products of the economic crisis brought on by the country's external debt problem, and in this sense the securities boom was the offspring of Mexico's economic crisis.

The entrepreneurs and enterprises in the first group were those that grabbed the opportunities offered by bank nationalization and the securities boom. Nationalization altered the ownership structure of large-scale enterprises, and the securities boom opened the way for new entrepreneurs to acquire these enterprises and to bring in former bank shareholders as investors. The new entrepreneurs and enterprises in the first group reaped enormous profits on their stock investments which led to their quick growth and rapid rise to prominence. Two examples which will be described below are the business group, Carso, and Grupo Financiero Banamex-Accival.

Carso is a holding company set up in 1980. Immediately from the time it was set up, it began buying up one after another large-scale manufacturing and commercial enterprises listed on the Mexican Stock Exchange, and within a short period of time the company grew into one of Mexico's leading business groups.⁸ This aggressive purchasing of companies earned Carso's president, Carlos Slim Helu, the nickname, "the genius of takeovers" [4, October 14, 1992, p. 184].

The nationalization of the banks and the securities investment boom during the 1980s were instrumental in Carso's rapid growth. Major shareholders in the old banks are now investors in Carso. One example is the Cosío Ariño brothers, who were the top stockholders in Banamex before its nationalization and who were also large shareholders in Bancomer. They now frequently turn up as *consejero* (board of director members) for Carso subsidiaries. One of Carso's subsidiaries, Seguros

⁷ Taking the rate of transactions on the stock exchange in 1984 as 100, these rose to 101 in 1985, 146 in 1986, 230 in 1987, 475 in 1988, and 480 in 1989 (calculated at 1978 prices), indicating the explosive growth the securities market experienced [7, p. 158].

⁸ The purchased enterprises (and the dates of purchase) were as follows: Cigarros La Tabacalera Mexicana (date unknown), Artes Gráficas Unidas (1984), Seguros de México (1984 and 1985), Sanborn Hermanos (1985), Industrias Nacobre (1985), Porcelanite (1985), Fábricas de Papel Loreto y Peña Pobre (1985 or 1986), Bicicletas de México (1986 or 1987), Empresas Frisco (1987), Cía. Hulera Euzkadi (1989), and Grupo Condumex (1992). Dates of purchase determined from [5, July 7, 1991] [5, July 28, 1992] [4, May 29, 1985, p.27] as well as from the subsidiaries' major shareholders (1976-79) and from changes in the composition of the boards of directors. The major shareholders in the subsidiaries and the composition of their boards of directors are shown in [1, various issues] (for dates up to 1985) and [2, various issues] (for dates from 1986).

de México, originally was named Seguros Bancomer, and had been a Bancomer subsidiary. Another Carso subsidiary, Empresa Frisco, also had once been under Bancomer. Both of these subsidiaries were repurchased by Julio Espinosa Iglesias, Bancomer's top stockholder until nationalization. He financed his repurchases using the compensation money he had received from the government, then later sold both companies to Carso [4, May 29, 1985, p. 184]. Thus Carso has in part inherited the investors and businesses of Bancomer.

The parent organization at the center of the Carso group is the securities company, Inversora Bursátil, and it was this company that reaped the benefits of the 1980s securities investment boom. Like the entrepreneurs who lead the other newly prominent financial groups, Carlos Slim Helu emerged from the securities world [5, June 22, 1990]. He is the cousin of Alfredo Harp Helu, one of the heads of Grupo Financiero Banamex-Accival, the other example of a fast-growing enterprise which we will now turn to.

Like Carso, Grupo Financiero Banamex-Accival is organized around a securities company, Acciones y Valores de México (Accival), which was set up in 1971. At the time Banamex was acquired, the group was made up of seven currency exchange and investment companies. The group is presently headed by Roberto Hernández Ramírez and Alfredo Harp Helu, both of whom have long been active in the securities business [4, January 22, 1992, pp. 33–34]. Both Hernández and Harp have served as president of the Mexican Stock Exchange, the former from 1974 to 1979 and the latter from 1988 to 1990.

