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Chapter 8

Globalization and Re-Commodification in Mexico

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1. Introduction

Rather than a singular condition, each and all processes associated with globalization are presented in complex webs and networks evolving in a structuration fashion. That is, product of both individual actions of, and cumulative interactions among a myriad of agencies and institutions. For its spatio-temporal interconnectedness of flows, the economic agenda is socially constructed and organizationally evident in institutions, stratification and interactions (Held et al., 1999).

Clearly for a term that lacks precise definition, there is a need to restore agency to a process without a subject and politics to a logic of economic compulsion, where the persistence of national variations contributes to demystify a fuzzy idea and a vague cliché of our times (Hay, 2000 and 2002a; Hay and Marsh, 2000). Such is the starting line of the endeavour attempted in the present essay.

Globalization economic imperatives are never independent or isolated from the context within which they become operative. Socially embedded, they interact with economic and social agencies and structures, continuously reshaping the features of social processes. Polanyi's fictitious commodities, namely land, labour and money form part of the socially embedded economic system. It is only by performing their commodity function, that all become key to the operation of the allegedly ´self-adjusting' and ´self-regulating' markets. Hence, fictitious commodities undergo a process of commodification. Nevertheless, such commodification practices, processes and experiences are never free of concern for the conservation of man, nature and the productive organization (Polanyi, 1944).

It is to that goal that multiple and diverse efforts of social protection have been implemented by governments exercising their regulatory capacities throughout the world, particularly after the II World War. Yet, most of them feature incomplete, segmented and fractured practices of formal social security at best. Often, national and sub-national populations are targeted by social protection programs that are far distant of what a Welfare State ought to

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be. Decommodification aims granting protection form the market to the fictitious commodities, particularly labour and land. Welfare policies and programs in advanced economies have worked relatively better, albeit never exempt of controversies and problems, whereas, for the rest of the world, provision of social security ranges from inexistent to poor, incomplete, segmented and unsatisfactory.

Whenever a person is capable of maintaining a livelihood without reliance on the market, s/he has been decommodified (Esping-Andersen, 1990). However there is no guarantee that such status will permanently hold. In case of reversal, that is re-entering the market, making use of her/his personal freedom to offer her/his labour power, relying on the market for making a living, such a person has voluntarily or not, returned to the fictitious commodity status. Thus, a re-commodification process has taken place (Cuadra-Montiel, 2011).

It is the argument of this chapter that the governmental emphasis on the re-commodification experience of economic restructuring has left an imprint on the processes of social change in contemporary Mexico. The narrow concern for globalization economic imperatives and 'fundamentals' has contributed towards rising levels of inequality and has also worsened income distribution. According to a study of the World Bank on well-being and poverty in the country, despite some progress in dimensions such as access to basic services, other dimensions such as the income of the poorest remains widespread and has not improved (2004).[1]

Herein, I stress causal relations, and identify tendencies and countertendencies. The argument presented here opens with a discussion of the influence of neoclassical economic orthodoxy in the process of economic restructuring. Next, I highlight important characteristics of the re-designed Mexican economic agenda, such as the lowering regulatory frameworks for land tenure and foreign investment, fiscal reform, the privatization of public firms and trade liberalization. Even though the outward oriented model is relatively consistent in its own terms, it falls far short of taking into account the socially embedded character of economic activities, as it has an uneven social impact. Growing patterns of inequality have been a very high price to pay for the economic transformation of Mexico. For the study of this phenomenon, special attention is devoted to the weak institutional links which characterize the leading manufacturing activities and sectors in the Mexican economy. The neglect of the domestic market has not helped endogenous growth conditions, at a time when economic linkages between outwardly oriented firms and domestic enterprises are further weakening. Creative and innovative pushes have lacked strength and consistency to deliver equitable growth. On top of this, the destructive momentum seems to be much stronger than the creative one, delivering a social legacy of uneven income distribution and polarization.

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[1] There is growing recognition that poverty is also associated with inequality. Furthermore, acknowledgement that poverty does not only refer to low incomes, but that it has some other dimensions including human capacities, where education and health are particularly relevant. In addition, access to infrastructure, vulnerability and social status are also important. Following Amartya Sen's *Inequality Reexamined* and *Development as Freedom*, the World Bank argues that if these factors give a person the freedom and capability to choose a life of his/her choosing, this person can enjoy and develop his/her well being (World Bank, 2004).

Estimates of income distribution in Mexico during the last three decades vary due to different methodologies, but nevertheless, they show evident patterns of inequality. For instance, the Economic Commission for Latin America and the Caribbean reports that the poorest two quintiles of Mexicans in 1984 shared 7.9 % of income in urban households, while the richest two quintiles owned 41.2 %. By the year 2000 the situation had worsened as the poorest two quintiles reduced their share to 6.7 %, while the richest two quintiles increased theirs to 49 % (Economic Commission for Latin America and the Caribbean, 2002 Statistical Yearbook for Latin America and the Caribbean). Some authors make use of adjustment factors for their own estimates in order to correct underreporting of data. One researcher argues that in 1984 42.5 % of the population were considered to live in poverty. Twelve years later the poverty had reached 52.8 % of Mexicans (Calva, 2000). Another author found that the lowest two deciles of the population in 1984 shared 4.8 % of total income in Mexico, but 4.7 % in 1996, whereas the highest two deciles increased their share from 49.5 % to 53.7 % during the same years (Dussel Peters, 2000). The Gini coefficient is an inequality index which increases if the income distribution becomes more skewed. A third researcher reports a Gini coefficient of 58.2 in 1984, and 58.9 in 1992 (Lustig, 1998). According to the World Bank's report *Poverty in Mexico*, the Gini coefficient was 53 in 1992, 52 in 1996, 54 in 2000 and 51 in 2002. This financial organization also reports that during 2000 the share of the top decile in total income was 43.1%, whereas the share of the bottom two deciles in total income was only 3.1% (World Bank, 2004).

The praised process of economic transformation undertaken by the Mexican government, even though it was consistently presented in its own terms, failed to address its own social impact, as insufficient attention was given to redistributive policies. The agenda, however, was not purely economically driven and aimed for increased efficiency. Political concerns and the targeting of specific constituencies were presented in a technocratic discourse of inevitability, de-politicizing the processes, and insulating them from public participation and scrutiny. Moreover, it was implemented vertically from the top of the government's hierarchies, down to the different sectors of society.

Contrary to the conventional wisdom, which argues that financial liberalization in emerging economies was a consequence of international trends, Mexico's experience does not match that pattern. Nevertheless, this is not the same thing as saying that agents such as the International Monetary Fund, the World Bank, or the US government dictated the whole economic script to the Mexican government. Even during the late 1980s, after following orthodox adjustment programmes which proved insufficient for the recovery of the Mexican economy, the government opted for a heterodox plan in which orthodox recommendations and schedules were not followed (Minushkin, 2001, and 2002). Moreover, since the goals were not altered, and were even enhanced, the use of alternative means did not oppose the consensual view of what the economic restructuring programme for this particular case should be.

The improvement in aggregate macroeconomic indicators was presented as evidence of stabilization and a proper investment environment. Yet, the 1994 crisis made evident the weaknesses of the instrumentation and political management of the economic strategy. The heavy reliance on short term financial instruments proved catastrophic because it increased the vulnerability of the economy to the attraction of financial capital inflows; which, combined with financial mismanagement, ended up in the worst economic crisis in Mexican history (Lustig, 1998; Edwards, 1998; Weintraub, 2000). What follows is an informed critique, of the process of economic restructuring in this country since the late 1970s and early 1980s.

2. Re-commodification, or the redesign of the Mexican economic agenda

Even though the theoretical emphasis of this chapter is placed on economic actors such as firms, this does not exclude other agents, because economic activities are socially embedded. The strategically selective globalization context is, therefore, fundamental to analyze processes of change such as that undertaken here. I do not offer, however, a deterministic account, since I also acknowledge the agencies' capacity to influence the conditions which surround them.

The role ideas play is of immense importance here (Hay, 2002a, 2002b, and 2000b; Watson, 2003, and 2000). Ideas such as the liberalization of trade and investment flows, privatization of public enterprises, lowering regulatory frameworks and fiscal reforms have had real material impact in several different latitudes. I consider that neoclassical economic ideas were crucial in the re-designing of the Mexican economic agenda, as they provided the guidelines on which the restructuring of the economy was based. Nevertheless, the agenda of economic reforms and their modest consistency, has also brought into the spotlight some, arguably, unintended consequences. The widening gap in income distribution and rising levels of polarization must neither be overlooked, nor considered only as 'externalities' of the new orientation of economic policies. Hereafter, I aim to identify causal relations and features of what have been perceived as globalization economic imperatives and their polarized results. The analysis is qualitative. It gives a theoretically informed account of the Mexican re-commodification experience and the ongoing processes of social change.

The concern for growth was quite clear in the economic restructuring agenda which has been put into practice from the early 1980s. During these years, the core globalization concerns were stabilization and the pursuit of structural change in the Mexican economy. This process of reforming the public finances and reaching macro-economic stability was considered the key. Heading the agenda were financial and trade liberalization, the re-design of fiscal institutions and instruments, the renegotiation of the external debt, and the privatization of public sector enterprises (Aspe Armella, 1993). I analyse these in the following sections. The efforts to reform the role of the State were oriented towards this agenda in a manner which was intended not to disrupt macroeconomic stability. However, the strategy fell short of expectations in other respects, such as employment expansion, the eradication of poverty and provision of justice and public safety, because they were not considered priorities. Aiming for growth without considering equity has been one of the main deficiencies of the outward oriented economic strategy in Mexico, as it will be discussed after an account of the features of its economic restructuring.