An important factor for Accival's rapid growth, and particularly for its ability to acquire Banamex, Mexico's largest bank, was the securities investment boom. The boom brought the group huge returns on its stock transactions which was evident from the phenomenal growth in Accival's net profits after 1986 [7, p. 141]. There can be little doubt that this inflow of money was one source for the capital used to acquire Banamex. The securities investment boom also greatly increased Accival's ability to procure capital. A massive volume of foreign and domestic funds flowed into the stock market, and it was the securities companies that were the channel to this market. If investors did not have enough capital of their own for acquisitions, they only had to tie up with numerous other investors in the market to be able to procure the huge sums of money needed.⁹ The reasons for Accival's remarkable rise among the many securities companies were its business performance and the outstanding abilities of its management.¹⁰

⁹ Lorenzo Zambrano, head of Mexico's largest cement company Cementos Mexicanos, Max Michel, head of the major department store Liverpool, and Enrique Molina, head of the big soft drink producer GEMEX (whose names are in the column under "capital subscribers" in Table II) are representative of Mexico's entrepreneurial class.

¹⁰ The economics journal, *Expansión*, selects a "Man of Expansion" each year based on its assessment of an entrepreneur's activities. Hernández and Harp were selected as the "Men of Expansion" for 1992 based on their acquisition of Banamex. One of the reasons for their selection was their "superb ability at integrating widespread investor groups" [4, January 22, 1992, p. 34].

Like Carso and Accival, the Brener brothers are another example of entrepreneurs who acquired public enterprises and rose to prominence through their skillful handling of business opportunities produced by the new ownership arrangements that followed nationalization of the banks and the securities boom. As shown in Table I, the brothers are investors in Nos. 9, 13, and 26. They began their careers in the beef processing business. In the 1980s they sold this business to the Alfa group, and used the money they gained from the sale to buy up a number of other companies, one of which was the securities company, Comercial Casa de Bolsa. The brothers are speculator-type entrepreneurs who profit from the buying and selling of enterprises, and most of the companies they purchase they later sell, including their securities company which they sold in 1991 [4, April 12, 1989, pp. 28–29] [5, February 8, 1993].

Another example is the Autrey family. As owners of the pharmaceutical company, Casa Autrey, the family is not a newcomer to the entrepreneurial world, but they used the opportunity of the securities investment boom to rapidly move ahead in their business. The family began to diversify its business interests in a step to overcome the government's price controls on pharmaceuticals. In 1984 it purchased the securities company, Casa de Bolsa Bancomer, a subsidiary of Bancomer, and renamed it Casa de Bolsa México. Then in February 1992 the family cooperated with Grupo Financiero Inverlat in a capital subscription when the latter acquired Multibanco Comermex.

2. *Entrepreneurs and enterprises that took advantage of privatization itself*

Looking at entrepreneurs and enterprises that used the privatization process itself as their opportunity to rise to prominence, there are the examples of the Gómez Flores brothers and Carlos Cabal Peniche. The former acquired No. 8 (MICONSA) and No. 15 (four subsidiaries) shown in Table I, and No. 14 in Table II. In addition to these, the brothers also participated in the bidding for a mass media public enterprise that took place in July 1993, but their bid was unsuccessful [5, July 19, 1993]. Cabal Peniche acquired No. 12 in Table II.

The Gómez Flores brothers and Cabal Peniche have many points in common. For instance, when submitting bids, both have joined forces with other entrepreneurs. In the case of the Gómez Flores brothers, however, they ended up with controlling rights in all three of their acquired companies. In their acquisition of No. 8 in Table I, they put up 80 per cent of the capital subscription; in No. 15 they bought up all of the shares from their cooperating partners following the acquisition [4, March 17, 1993, p. 78]; and with No. 14 in Table II, their collaborator, Multivalores, pulled out of the acquisition. For Cabal Peniche, collaboration has been with entrepreneurs in his home base of Tabasco and the other states in southern Mexico.

Another similarity is that by acquiring a public enterprise, both the Gómez

Flores brothers and Cabal Peniche have succeeded in acquiring the status of prominent businessmen virtually over night. There is very little information about the background of all these men. It is said about the Gómez Flores brothers that they acquired their wealth from housing construction for the general public and from large-scale tract housing and industrial park development in Jalisco State [4, September 17, 1993, p. 76]. Cabal Peniche is said to have run a business cultivating, exporting, and processing bananas in the southern Mexican states of Tabasco, Campeche, and Chiapas [5, October 14, 1991] [5, November 19, 1991]. But there is no way that these obscure regional entrepreneurs could have raised on their own the enormous amounts of capital needed for their acquisitions. Thus one would have to suspect that large influential investors have provided financial backing. Related to this point is a third similarity in the close connections the brothers and Cabal Peniche have with powerful political figures in the ruling party, and which the newspapers and other media frequently report on [12, March 22, 1993, p. 12] [12, March 29, 1993, p. 14]. In this regard, however, they are not alone, as this can be said about all of the businessmen and financiers who have acquired public enterprises.

Another interesting point about the Gómez Flores brothers and Cabal Peniche is that following their public enterprise acquisitions, the two sides came together in a joint business undertaking. In August 1992 Cabal Peniche brought together about 300 investors and bought up Del Monte Fresh Foods, a fresh fruit and vegetable subsidiary owned by Del Monte of the United States, for U.S.\$ 560 million. The Gómez Flores brothers were among the capital subscribers who participated in this venture [12, February 22, 1993, p. 13] [12, March 29, 1993, p. 14]. Then in August 1993 the two sides announced that arrangements had been worked out for the merger of the Gómez Flores brothers' Banca Cremi and Cabal Peniche's Banca B.C.H. (renamed the Banco Unión in 1993). However, Cabal Peniche was later accused of involvement in illegal lending, and the merger failed to materialize.¹¹

As can be seen from the above discussion, privatization produced major opportunities that opened the way for the rise of new entrepreneurial forces. In the next part of this section we will look at the impact on private sector restructuring where privatization opened the way for these new entrepreneurial forces to join the leadership ranks of the private sector. For businessmen and bankers already established within the leadership, privatization opened the way to further power and wealth because it brought splendid opportunities for entering new business fields and restructuring old businesses.

¹¹ In September 1994, Carlos Cabal Peniche was indicted on suspicion of having illegally provided a large amount of financing to himself from Banca Unión using numerous ghost companies and rented names [4, October 26, 1994, p. 44].

B. *Business Restructuring by Established Entrepreneurial Entities*

1. *Entry into new business fields*

Entrepreneurs and enterprises already well established in their particular fields took advantage of privatization to enter new fields of business. Among indigenous business groups, notable examples were Sanluis, Eléctrika, and Maseca. Sanluis was a business group specializing in mining, but at the start of the 1980s it began to diversify its business operations. As part of this effort, it acquired a public enterprise in October 1988 that was involved in automotive parts manufacturing [4, June 10, 1992, p. 85]. Eléctrika is a discount store chain set up in 1950 by Hugo Salinas Rocha, a member of the Salinas Rocha family which controls the commercial business group, Salinas y Rocha. In July 1993 this family acquired a mass media public enterprise. Another member of this family, Jorge Lankenau Rocha, is owner and director of the securities company, Abaco Casa de Bolsa, which acquired bank No. 11 in Table II. The privatization program contributed greatly to the expansion of the Salinas Rocha family's business operations. Grupo Industrial Maseca, headed by Roberto González Barrera, is Mexico's largest corn miller and tortilla producer [4, September 30, 1992, p. 48]. In 1992 this group acquired bank No. 6 shown in Table II.