An important concern for officials in charge of the external debt renegotiations was to secure packages as extensive and flexible as possible. Pursuing the objective of reaching a solution to the external debt problem was a pragmatic criterion which considered it a better option to reach a timely satisfactory agreement, rather than a good, but extemporaneous deal (Aspe Armella, 1993). During the 1980s, -- an epoch dubbed the 'lost decade' of growth and development for most Latin American countries -- neither the Baker, nor the Brady plans provided Mexico with the conditions to reactivate its economy and stimulate growth as was needed. The plans were relatively timely agreements, albeit insufficient and far from optimal from the debtor's perspective, since there was a negative transfer of private and public capital flows during most of the 1980s (Villarreal, 1990; Ramos de Villarreal and Villarreal, 2000). The strategy of using revenues from the sales of government-owned enterprises was a key complementary strategy for the reduction of the problem of public debt. On the one hand, the divestiture of public and semi-public firms was seen as a step towards a more effective and efficient government which would provide the conditions for long-term macroeconomic stability. At the same time, criteria such as the sale of government-owned enterprises on a cash basis, and the use of creative financing, were operated as complementary guidelines towards the use of privatization proceeds to repay public debt (Aspe Armella, 1993). In order to make the outward orientation of the economic globalization model compatible with domestic legislation, and to provide a legal framework for such changes, important legislative modifications and adjustments were undertaken. This is the focus of the next section.

2.1. Lowering regulatory frameworks for land tenure and foreign investment

Either used for setting a ceiling or a lower common denominator, deregulation must not be confused with the absence of any framework, rule, regime or institution at all. There is no such thing. The term has been associated with government efforts to provide a globalization market oriented regulatory framework, in most cases tend to be sector specific, compatible with certain general guidelines. For instance, efforts to relax regulations by the Mexican government have focused on the financial sector, the elimination of licensing schemes and other restrictions for such sectors as road transport, petrochemicals, fishing, mining, commodities and telecommunications. Price liberalization has also been among the options (Lustig, 1998).

One of the modifications often overlooked of the Mexican economic restructuring regards the land tenure constitutional reform of 1992. Article 27 of the 1917 Constitution granted special treatment for land property rights. Originally, the 'ejido' (or communal land unit in which the right to exploit the land was given, and which allowed its exploitation), denied the right to sell, rent or borrow against it. This constituted one of the social conquests of the early 20th century revolution -- when Mexico used to be an agrarian economy and a rural country. At this time, the agrarian economy favoured by government intervention had a political engagement rationale where the peasant sector was one of the pillars of Mexican corporatism. As the demography of the country changed from rural villages to urban cities, while the economic focus moved from the agricultural sectors to industries and services, the peasantry lost political ranking and the transfer of economic resources was prioritized towards the industry and service sectors. The 1992 reform of article 27 of the Constitution legalized the rental and private ownership of the 'ejido' land, even allowing commercial companies to own rural land within certain limits. Furthermore, the reform made possible the division of the productive portion of the land unit, even allowing beneficiaries to associate with each other or outsiders to exploit, sell or rent their holdings, which had not been permitted under the former regulatory framework (Lustig, 1998). In short, this was clearly a re-commodification initiative, aiming to withdraw provisions and protection from the land and from social groups for whom it represented the main source of income. These were the demands for which the zapatista indigenous uprising in one of the poorest states of Mexico, made a symbolic outcry the day when NAFTA entered into force.

Regarding foreign investment regulations, the modifications in the legal framework aimed to allow unrestricted foreign ownership, in all but the strategic areas reserved for the State. This meant a crucial step towards institutionalization not only for foreign direct investment flows but also for banking and finance, though there had been some prior minor modifications in the late 1980s. They paved the way for the financial services and investment reductions of barriers addressed in the North America Free Trade Agreement and also for the creation of the National Banking and Securities Commission in 1995.[2]

Originally, the 1973 Foreign Investment Law restricted foreign ownership in the following way. Four sorts of economic activities were distinguished. First, the priority sectors were reserved exclusively for the Mexican State. Second, there were activities reserved exclusively for Mexican citizens. Third came economic activities in which foreign investment could not exceed a certain percentage. Finally, there were activities in which foreign investment was not allowed to be greater than 49 %.[3] In practice the restrictions were often circumvented, except for the strategic activities (Lustig, 1998; Adams, 1997). Twenty years later a new set of rules repealed all prior regulations governing foreign investment.

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[2] The latter's main aim was to streamline and resolve differences in accounting and regulatory standards when it merged the National Securities and National Banking Commissions (Adams, 1997).

[3] Article 2 of the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment defined foreign investment in the following terms: "…investments made by (1) foreign corporations; (2) foreign individuals who are not bona fide permanent residents of Mexico, or those who, because of their other activities, are tied in with or bound to entities or groups making their economic decisions abroad; (3) foreign legal entities without legal personality; and (4) Mexican enterprises in which a majority of their capital is owned by foreigners, or in which foreigners control management…" (Lustig, 1998).

The strategic activities reserved to the Mexican State included the extraction of petroleum and natural gas; production of basic petrochemicals; exploitation of radioactive minerals and generation of nuclear energy; certain mining activities; generation of electricity; railroads; telegraphic and radio communications; and all other activities determined by specific laws or regulations.

The activities reserved exclusively for Mexicans or for corporations with an 'exclusion of foreigners' clause in their articles of incorporation listed radio and television; urban and interurban automotive transportation and federal highways transport; domestic air and maritime transportation; exploitation of forestry resources; gas distribution; and other activities determined by specific laws or regulations.

The activities in which foreign investment was subject to specific percentage limitations were mining under ordinary concessions (49 %); mining under special concessions for the exploitation of natural mining reserves (34 %); production of secondary petrochemicals (40 %); manufacture of automotive parts (40 %); and any other activities for which percentages were indicated in specific laws.

All the remaining activities restricted foreign investment to a limit of 49 % (Lustig, 1998; Adams, 1997).

The 1993 Foreign Investment Law modifications allowed 100 % foreign ownership in most industrial sectors, granting foreign investors the same status as national investors. It was subsequently modified in 2001. The 1993 Foreign Investment Law's opening title lists the exclusively reserved activities for the State on the one hand, and the ones reserved for Mexicans with a foreigners' exclusion clause on the other.[4] They are followed by a list of those economic activities and acquisitions which are specifically regulated.

Moreover, the National Commission on Foreign Investment (Spanish acronym CNIE) had its role, composition and powers for developing policy guidelines and reviewing all new foreign investment applications revised in 1993 (Adams, 1997). The Foreign Investment Time Schedule went through up to January 2004 and considered three different stages to reach up to 100 % capital stock without the need to obtain a favourable decision from the commission.[5] After the 1993 Foreign Investment Law modifications there have been some subsequent amendments in order to make Mexican law compatible with the North America Free Trade Agreement framework, as for instance seen in the 2001 modifications. These amendments allow foreign direct investment in most of Mexico's economic activities, though Canada and the United States are given preferential treatment (Dussel Peters, 2000).[6]

2.2. Fiscal reform: 'De-concentration' and 'decentralization' efforts

In addition to a more relaxed regulatory framework for foreign investment and land tenure within globalization context as analyzed above, fiscal reform has been a core issue on the agenda. The Mexican tax reform has been viewed not only as a problem of economic efficiency, but it has also been presented as a commitment to social justice. The universal organizational membership of the State and its powers of compulsion can be used for redistributive purposes. Still, they do not necessarily point to a minimal role, but only to a more efficient one. Consequently, the pending task in Mexico represents an important challenge. Even though it may seem paradoxical at first glance, based on the fallacy of governments' inefficiency everywhere and at all time that liberalization, deregulation and privatization projects might all point to a diminished role for the State in economic activities, the picture in reality is a much more complex one.[7] Indeed, reaching those objectives might

[4] Articles 5 and 6 of the 1993 Foreign Investment Law, respectively.

[5] The first two stages were up to 49 % in capital stock ownership in a Mexican corporation by December 1995; and up to 51 % of capital stock of a domestic company by January 2001 (Adams, 1997).

[6] Regarding the energy sector, there are two public enterprises considered strategic for the Mexican government: the exploration, extraction and refinement of crude oil and basic petrochemicals under Petróleos Mexicanos, better known as PEMEX, on the one hand; and the electricity sector under the CFE (Federal Electricity Commission Spanish acronym) on the other. These have been core actors in their respective subsectors. Since the sectors those enterprises are in have been classified as priority ones, constitutional reforms would be explicitly required if they are to change ownership status.

[7] Stiglitz identified four different public and private sector fallacies. The first one supposes that nationalized industries act in the public interest. The second one is that government is inefficient everywhere and at all times. The third one pays attention to control and planning, where limitations of information pose a constraint for controlling, monitoring and planning. The fourth one is the Coase fallacy which asserts that the government can do no better than the market; this is simply false. Hence, efficient market allocation cannot be obtained without government intervention (Stiglitz, 1989).

be better achieved by implementing industrial policies, retaining control over some strategic sectors and broadening the tax income base, to mention only a few economic policy instruments. Given that neither the public nor the private sectors are failure-free, the features of universal membership with powers of compulsion characteristic of the State cannot be assumed by any other agency. No other collective agent, either public or private, has the capacity, representation and authority to become responsible for the collection of taxes and the implementation of redistributive policies, among other things. Monitoring production and consumption of economic activities, along with the fiduciary responsibility for raising revenues compulsorily, are tasks which weak or insufficiently funded governments cannot perform satisfactorily (Stiglitz, 1989, 1994 and 1998). The latter option is not an alternative for the State to perform its economic, especially its redistributive role, either in a developed market, or in an emerging economy.

Regarding redistribution, the State is situated at a strategic crossroads where social, political and economic factors and agencies meet. The State powers of compulsion provide the capability to decide the amount and origin of resources, and also the beneficiaries of its redistributive policies. As the State is the main organization permitted to take away resources from individuals, it has the responsibility of making an adequate and transparent use of those resources. Governments' fiduciary responsibilities are, therefore, second to none, due to consequences for employment and expenditure which cannot be separated from taxation and redistribution policies (Stiglitz, 1989). The distributive consequences of public decisions would optimally be economically efficient and politically accountable. This criterion is also valid for the private sector as well, as it might help towards the provision of more accurate and reliable information, a public good and key input, which organizations and individuals alike need for efficient and effective decision-making in the globalization era.

On the one hand, the reforms of the tax system in Mexico aiming to increase efficiency and to modernise tax collection are oriented towards 'decentralization' and 'de-concentration'. A federal system in principle, however, is quite different in reality, where heavy centralization and the management of direct and indirect taxation are to be tackled on two fronts. According to the government, the first one aims at establishing a real fiscal federalism with homogenised taxes across the country. A de facto heavily centralized system in a big country such as Mexico meant that an important number of local and State taxes were cancelled, increasing the dependence on central government tax shares. Associated problems of the reduction of tax rates and the reduction of the tax base, translated into a weakening of the capacity to collect tax, aggravated by a lack of incentives for local and State authorities to collect their own revenues. Modernization of the agency in charge of tax collection has been justified, for these reasons. Therefore, the Mexican challenges ahead on the revenue side are to match and foster the public capacity to satisfy the needs and demands of their constituencies (Moreno, 2001).[8] Furthermore, the 'de-concentration' and

[8] In this sense, the devolution of tax faculties which would enhance fiscal responsibilities and institutional development, and the empowerment of local constituencies to demand the use of revenue according to local and State needs have been identified as important priorities (Moreno, 2001).

'decentralization' of public expenditure are considered also as key components of the economic policies.

The achievement of goals such as a larger local financial autonomy, a larger institutional development, broader economic efficiency and the improvement of democratic governance represent the challenges ahead for public expenditure. The achievement of those goals faces grave risks that Mexican government officials need to avoid. The disruption or alteration of a relative state of macro-economic equilibrium is a major concern, as it would exacerbate regional differences. According to the government, avoidance of such scenarios and the reinforcement of institutional frameworks would help to deliver better and more efficient public goods and services (Moreno, 2001). Although a similar efficiency concern is supposed to guide the provision of services; the emphasis has been mainly to rely on the private sector, as shown below.

2.3. Divestment of government owned enterprises

Most of the privatization initiatives undertaken since the 1980s rest on the intellectual positivist foundation of Friedman, and the US and the British antecedents of the 1980s, whose ideational traces continue to influence some other experiences nowadays.[9] It is important to recall that the generalizations of positivist closed systems and their predictive capacity allows them to claim universality. It comes as no surprise that, based on the US experience, judgments about privatization are presented as applicable to all cultures and socio-economic systems, regardless of the institutional means by which goods and services are supplied. The objective of each time relying gradually more on private delivery and less on government delivery for the satisfaction of the population's needs goes beyond justification in terms of purely economic efficiency. There is no doubt that the different methods of delegation, divestment and displacement for public and private partnership are emphatic political acts themselves.[10] The role of government agencies throughout the privatization process is fundamental for establishing the objectives, selecting the appropriate forms, enacting legal reforms, developing clear and transparent procedures and providing a suitable policy environment. Not only do they aim to strive for efficiency in the face of unresponsive bureaucracies, but also to apply market models for political and administrative relationships and for governing and managing public services as well (Savas, 2000).

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[9] For an important analysis of that period in Great Britain see Hay (1996), among others.

[10] There are several different arrangements for providing public services in which government agencies, private actors, consumers and voluntary associations could participate as arrangers, producers and cost bearers (Savas, 2000). For instance, delegation from the government acts as the main arranger, while the private sector produces. Forms of delegation mainly include contracts, franchises, grants, vouchers and mandates. Regarding the divestment of public assets and enterprises, it could be done through sale, free transfer and liquidation. Sale is one of the main ways in which government transfers assets to the private sector and gets some revenue at the same time. It is therefore, a preferred method when the activity is economically profitable and the sector is a non-strategic one. The sale of public enterprises could be targeted to joint ventures, private buyers, the public, managers and employees, and even to a users' or customers' cooperative. The scope of the sale may be partial or full, and the buyer could be domestic, foreign or even mixed. Finally, the main forms of displacement of public enterprises comprise default, withdrawal and deregulation (Savas, 2000).

It is important to make clear that the public sector in Mexico grew disproportionately during the 1970s and early 1980s. During the late 1970s alone, more than six hundred firms engrossed the public sector (Rogozinski, 1998). It is not the aim of this chapter, nor possible in the limited space to engage in a detailed account of the public sector history in Mexico.[11] However, it must be highlighted that it was during the 1970s and up until the early 1980s that the number of government owned enterprises showed a fivefold increase to more than 1100 (Rogozinski, 1998). However, not all of them contributed in a decisive way towards the economic performance of the public sector. According to Rogozinski, the biggest share, especially of those which were incorporated into the Mexican public sector from the 1970s on, were unnecessary because some represented fiscal losses, and were therefore, eligible for being re-privatized after the 1980s.[12] A point to note, however, is the fact that up to 1982 the criterion for an increasingly direct engagement of the government in the economic activity of rescuing firms with financial problems was a decommodification concern for preserving employment and thus preventing deterioration in income distribution.

Up to this point, the high priority of strategic sectors, such as oil, had not been seriously considered for sale or transfer to the private sector. Significantly, the resources obtained from privatization proceeds were to be deposited in a special fund for paying off public debt. The whole process was supervised by the Mexican Ministry of Finance.[13] Since

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[11] Suffice it to say that since the first half of the 20th century five broad stages in the Mexican public sector can be identified. First, the setting and institutionalization of the legal and regulatory framework for economic activity after the revolutionary period saw a minimal number of government owned enterprises during the 1920s and 1930s. It is during those years that, consistent with the 1917 Constitutional mandate articles 27 and 28 acknowledge regulator and promoter roles for the State. It was also in this period that the Mexican central bank supplied its initial capital and a few national development banks were created. The next period, known as the import substitution industrialization of the 1940s and mid 1950s, featured stable rates of growth. A similar situation characterized the stabilizing development epoch which followed. Even though during those two periods there was an increase in the number of public enterprises, the performance of the economy and the socio-political context were not hostile to it. (Rogozinski, 1998).

[12] Sometimes although theoretical and analytical distinctions can be drawn on paper, when something is put into practice differences blur and the task becomes more complex than originally expected. The privatization of government-owned enterprises is a good example of this. While the fundamental goals of a programme of divestiture of public firms pursues are economic efficiency, equity and rent extraction, as viewed from a purely economic perspective, the socially embedded character of economic activities evidence that their social and political time and space context need also to be taken into account.

[13] The sale and transfer of firms to the private sector observed compliance with the legal and regulatory framework, dominated by the 1917 Constitution and federal public administration and semi-official entities federal laws. Limits to the private sector participation are detailed in its article 25. Additionally, article 28 lists the public sector strategic areas exclusive to the State, whereas article 134 points out the satisfaction of the minimum criteria which the divestiture process must follow, whereas, the Federal Law of the Federal Public Administration refers to the bankruptcy and liquidation of semi-official entities; while the legal conditions for mergers and transfers are in the Federal Law of Paraestatal Entities (Aspe Armella, 1993).

The privatization initiatives took macro-economic stability as a pre-requisite. Once a divestiture proposal was evaluated and the sales process were agreed to start, a sales agent needed to be appointed. Having selected a commercial bank for the financial valuation, the announcement and sale of the public enterprise in question proceeded; the sale mechanism could adopt different strategies depending on the characteristics and importance of the government owned firm. Smaller enterprises were first considered, following a legally coherent and consistent procedure, which was standardised afterwards. A profile and prospectus of the firms were first required. Once presented, the technical and financial valuation of the enterprises which had an objective of maximizing social welfare was followed by a pre-selection of buyers who considered their financial solvency and offered a price, experience in privatization revenues are a one-off, the main objective was public debt repayment, which would contribute towards the elimination of a major source of public deficit by liberating the public sector from excessive burden. At this stage a resolution and legal authorization were needed for the closing of the sale. If positive, the signing of the sales, contract, divestiture and preparation of the 'white book' followed. The savings from decreased interest rates were used to increase non-inflationary social spending. Along with parallel strategies of trade and financial liberalization and deregulation, they were meant to make a positive impact on public finances, the balance of payments, financial system and public welfare overall, while enhancing a competitive economic environment boosting employment and productivity (Aspe Armella, 1993; Rogozinski,1998).