2. *Restructuring of established enterprises*

Many enterprises used the opportunity of the privatization program to restructure and strengthen their business operations. Examples which will be looked at here were IMMSA, DESC, Alfa, GEMEX, and GEUSA.

IMMSA, an indigenous business group involved in mining, acquired two public enterprises important in the copper mining business. These acquisitions gave IMMSA control over 95 per cent of Mexico's total copper production, giving the group a virtual monopoly in the industry. The business group DESC had a subsidiary, Negro de Humos de México, which along with the public enterprise, Hules Mexicanos, formed a duopoly producing all of Mexico's carbon black, used in rubberized reinforcing fillers. With the coming of privatization, DESC's subsidiary acquired the public enterprise which gave Negro de Humos de México a monopoly over the production of this product. A similar situation came about in the production of terephthalic acid, used in synthetic fibers. The public enterprise, Tereftalatos Mexicanos, together with Petrocel, a subsidiary of the Alfa group, maintained a duopoly in the production of this acid. Following introduction of the privatization program, Petrocel acquired its public enterprise competitor which gave Alfa a monopoly in the business [5, July 7, 1992]. At the same time Alfa also strengthened its position in the iron and steel sector where its subsidiary, Hylsa, acquired a subsidiary belonging to Altos Hornos de México, a public enterprise operating in the iron and steel industry.

Another reason indigenous business groups acquired public enterprises was to promote vertical integration and thereby strengthen their position in industries where they already operated. Examples of this were business groups working in the soft drinks industry which acquired sugar refineries for the production of raw sugar. GEMEX, which holds a franchise from the PepsiCo, Inc. of the United States, is the largest producer of Pepsi cola in Mexico. Including the three sugar refineries shown under No. 9 in Table I, GEMEX acquired a total of six refineries through privatization. It then bought up another four refineries from the Brener brothers which they had earlier acquired through privatization. The acquisition of these ten refineries gave GEMEX control of about one quarter of Mexico's total sugar production [5, July 19, 1993]. In addition to its sugar refinery acquisitions, in 1985 GEMEX also acquired Garci-Crespo, a public enterprise operating in the soft drinks industry. This acquisition included all of the latter's affiliates [4, June 10, 1992, p. 61]. GEUSA and Aga are two other examples of business groups in the soft drinks sector that acquired sugar refineries.

C. *The Restructuring of New Enterprises Following Privatization*

Privatization of Mexico's major public enterprises has been accomplished, and the lineup of businessmen and companies within the leadership of the private sector has largely taken form. But this lineup remains unstable, especially among the newly arisen enterprises where restructuring continues to take place, and it is apparent that more time will be needed before the final makeup of this leadership is determined.

This final section will deal with the restructuring that the newly arisen enterprises have been going through since the completion of privatization. The examples that will be looked at are: the tie-up between Aeroméxico and Mexicana de Aviación in the airline service business, the merger of Banco Mercantil del Norte with the securities company Casa de Bolsa Afin, the merger of Banoro with BANCRESER, and the purchase of an Alfa group subsidiary by Grupo Industrial Durango in the paper manufacturing industry.

The situation for Aeroméxico and Mexicana de Aviación was one where two entrepreneurs joined forces to acquire the airline companies, then after the acquisitions they carried out a stock swap which in effect brought the two companies under a single management. This managerial tie-up between the two owners has given them control over three quarters of Mexico's airline service industry [5, March 15, 1993].¹² Agreement for the merger of Banco Mercantil del Norte and

¹² Due largely to the slump in the airline business after the Persian Gulf War, the business tie-up between the two airlines did not produce good results in the way of profits, and following the tie-up, Mexicana's losses actually increased. This problem was connected with the indictment of Gerardo de Prevoisin, a promoter of the tie-up, on suspicion of having illegally used money belonging to Mexicana.