Since the late 1980s the Mexican privatization programme has been aggressive in almost all economic sectors except the ones regarded as strategic in the 1917 Constitution, attracting local and foreign investors either for total or partial shares.[14] For instance, the privatization of the main telephone carrier attracted particular interest at home and abroad, similar to that of the banking sector.[15] Nevertheless, there have also been some significant difficulties with some of the privatization initiatives. Highways and the banks are among those which have aroused controversy. For the former, errors in the concession programme aggravated by the mid 1990s financial crisis led the government to rescue the investors. Much more seriously, the cost of the bailout of the banking sector, a moral hazard seriously exceeded the revenues of its sale a few years before, converting into public debt non-performing loans, but also controversially rescuing solvent firms and individuals (Huerta González, 1998; Székely, 1999).

Mexican government proposals to reform its oil industry have not been uncritically accepted and smoothly approved. Originally presented mainly as technical initiatives, though in a light form; opposition political parties encountered plenty of controversy regarding legal framework overhauls of Petróleos Mexicanos. Likewise, the case for service contracts with the private sector aiming to attract foreign investment from foreign oil companies in areas where PEMEX lacks technical capacity such as deep water exploration must be carefully studied and debated. Refinery construction through build-operate-transfer contracts, along with risk and profit sharing contracts are controversial issues as well. Chronically underinvested and short of cash, the state oil company funds 40% of the federal fiscal budget, the proposals were perceived as a step forward and setting the path for further

the sector and investment commitments. The coordination with complementary processes and the costs of implementation which included the bank's commercial commission and expenses were considered as well. Finally, the sale proceeds were to be deposited in a special fund -- Fondo de Contingencia Económica --, to repay public debt (Rogozinski, 1998).

[14] Privatization of former Mexican government owned enterprises has been transacted in various sectors such as airlines, hotel, mining, chemicals, commerce, financial services, insurance, manufacturing, ship building, steel, sugar, textiles, agribusiness, fishing, forestry; shipping, telecommunications, transportation, banking, beverage production, bottling, energy, fertilizers, media, television, construction, building material, food processing, gas stations, tourism, services, warehouses, cargo and containers, ports, storage, railway, gas distribution, satellite systems, airports, etc (Investment Promotion Network, 2001).

[15] Teléfonos de México is also well known by its Spanish acronym TELMEX.

reforms sometime in the future, engaging lawmakers and different sectors of society debate what otherwise would have been an unaccountable technical decision.

2.4. Trade liberalization: The banner of economic restructuring

Having discussed the globalization characteristics and context within which the divestiture of government owned enterprises in Mexico has taken place, I should now move to another significant aspect of the country's process of re-commodification. Trade liberalization has been a core component of Mexico's economic restructuring and stabilization strategy since the very beginning. The originally inward-looking economy was pushed towards a qualitative transformation aiming at more open conditions. A comprehensive elimination of non-tariff barriers preceded further reductions in the level and dispersion of tariffs. Becoming a member of the General Agreement of Tariffs and Trade (GATT), back in the mid 1980s, signalled the new outward orientation of the economy. It was also a step towards institutionalizing the initial unilateral moves favouring a shift from oil exports and agricultural commodities to the promotion of exportable manufactured goods. In order to reinforce the institutional character of the trade liberalization process, one strategy favoured by the Mexican government since the 1990s has been to seek membership and active participation in multilateral forums. They include the Free Trade Latin American Association (Spanish acronym ALADI), the Organization of Economic Cooperation and Development (OECD), the World Trade Organization (WTO), and the Asia Pacific Economic Cooperation (APEC), among others. Additionally, another strategy running parallel to the multilateral membership has been to sign free trade agreements with the United States and Canada, various Latin American countries, the European Union, and the European Free Trade Association, among others.[16]

The increasing volume and value of trade and investment flows, especially those from the United States, have permitted an expansion in the volume and value of exchanged goods and services among the North America Free Trade Agreement (NAFTA) members. Tendencies and economic patterns have strengthened economic practices in which manufacturing sectors of the Mexican economy are presented as beneficiaries of trade liberalization, for they have become second to none in production standards for some specific sectors. Aggregate figures of trade in goods and services since the liberalization

[16] Since the late 1990s free trade agreements have been reached with Bolivia starting from 1995, Chile since 1999, Costa Rica since 1995, the European Union since 2000, Nicaragua since 1998, the Northern Triangle of El Salvador, Honduras and Guatemala since 2001, the Group of Three comprising Colombia and Venezuela as well since 1995 (nowadays no longer in force), the North America Free Trade Agreement with the United States and Canada since 1994, the European Free Trade Association since 2001, Israel since 2000, and Uruguay since 2004. Ratification by the Parliaments of Japan and Mexico meant green light for their bilateral free trade agreement recently. Prospective agreements include among others an associate membership for MERCOSUR (Market of the South which comprises Argentina, Brazil, Uruguay, and Paraguay); whereas China and South Korea may also be considered in the future. The current negotiations for a Free Trade Area of the Americas (FTAA), which claims to bring free mobility of capital and goods, but limits that of labour was conceived as an initiative from the United States back in the 1994 Summit of the Americas. The negotiations have encountered difficulties to be surmounted as the FTAA was originally intended to be agreed by 2005 (Cuadra-Montiel, 2008).

strategy started to show a steady rise in the volume of exports, as the emphasis on an outward orientation of economic activities would favour. Nonetheless, the pursuance of trade liberalization and manufacturing integration has not delivered a balanced distribution of economic gains. On the contrary, it is discussed below that the export orientation and the strategies privileging inbound industries have contributed towards income concentration and rising polarization, weakening linkages between the domestic market and the export one, and making evident the importance of those features which institutions should have for equitable economic activities.

Traditionally, free trade agreements provide the framework for the free movement of capital and goods among members. Free labour mobility is normally excluded. Consistent with those theoretical considerations, NAFTA goes slightly beyond the traditional scope of a traditional free trade agreement because it also considers investment rules.[17] Moreover, trade in financial services is granted National Treatment and Most Favoured Nation status, which aims for fair, equitable and non-discriminatory treatment.[18] Parallel to those considerations, transfers, standards for expropriation and for compensation, and dispute settlement provisions are also taken into account. Nevertheless, NAFTA does not go far enough to allow for the free mobility of people. Even though there are two parallel accords on environmental and labour cooperation within the NAFTA text, there is no authorization for the free movement of labour between Canada, the US and Mexico. In practice, migratory restrictions aim to prevent a flow of unskilled migration into US territory, where a blind eye is, however, turned to the benefits that they deliver to its economy.

Even though the emphasis on institutions is quite evident in the negotiation of several trade agreements by the Mexican government, the main weight of Mexico's trade relations with the world is heavily concentrated within the North America Free Trade Agreement, and especially with the United States. Consider for instance that 69 % of Mexican exports went to the US in 1990, rose by 85 % in 1994 the year NAFTA entered into force, and went up to 89 % in 2000, manifesting a very heavy concentration. Similarly, the biggest share of imported goods comes from the US. They were 62 % of the total in 1990, reached 72 % in 1994, and increased to 74 % in 2000. Paralleling those trends during the last decade, imports from Asian countries and the European Union have steadily grown (INEGI, 2002).

Since the reach and scope of those institutional moves go beyond national boundaries, I ought to pay particular attention to the international, multilateral and global contexts in

[17] NAFTA's Chapter Eleven considers investment provisions and Chapter Fourteen focuses on financial services.

[18] Financial integration as a privately driven phenomenon has been considered a step towards the financial and monetary integration of the Americas, where the dominance of the US markets acts as a magnet for financial flows. However, there is an important differentiation between monetary and financial affairs which should not be overlooked. The decentralized nature of the financial sector and activities allows a range of different private actors to create and maintain them, albeit with a government regulatory and supervisory role. But the government is the principal actor and sole decision maker for monetary issues. For monetary integration government support is needed in order to move towards an integration stage. Those considerations are important since financial and monetary integration are expected to become central part of the economic agenda in the American continent in the future. Negotiations for a Free Trade Area of the Americas are currently halted, following the NAFTA narrow framework model (Cuadra-Montiel, 2008).

which Mexico, as a collective agent, is situated. Suffice it to say that the Mexican trade liberalization experience, along with its financial liberalization, privatization and deregulation could be considered different facets of the re-commodification process, as its emphasis is placed on economic motives, rather than welfare concerns. This is what I show in the remaining sections below.

3. Weak endogenous institutional links: destructive rather than creative

At this point it is important to recall that the institutional links are important reference frameworks for the situated agents in globalization context. Economic actors such as firms are no exception because they work within formal and informal institutions. The variety of institutions and the different ways in which they can be coordinated have been used to suggest that the economic performance of the economies and the prosperity of nations is built based on institutional differences, since one of the aspects which affects firms' efficiency is the institutional coordination to which they are subject (Hall and Soskice, 2001).[19] Important as those considerations are, however, they leave something crucial. The profiles of the firms are as important as the character of the institutional framework. For, if we are restoring agency to the processes that appear to be irresistible, we cannot afford to leave features of the actors unexamined. The role and characteristics of the agents, economic firms in this case, do not contradict, or are opposed in any sense, to the features of the structures, and the institutional framework. I argue that agents have the power and capability to influence and contribute towards shaping the processes in which they take part. Therefore, the orientation and profile of the firms also influence the characteristics of the structures they are in contact with (Cuadra-Montiel, 2011).

It is highlighted that the importance of institutions for making explicit what 'the rules of the game' are, functions as one of the crucial elements which contribute towards shaping the context for agents. Hall and Soskice even suggest that the institutional framework provides economies with comparative advantages which may become a determinant of their prosperity (2001). It is also discussed that emphasis should be on the institutional link between the immaterial character of projects, goals and ideas, on the one hand, and the stability of the economic, political and social conditions, on the other, as the formal and informal rules in society which shape human interaction (North, 1990).

Institutions per se do not guarantee any success or automatically trigger any particular achievement. Weak institutional links, or a poor orientation of the efforts and strategies, may cause harm, which is not necessarily limited to economic losses or externalities. The impact of such poor orientation, and of weak links in spheres other than economic, is often unacknowledged (Cuadra-Montiel, 2011).

[19] Hall and Soskice made a broad differentiation between liberal (Anglo-Saxon) economies and coordinated ones. According to their perspective, the former are more conducive for firms to engage in radical innovations because firms are situated and respond to a competitive market arrangement, whereas firms in the coordinated economies, referring to European and Japanese models, tend to rely more on non-market mechanisms, and their patterns of innovation tend to be more incremental (2001).

I contend here that it is not enough to stress the institutionalization of economic restructuring, but that a careful evaluation is needed. The re-commodification process under way in Mexico does not follow an economic trend alone; it is also, in its own right, a strong political process, and as such, open ended, contested and contingent. Moreover, it is not by any means a terminal stage, but a phase in the historical transition of that country.

Since all economic activities are socially embedded (cf. Schumpeter, 1934, and 1954; Polanyi, 1944, 1992, 1996; Granovetter, 1996a, 1996b, and 1994), I go beyond regularities to illustrate a different picture which comprises not only economic gains and costs, but also some of the causal elements and interactions otherwise invisible. This section explores the weak institutional links; the lack of cluster connections among economic activities oriented towards both the domestic market and the external market; the polarization and widening income distribution gap in Mexico; the poor features of innovation which tend to relegate the Mexican economy's insertion into niches in the world market; the costly social legacy of the economy which is intertwined and interwoven with the import-prone export-oriented industrialization; and liberalization and deregulation processes. At this point it is important to stress the fact that there is no necessary trade-off between economic performance and inequality. Though there can be one in some circumstances, the point is that there need not be one. Equitable growth is possible if attention is given to a proper balance of economic and social policies.

One of the major problems of the Mexican industrialization experience which is also found in some other Latin American economies has been the aiming at and maintaining positive rates of economic growth at the expense of redistribution and equity. It is not the argument that the export oriented industrial model is the only factor responsible for unevenness and polarization, but that it certainly has not made any contribution towards the improvement of those pressing issues, as palliative programmes do not address the causes of inequality. It is true that the origins of the poor income distribution in that country in particular, and the region in general, have historical antecedents. However, the current implementation of economic strategies which accounts for the re-commodification experience has pushed further the accentuation of the patterns of decreased protection from the market. The emphasis has been placed on a socially disembedded expansion of markets and exchange transactions.

The search for economic efficiency, based on a platform of sound economic fundamentals, from which growth and economic benefits would trickle down has not delivered as expected. It never does. Patterns of unemployment, the precarious financial situation, indebtedness, the low rate of non-speculative investment, technical obsolescence and weak support for technological research and development have contributed towards further weakening of the industrial sectors (Fajnzylber, 1990). Given that the industrial sectors are crucial for the outward orientation of economic activities, it is striking that so little attention has been paid to the quality of the industrial insertion and its linkages. A broad picture of the industrial activities portrays poor innovation features in most of the sectors; although there are some that perform above average, even using state of the art innovation. However, they tend to be more the exception than the rule. It is not a secret that innovation in economic activities is vital for keeping the economic processes in being. Along with crisis, innovation forms part of a dynamic pattern of renovation which not only adapts, but is capable of influencing the depth and pace of ongoing changes, as it contributes towards revolutionizing the socially embedded economic structures from within, destroying the old and creating new ones (Schumpeter, 1954).

The Mexican experience during the last three decades has put heavy emphasis on stability as a precondition for reactivating economic growth. It is undeniable that the whole economic restructuring experience of the country has taken as a guideline the globalization goal of growth and the promotion of stability. Even though there have been some results, they are by no means impressive, especially at the micro and disaggregate level. A big share of the population has found its living standards to have deteriorated overall during the last thirty years, especially if compared to the conditions prevalent up to the late 1970s and early 1980s (Székely, 1998; Kelly, 1999; Damián, 2000). Clearly, both domestic and international conditions have changed much since then, as compared to what they were at the dawn of the 21st century, and it is not my purpose to review them. The reactivation of the business level and the reorientation of the productive activity followed an orthodox neoclassical rationale which ignored more inclusive social and political considerations.

It can be suggested that the same importance has not been granted to innovative inputs and combinations in economic activities and the promotion of cyclical fluctuations. These fluctuations, in turn, if properly conducted, could promote a more equitable distribution of benefits and welfare. The focus on manufacturing has been on relatively mature industries, such as automobiles and electronics; while the insertion has not been where most of the added value of the processes is, but on non key stages such as assembling (Dussel Peters, 1997 and 2000). Sadly, innovation is not one of the main features of the Mexican manufacturing sector, as a big share of it is low in added value. Similarly, the articulation between industry with a base in natural resources and service industry cannot be characterized as optimal, either. It also appears that the designing of strategies and policies, and the strengthening of institutions face important challenges ahead. What I find disquieting is that the reproduction of institutions and features of the model which have been weak in delivering growth, and much worse for the promotion of equity, are inclined to engage in a path-dependent pattern which present no alternatives beyond further re-commodification (Cuadra-Montiel, 2011).

Clearly, this is far from an optimal stage, as it would make the cyclical fluctuation increasingly critical. Decisive steps towards promotion of equity are necessary, as they would bring about decommodification. In so doing, political will and a clear identification of the economic sectors and activities which can be targeted as beneficiaries of specific government programmes are vital components if a qualitative change is to be achieved. A qualitative transformation aiming for greater equity needs leadership in the design and implementation of public policies which touch upon and affect consumption and investment patterns. Enhancing the international competitiveness of the industrial system cannot be left to the invisible, or more precisely, the inexistent hand of the economy, as attention needs to be paid to the natural resources endowments, agriculture, the demographic trends, the domestic entrepreneurial capacity, portfolios and foreign direct investment, to mention only the most obvious areas (Fajnzylber, 1990). The restructuring of the economy, if equity is to be delivered, gives the State important functions to play in complementing market mechanisms. It is not my argument that the State does need to be the main economic actor; however, I contend that, due to its centrality, the State is best placed to attenuate and correct market failures. Furthermore, markets similarly compensate for and address public failures via increased economic efficiency.

The State can promote innovation not only by allocating resources to research and development, which are undeniably important, but also by promoting stronger and more integrated forward and backward links in the economic chains. The more coherently planned and implemented these are, the better (Cuadra-Montiel, 2011). This is of crucial importance in a country where the outward orientation of the economic activities has been inattentive to the socially embedded features of the model. As part of the process of 'creative destruction', innovation in economic activities has been acknowledged as key for reaching a more evenly developed condition. Innovation in economic activities is associated with the degree of technological knowledge in the productive activities. Therefore, the attention paid to technological issues is a core factor for the economic performance and progress of an economy (Fajnzylber, 1990).[20] Technological knowledge not only helps productivity to surge, but also could favour growth, improve living conditions and infrastructure, and enhance an equitable distribution of benefits. Thus, the absorption, development, incorporation and innovation of technology is one of the core variables that the industrial policy of a State needs to pay attention to. The absorption, incorporation and spread of technological innovations in economic activities helps to push economic processes and activities a few steps forward from the mining and exploitation of natural resources, either perishable or non-perishable, which lead to non-renewable income, especially in the medium and long term. The difficulty lies in the fact that to absorb, innovate, incorporate and innovate in technology are not easy tasks at all. Although the technological frontiers move quite fast, and increase the difficulty of catching up with the latest developments, let alone leading the dynamics, the incentives to innovate lie in the fact that income from more technologically advanced sectors and progress tends to be better rewarded (Cimoli, 2000). The gains however, must not be concentrated in a few hands, because that would take us back to a vicious circle of polarization and pauperism. Thus, there is a task and a rationale for the State to design and put into practice industrial policies which compensate for the heavy reliance on foreign markets. The challenge of industrial restructuring is to reinvigorate the domestic markets at the same time as gaining a better position abroad.

True, this is easier said than done, but sketching a very detailed strategy goes beyond the scope of this chapter. However, Fajnzylber has pointed to the identification of specific subsectors which have more reach, spread and impact in the productive sector as a whole. Those which are more integrated into the whole economy and which feature more

[20] Even though there is an agreement on the importance of technological progress, it is striking how little, if any, attention neoclassical economic orthodoxy has paid to it. Economists trained under positivism frameworks tend to be more concerned with short-term equilibriums at an aggregate level where the specificities of the sectors housing technological progress is ignored, than with the reach and spread of their benefits (Fajnzylber, 1990).

backward and forward linkages for incorporating and disseminating technological progress must be considered as candidates (1990). One of the shifts in priorities which cannot be postponed in Mexico is to move away from a 'maquiladora' assembly enclave to a more dynamic and better integrated economy. The importance of this lies in the facilitation for promoting the insertion of those sectors which have enhanced productive and competitive specific features into the international economy. Nevertheless, the institutional framework plays a very important part in providing an adequate environment conducive to strategic cooperation between the public and the private sector, without leaving aside interests of labour (Fajnzylber, 1990). In other words, for the Mexican case it would mean abandoning the low cost labour strategy and re-orientating efforts towards enhancing the quality of educational, medical and welfare resources provided throughout the country.