Casa de Bolsa Afín was reached in July 1993. The former had been acquired by Roberto González Barrera, an industrialist in the manufacturing sector, who wanted to set up a financial group and make a genuine move into the financing business but could not because he had no securities company under his control. The merger of his bank with Afín made it possible for him to organize a financial group [5, July 9, 1993]. The merger between Banoro and BANCRESER was agreed upon in August 1993 [5, July 9, 1993]. Grupo Industrial Durango, which had earlier acquired the paper manufacturer Cía. Industrial de Atentique through the privatization program, bought up the Alfa subsidiary, Empaques de Carton Titan, a corrugated box manufacturer, in December 1993. Durango's aim in purchasing this subsidiary was to have a secure buyer for its earlier acquisition's production of raw materials for the manufacture of cardboard boxes. Capital for financing the purchase came from foreign as well as domestic banks [4, February 16, 1994, p. 42].

The ultimate result of restructuring, whether carried out by the newly prominent or the long-established enterprises, was the further concentration of production. This process is still continuing today.

V. CONCLUSION

This study examined the privatization of Mexico's public enterprises in its relationship to the restructuring of the private sector during the 1980s. This examination showed that private sector restructuring resulted in the expansion of the private sector, the entry of new entrepreneurs and their business groups into the leadership ranks of the private sector, and the restructuring of both new and old businesses together with an increase in industrial concentration. This relationship between private sector restructuring and privatization was an extremely dynamic one with private sector restructuring preparing the way for privatization while privatization worked to push along private sector restructuring.

The first side of this relationship—private sector restructuring preparing the way for privatization—can be summarized as follows.

(1) The entry of new entrepreneurial forces into the leadership ranks of the private sector from the beginning until the mid-1980s played a part in expanding the ranks of the entrepreneurs and business groups that became the prime actors who later carried out the government's privatization program. Important springboards that propelled these new entrepreneurial forces to prominence were the nationalization of the banks and the securities investment boom, and in this sense these new forces were the offspring of Mexico's economic crisis.

(2) In parallel with the rise of new entrepreneurial forces, former bankers during the same period were being compelled to restructure their businesses because of bank nationalization. This restructuring was instrumental in further expanding the entrepreneurial ranks that carried out privatization. Some of these former bankers

shifted their focus of business activity over to the securities exchange market. Other ex-bankers allied themselves with newly rising entrepreneurs and their expanding business groups. In both cases these former bankers became part of the entrepreneurial ranks that carried forward the privatization program.

Looking next at the other side of the relationship—privatization worked to push along private sector restructuring—this can be summarized as follows.

(1) Privatization ipso facto means expansion of the private sector.

(2) Privatization itself became the opportunity for new entrepreneurial forces to rise to prominence. This has enabled them to enter the ranks of leadership in the private sector. The important factors for their rise into these ranks were again the nationalization of the banks and the securities investment boom. To acquire public enterprises, an enormous amount of capital was required, and this requirement spurred the widespread use of alliances among entrepreneurs and efforts to raise capital subscriptions from investors. Nationalization of the banks and the securities boom upset the established framework of relationships that had existed between entrepreneurs and their enterprises and among entrepreneurs themselves, and this unstable state made it easier to organize new entrepreneurial alliances. These alliances were the mechanism that made it possible for new entrepreneurs and their business groups to participate in the privatization process, and which led to their rise as new entrepreneurial forces in the Mexican economy.

(3) Privatization brought the opportunity for both old and new entrepreneurs to restructure their businesses. The long-established business groups restructured and strengthened their preexisting business operations and at the same time ventured into new business fields. Meanwhile, many of the newly established entrepreneurs have restructured through mergers, a process which is still ongoing. This restructuring by both groups has brought about greater industrial concentration within Mexico's private sector.

As mentioned in the Introduction of this study, Mexico's privatization policy has been highly successful even from an international perspective. The observations presented in this study suggest that the achievement of this success was due to the excellent dovetailing that took place between the speed and the composition of restructuring in Mexico's private sector and those in privatization. One could go further and say that this fortunate situation made the success of Mexico's privatization program possible.

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