Important as all these considerations are, they would make no sense if the emphasis is merely concentrated on a narrow economic globalization agenda. For the historical, social, political and cultural processes all interact with each other. It is crucial to recognise that the open nature of social systems and the identification of contingent causal relations, rather than formal associations, permits interpretations that broaden the analytical scope and also formulate informed critiques of the phenomena under scrutiny. The re-commodification emphasis of the current process in Mexico has many different facets, but it does not by any means lack a political character. If the concern for equity is to be convincingly approached and tackled, granting protection from the market to the labour sector is an additional step towards abandoning the re-commodification process. The promotion and delivery of equity needs adequate welfare levels, and it is again the State, via public policies and instruments, which is the best situated agent to attend this issue (Cuadra-Montiel, 2009).

However, this capacity of the State to transform the function of industrial and trade policies is a resource which can be used in several different ways. For instance, due to the heavy concentration of power on the executive, it was used by the Mexican government during the 1980s and early 1990s to present vertical economic pacts which allowed unilateral and fast liberalization aiming to benefit the private export oriented sectors. Since there was no effective counterweight in the Congress legal reforms, they posed no obstacle. Furthermore, the implementation of specific programmes targeting outwardly oriented enterprises was put into practice without paying adequate attention to the economic linkages and broader social context within which the economic actors were situated.[21] Special manufacturing enclaves on the one hand, and the agricultural sector, on the other, have faced such situations as are studied below.

3.1. Crudest re-commodification for agriculture and inbound industries

In Mexico there is a deep need to reverse the unsustainable use and deterioration of natural resources including water, land, forests and air. The challenge of first halting and then

[21] Examples of these include programmes openly tending to favour temporal imports over the production of export goods (Programa de importación temporal para producer artículos de exportación, Spanish acronym PITEX); maquila exports; and highly exporting firms (Programa de empresas altamente exportadoras, Spanish acronym ALTEX). (Dussel Peters, 2000).

reverting deforestation, soil erosion, urban air pollution and surface and underground water contamination trends are enormous, as they all betray the pernicious effects of globalization and re-commodification.[22] On top of those environmental concerns, and situated within the contemporary socially embedded processes, in historical terms not only has the agricultural sector of Mexico been neglected, but also its political importance has been downgraded. At the same time that the economy changed from a main producer of raw materials and commodities, to manufacturing goods and services, the process was accompanied by a demographic transition from a rural to an urban country (Reynolds, 1970). Needless to say, the political importance of the peasant sector varied as well. Mexican corporatism worked as a strategy of political engagement and control of social groups, where the peasantry over the years received less attention while economic resources from agriculture contributed to finance the import substitution industrialization model (Reynolds, 1970; Hansen, 1971).

As has been argued above, the reforms entailed in article 27 of the 1917 Constitution became drastically carried out in the rural economy, eliminating the 'ejido' or communal land. It meant that the special treatment which had been given to land was changed to allow for ownership and not mere exploitation as had been the case. Additionally, the trade in agricultural commodities was liberalized, and price interventions were eliminated. In 1995 a programme of land titling complemented the constitutional reforms of three years before (Giugale, Lafourcade and Nguyen, 2001). The organizations and institutions which had previously supported the agricultural sector were privatized, reduced or eliminated, leaving agriculture in an institutional vacuum without any protection from the market. This is of utmost importance since the Mexican government has historically provided support to the agricultural sector; the withdrawal of its protecting mechanism, notably particular subsidies and public investment, severely affected small farmers and peasants, who relied on them for their survival.[23] Therefore, it is the rural areas where poverty is not only most acute, but also has intensified parallel to the process of economic restructuring, as one fifth of the population belongs to the worst-off deciles (Kelly, 1999).

The World Bank reports that during the 1990s a contrasting phenomenon with indexes of inequality was observed. The national Gini coefficient for income was 53 in 1992, 54 in 2000 and 51 in 2002. The indicators for expenditure were 51 in 1992, 52 in 2000, and 50 in 2002.

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[22] Mexican environmental priorities include, amongst others: a) reversion of deforestation; b) stopping practices which erode the soils; c) sustainability in water use, reduction of water contamination and an increase in the supply of potable water; d) adequate management of solid waste; e) extension of wastewater collection and treatment systems; f) improving the capacity to manage and dispose of hazardous waste; and g) to slowing down the loss of biodiversity (Gilbreath, 2003).

These broad objectives have historically been approached with different strategies and, therefore, the results obtained so far vary. Consider for instance that the Mexican government aims to achieve a sustainable use of water resources. This goal, in turn, is translated into the design of strategies seeking to make a more efficient use of agricultural irrigation and urban supply (Comisión Nacional del Agua, 2001). For such case, a policy of multiple and successive uses of water implies, amongst other factors, the agricultural and industrial reuse of waste water. In doing so, it liberates underground water supplied by a complex of pumping stations to the main cities and areas where the population is concentrated; while at the same time, it addresses the problem of tapping hydrological underground sources to satisfy the demand of a growing population (Cuadra Moreno, 1981).

[23] The World Bank's view portrays the unsustainable subsidies which led to dependency in the ejido sector (Giugale, Lafourade, and Nguyen, 2001).

However, this was not by any means a uniform trend. The pattern described by urban areas was similar to the national tendency, whereas in the countryside, where an important share of the indigenous population lives, inequality has increased. Specifically, in the rural areas, Gini coefficients for income rose from 47 in 1992 to 53 in 2000, and went down to 49 in 2002. Regarding rural expenditure, Gini coefficients rose from 41 to 56 and decreased to 48 during the same years (World Bank, 2004).

Nevertheless, following the broad pattern of the government's dismantling the protection from the markets, some agency initiatives have tried to build or restore regulatory frameworks, as a response to the abrupt removal of legislation, organization and institutions. Even though those subnational efforts are not centrally coordinated they provide evidence of the extreme importance which agencies play in the pushing and promotion of decommodification initiatives, on the lines originally suggested by Polanyi.[24]

Although for some years during the import substitution industrialization period the agricultural sector contributed towards the financing of the model, by the 1980s and 1990s stagnated rates of growth and lack of competitiveness were to be blamed for the increase in rural poverty and for its small contribution to the Mexican Gross Domestic Product. According to the North America Free Trade Agreement schedule, open competition of this sector with Canada and the United States was due in 2008. However, the US shows no signs of eliminating its controversial farm subsidies in the foreseeable future.[25]

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[24] For a compelling argument paying particular attention to coffee, one of Mexico's most important agricultural exports, see Snyder (2001).

[25] Inconsistent with what it preaches to the world, the United States agricultural subsidies and policies have systematically protected their farmers from international competition at bilateral and multilateral levels. The elimination of agricultural subsidies and tariffs which the US government obliges trading partners to pursue is not matched by their own actions. The country's agriculture subsidies affect not only export oriented agribusiness but also inwardly oriented small farmers abroad. Consider for instance that the plummeting prices of some agricultural commodities such as corn have helped to increase rural misery in Mexico. Without any significant protective net in Mexico, unfair competition from their counterparts on the other side of the border puts the small, poor and worst-off out of the business; while the subsidies for farmers from the United States, allow them to sell their commodities at prices far below what they cost to produce.

Furthermore, the use of genetically modified crops critically threatens biodiversity. Such is the case of maize which has been imported from the United States without any regulation, and without any labelling requirements warning of its altered conditions. Not only is maize one of the most important crops in the world, but Mexico is the place where it originated and where its enormous diversity comes from. Genetically modified grains must not be used as seeds as they contaminate, in this particular case, the very center of origin of a crop with huge importance for world supply. The genetic contamination of Mexican maize risks environmental and health effects, neither have been seriously evaluated. Crucially, maize represents not only a food source, but it is a vital part of the Mexican cultural heritage.

Wealthier nations have been undermining agriculture in the poor and developing countries by their discretionary use of tariffs, export subsidies and direct farm subsidies. The European Union is not exempt from controversy either, as its Common Agricultural Policy seizes an important share of the common budget. Even though both actors, the European Union and the United States, have accused each other of unfair trading in multilateral negotiations such as the General Agreement on Tariffs and Trade (GATT), and the World Trade Organization (WTO), the main losers are neither the EU nor the US, but the developing economies whose agricultural commodities are systematically either denied access or given restricted access to those markets.

The United States' agricultural subsidies only benefit their farmers; whereas the Common Agricultural Policy of the European Union guarantees a level of protection to the farmers of all EU members. Ever since the very beginning both policies were conceived to guarantee a food supply for the population on one hand, and farming income on the other;

During the 1980s, in the aftermath of the debt crisis, the reactivation of economic activities proved critical, as external financing sources were no longer available. Therefore, the original orthodox structural adjustment programme was abandoned and replaced with a heterodox package during the second half of the 1980s (Minushkin, 2001, and 2002; Ramos de Villarreal and Villarreal, 2000). The manufacturing sector was selected as a viable alternative to diversify the economic profile of the country, then heavily dependent on oil exports and some raw materials. Foreign direct investment flows privileged inbound industries, also known as 'maquiladoras', as the government provided incentives such as tax exemptions, which were accompanied with the availability of low cost labour along the border with the United States.[26] The spread of those foreign enclaves in the Mexican territory which import parts and supplies duty free into Mexico and export their production, largely to its northern neighbour, has been the target of serious criticism (Calva, 2000; Dussel Peters, 2000; Villarreal 1990).

Although the inbound industries were allegedly conceived as an option for remedying the lack of external links with the foreign markets, associated with the import substitution industrialization the result went too far in the opposite direction. It is no secret that those assembly plants are not properly integrated into the domestic industrial structure of Mexico. They have benefited from low cost labour, fiscal special treatment, and a relaxed enforcement of environmental regulations, among other things; making use of scarce domestic inputs, representing neither a solution for the rising employment demand, nor for technological transfer. Even though the zero tariff put into place with the North America Free Trade Agreement would formally account for abolishing the inbound industries regime, in reality the model has become institutionalized as Figure 1 below shows.

Because the incentives of low wages, adequate infrastructure and political stability for a broad range of labour intensive assembly industries act as key incentives, the attraction of a comparative advantage based on cheaper costs remains.[27] Examples range from garments and textiles, to automotive, computer and electronic products. Therefore, the main features of the inbound industries have not become an anachronism. Instead, they have spread beyond the border export promotion zones, into other areas of Mexican territory. The problem for low skilled and labour intensive mature industrial sectors based heavily on low

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while allowing the export of surpluses. It is this scheme in conjunction with the restricted access to the protected agricultural sectors for developing countries, which has remained a problem, as neither the US, nor the EU make any substantial concessions in it.

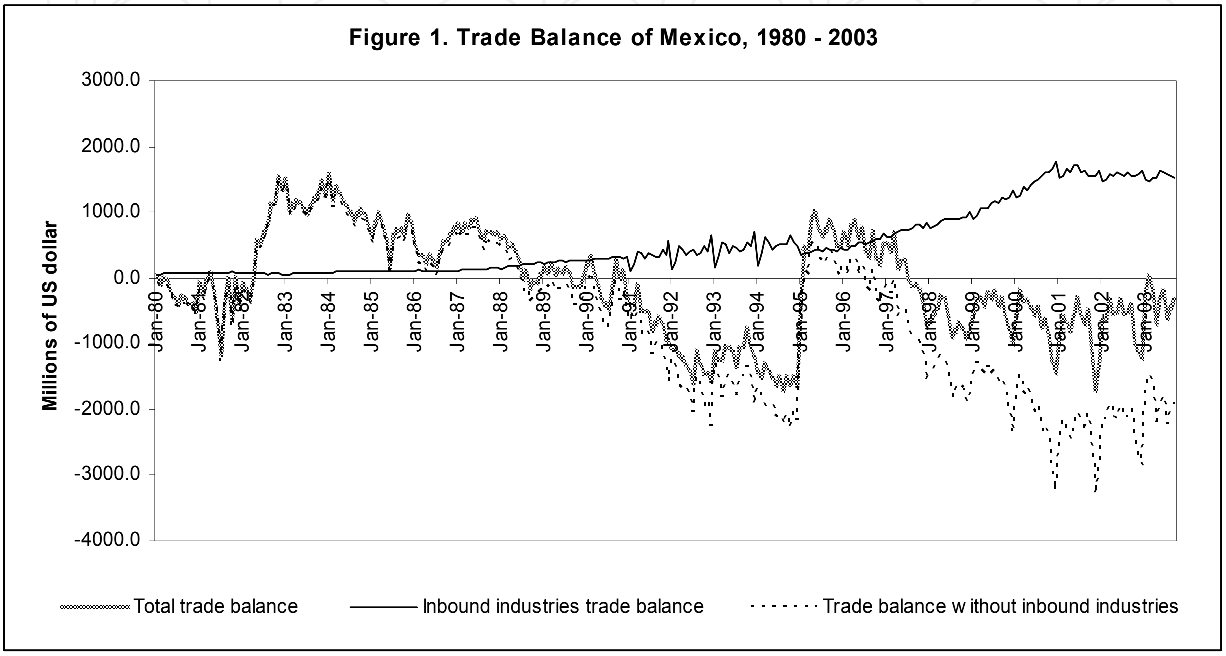
Since a free trade area coverage is not as comprehensive as an economic union, and members set their own tariffs, in some cases an individual decision may cause economic injury to another. Furthermore, dumping or countervailing duty panels might be set in specific cases.

[26] Such a scheme however, was not new by any means. Although it had originated in the mid 1960s, the proliferation of plants in various manufacturing categories made the inbound industries one of the most important sectors in the export oriented industrialization strategy to be promoted during the last two decades.

[27] From the United States position, tariff provisions 806 and 807 allowed its firms to receive duty-free inputs from the US, and by those means to cover only the Mexican value added tax share (Gereffi, 1996).

Cheaper 'maquiladora' competition from some other countries does not have the preferential access which NAFTA provides to the United States as the biggest domestic market in the world. However, there is no guarantee that this situation will continue.

cost labour is that such a comparative advantage can be easily eroded. It is no secret that many countries make use of such an economic strategy to attract foreign investment; the portrayal of a race to the bottom is apt.[28] Furthermore, the neglect of the domestic market, while favouring the externally oriented firms and sectors, has severely impaired the endogenous capacity to deliver growth with equity for a very important share of the population.



Source: Figure based on Mexican central bank data. November 2005.
http://www.banxico.org.mx/siteBanxicoINGLES/eInfoFinanciera/FSinfoFinanciera.html

Figure 1. Trade Balance of Mexico, 1980-2003

4. Mexican outward economic orientation at the expense of the domestic market

The features and profile of the manufacturing sector that has been promoted since the early 1980s in Mexico is built on the foundations of the import substitution industrialization period, and the creation of export promotion zones for inbound industries.[29] Since different

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[28] Although it is only one of the criteria used by investors, consider for instance, that in low skilled and labour-intensive industries, countries such as China attract a growing share of foreign investment. It has been highlighted that due to its oversupply of workers, the labour cost is just a fraction of other economies such as Mexico.

[29] It is important to mention that different stages have been identified in the process of import substitution industrialization in Mexico. The first phase, or effective stage, lasted from the late 1920s until the early 1970s. Villarreal reports dropping import substitution indexes for consumer, intermediate and capital goods in the first stage. This initial phase was followed by a stagnating one during the 1970s, when especially during the second half of the decade, the initial trend no longer followed a downward pattern, but instead showed a rise in the index for all total manufactured goods. This phase is associated with oil mono-exports without deindustrialization. Finally, the last stage could be characterized as apparent or recessive, as it showed a stop-go pattern for the import substitution index during the 1980s (Villarreal, 1990).

profiles can be found in the firms working in these sectors, it is a task beyond my reach to engage in a detailed discussion of the history and characteristics of Mexico's manufacturing firms.[30] Even though it is not clear that the emphasis on export promotion, and liberalization of trade and investment could generate, at best, prosper and sufficient conditions for equitable growth and development, the efforts of the Mexican government have been oriented in this direction.

The main focus of the liberalization, privatization and deregulation economic strategies targeted specific variables, such as the rate of inflation, control of fiscal deficits and attraction of foreign investment. Judged with the benefit of hindsight, it can be said that the implementation of economic strategies aimed at those goals has been relatively successful in its own terms. During the last thirty years in Mexico a broad and aggregate picture of those variables has been closely monitored. Moreover, their performance has even been presented as an outstanding achievement of the government commitment to keep the orientation of the economic policies pointing in the same direction as they have been oriented so far. For a few years the levels of inflation which once reached three digits has been kept to one-digit levels, almost matching international standards, especially that of the main economic partner, which is the United States of America. Similarly, the levels of fiscal deficit have been reduced and kept, within certain margins, under control. The reduction in the levels of government expenditure has been consistent with the narrow stated objectives. Finally, the attraction of foreign investment has remained one of the top tasks ever since the process of economic restructuring started. Furthermore, the amount of flows, both portfolio and direct, which have been pouring into the economy, especially since the opening of the North America Free Trade Agreement, provide evidence of Mexico's coherence and consistency (Cuadra-Montiel, 2008). Since the early 1980s, a group of technocrats has been responsible, yet unaccountable, for keeping the main economic orientation and goals unchanged, despite major shocks, such as the financial mismanagement crisis suffered during the mid 1990s.

Unfortunately, a blind eye has been turned to the costs and omissions of the emphasis in the economic model and the selected strategies and mechanisms. The modest success of the outward orientation of the economy for promoting exports is seen as less impressive from any other perspective than a narrow and aggregate one. Moving away from positivist assumptions and claims is essential if a more balanced, realistic and critical view is, hence, a prerequisite for analyzing multifaceted phenomena. Keeping the rate of inflation low, controlling the fiscal deficit, and attracting foreign investment flows, targets reactivating

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[30] Consider for instance, that the automobiles and autoparts branches are led by transnational companies such as Ford, Chrysler, General Motors, Volkswagen and Nissan, and a further of handful automotive firms since the late 1990s. There is a similar situation in the electronics subsector, where Philips, Daewoo, Acer, IBM, etc., dominate. Oil and petrochemicals present a very different profile since Petróleos Mexicanos, (PEMEX) is a State monopoly whose revenues are one of the most important income sources for the government. Domestic oligopolies such as Femsa and Modelo participate in a leading position in the beverage and brewery sectors respectively; whereas Vitro operates in the glass and derivatives branches. Micro, small and medium size enterprises also play a part in a range of different sectors. Capital and technology intensive goods tend to be concentrated, albeit non-exclusively, with big firms (Dussel Peters, 1997 and 2000). For non-manufacturing sectors, the profile of the companies is also mixed with a handful of conglomerates leading their respective branches.

rates of economic growth, leaving aside equity concerns and redistribution. Either the neglect or the oversight of the domestic market and of the variables directed towards social sectors, have relegated these in the economic agenda, and hardly any attention is given to them. For the latter, employment, domestic demand, wages, the labour market, and savings only fit the model when considered as variables which may impact adversely upon the inflation rates. They are, however, important and related to the reactivation of the domestic market, which has suffered as one of the crucial factors omitted in strategies to promote external resources at the expense of domestic ones. There need not necessarily be a contradiction, nor a trade-off, since the promotion of economic growth in a more equitable way will consider domestic conditions (Romer, 1986 and 1990).[31]

Since equity and redistribution cannot be left to the imperfect and incomplete market domain, because it tends to concentrate wealth, the results of such actions have been high social costs, welfare reduction and an increase in poverty. The importance of this cannot be overstated, for material conditions such as health provision and ideational ones such as education and training are key components for strengthening human capital formation. In other words, labour's skills and education could be used and oriented towards the acquisition, absorption and innovation of technological advances in a range of economic activities, such as manufacturing. In this sense, Romer, among others, has pointed out that aiming for growth requires large stocks of human capital (1990). No wonder the most important asset for an economy are the profiles and qualifications of its population. Furthermore, it is also crucial for attracting Foreign Direct Investment flows. It is precisely regarding these pressing issues that the role which must be played by State policies in facilitating the generation of endogenous growth conditions cannot be rivalled by any other agency. The problem lies in the proper articulation of the policies and strategies which will foster rates of economic growth with a more equitable face. Since focusing only on the attraction of investment, or promoting any given profile of labour, is never a necessary, nor a sufficient condition for reaching that aim, the real challenge lies in the articulation of the linkages of economic activities. The difficulty of achieving a balanced emphasis on the complete chain of products and services is something which needs to be overcome. If the domestic market is to be reinvigorated, the economic links need to be integrated so as to recreate the dynamics domestically adding value to the process (Dussel Peters, 2000). Hence, the integration of economic links encompasses the whole process from the original inputs up to the final marketing and consumption, together with the impact on production, employment, wages, technology creation, and learning processes, among others.

It is important to stress emphatically at this point, that the promotion of the domestic market and attention to endogenous conditions are by no means contradictory or opposed

[31] Taking technological innovation as a core part of his model, Romer suggests that endogenous changes in technology provide incentives for continued capital accumulation and long-term growth (1986 and 1990). For him, the qualifications and skills of the labour force would facilitate the use of technology as a vital factor for fostering economic growth. The qualitative features of the labour force, or making use of economists' jargon, human capital are important as they cannot be replaced by simply aggregating big numbers of people. The process must not be undertaken in isolation. On the contrary, he suggests that integration with the world markets would contribute towards reaching growth goals (Romer, 1990).

to global, international and transnational links, relations, compromises, commitments and flows. I am not proposing to subject the latter to the former at all. What I argue, is the need to reassess and re-evaluate politically, socially and economically the role, participation and integration of the re-commodification experience in Mexico. This is because there is a strong need for a set of strategies which deliver better and more balanced living conditions for the society as a whole. Concern over the rising levels of inequality and concentration of wealth and income does not come out of the blue. Since the 1980s different programmes aimed to target specific sectors have worked as palliatives. Furthermore, they have been used as political instruments, leaving the roots of the problems unaltered. During the last three decades, administrations have come and gone, without any substantial and serious commitment to combating the factors that affect the growing polarization, and gap widening between the better-off and the worse-off (Székely, 1998; Kelly, 1999; Damián, 2001). Needless to say, this is a great deficiency of the economic restructuring which has even been praised beyond the country's borders. Adopting a middle to long-term perspective, the re-evaluation of the economic guidelines which have led the outwardly oriented economic model would take the form of a more inclusive socially oriented agenda (Cuadra-Montiel, 2009). For this to happen, the recognition that economic activities are socially embedded remains crucial, as is the acknowledgement of its contingent and open ended character.

Reinvigorating the domestic market, and facilitating the conditions for endogenous development is, therefore, necessary to provide an economy with a more balanced profile in Mexico. There is a need to generate economic incentives for the absorption of and innovation in technology, while strengthening the relevance of highly skilled and efficient labour within the economic activities (Dussel Peters, 1997). The links of the productive processes, on the one hand, and the formal and informal institutions, on the other, together with the domestic and international sectors and markets are crucial for articulating networks which would deliver a more equitable outcome in the long term. Additionally, paying more attention to the endogenous features of economic activities and sectors could help to provide a more diversified character to the economy. This might reduce or avoid entirely a heavy dependence on specific globalization markets or sectors. Having highlighted the low priority which the domestic market in Mexico has been given, a trap where endogenous equitable growth conditions are increasingly difficult to promote, I now need to turn to some of the countertendencies and contradictions which operate within the outward oriented economic model.

5. Globalization economic imperatives and re-commodification polarizing impact

The emphasis on manufacturing and the structural change undertaken in the Mexican economy are far from ideal as a closer examination makes evident. Leaving inbound industries aside, it is important to analyse, evaluate and challenge the conventional wisdom of the outwardly oriented globalization economic model. Note that it is somehow misleading to talk about the manufacturing sector exports in general, because in reality only a few sectors and firms are responsible for much of the volume and value of the exports. Not all of the manufacturing sectors are high exporters. Moreover, for those who are, there is a tendency towards concentration, with polarizing effects on employment and wages. Of special concern is a pattern of weakening and losing backward productive links with the endogenous market. Not only are the high export sectors and firms having a poor level of integration with the domestic economy, but also they make no contribution or have no spillover effects on economic growth, technological innovation, employment, and know-how (Dussel Peters, 1997). It is also important to bear in mind that the increase in growth since the trade liberalization programmes started and the rise in manufacturing exports, especially to the United States, have a big intra-industry trade component in sectors such as the automobile, spare parts and petrochemicals, which are amongst the most dynamic. Since the biggest share of labour is concentrated in the micro, small and medium firms, their disarticulation with the most dynamic ones spreads very few, if any, gains to a broader social base. The lack of links with big firms shows no association between exports with rising employment and growing Gross Domestic Product (Dussel Peters, 1997 and 2000).

The increasing levels of polarization between the export oriented branches and companies on one hand, and the domestic oriented firms and sectors on the other, distance themselves from each other, as the widening gap between domestic demand and export performance indicates. For instance, Dussel Peters reports a heavy concentration of Mexican exports by a small, albeit highly exporting group of firms with a low impact on employment. Consider, for instance, that maquila exports shared 45 % of total Mexican exports in 1998, while the main foreign and national exporting firms held 44 %. Those impressive numbers contrast with their share of employment in Mexico. Inbound industries' firms account only for 2.7 %, while the main exporting firms, both foreign and national, absorbed 3.5 % of Mexican employment during the year (2000).

The most dynamic branches, in terms of exports, of the manufacturing sector include automobiles, electronic equipment, household appliances, machinery and electric equipment, textile industries, soft drinks and flavouring, apparel, cleaning and cosmetic preparations, fats and oils, corn milling, non-electrical machinery, transportation equipment, wheat milling, pesticides and fertilizers, metal furniture, and food for animals (Dussel Peters, 2000).[32] Not only do those branches account for the biggest and most dynamic exporting subsectors of the Mexican economy, but they are even more important as importers as well. The current account and the trade balance have seen their deficits increase, though temporarily attenuated in the aftermath of the mid 1990s financial crisis. The export oriented model, due to its strong links with foreign markets, but also due to disincentives in the productive sector such as the rapid import liberalization, overvalued

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[32] Other relevant manufacturing industries, albeit less dynamic in terms of exports are steel and iron, glass and products, meat and milk products, metal products, chemicals, plastic products, basic inorganic chemical, basic petrochemicals, electrical equipment, ceramics, tobacco, leather and footwear, cotton, wool and synthetic textiles, lumber, plywood. The least dynamic manufacturing exporters include fruits and vegetables, food products, beer and malt, motors and autoparts, paper and paperboard, sugar, medicinal products, plastic resins, synthetic fiber, cement, alcoholic beverages, wood products, structural metal products, rubber products, non-ferrous metals, coffee, jute, rough textiles, petroleum refining, and printing (Dussel Peters, 2000).

exchange rates and low domestic investment, neither created, nor consolidated endogenous growth conditions. I contend that the problem with the institutionalization of the current economic model is falling into a path-dependency trap, if it is to be carried on with the strong deficiencies which I have pointed out. In other words, further disincentives for the endogenous economic activities could only deliver a vicious circle of deteriorating conditions to which the markets could only offer increasing rates of re-commodification.

Even though relatively successful in their own terms, the export orientation of the Mexican economy puts additional pressure not only on the 'social variables' by delaying the attempt to address social demands, but also on variables which are important for the viability of the outward orientation of the globalization economic model itself. The relative control over the reduction of inflation rates and fiscal deficits, along with increases in foreign investment flows, savings rates, and foreign trade, particularly the rise in manufacturing and inbound industries exports as core sources of growth and concentration on trade with the United States, contribute towards other issues, perhaps not so obvious at first glance. Contrary to official discourse, the exchange rate since the 1994 financial mismanagement crisis has not been allowed to float freely. In reality, the Mexican Central Bank has systematically and continuously intervened in the exchange rate through several mechanisms (Dussel Peters, 2000). The point is relevant, since the attraction of foreign investment and the inflation control obsession have contributed towards keeping the real exchange rate relatively overvalued (Calva, 2000). Even if an adjustment or devaluation of the exchange rate is undertaken, it will only be a matter of time for the appreciation of the currency to start afresh, as it just happened during 2008. Manufacturing and inbound industries which have benefited from a relatively strong peso since the late 1980s, have contributed to overvaluation of the real exchange currency. One of its most serious facets, the appreciation of the Mexican currency, was a factor in triggering the mid 1990s financial crisis. Paradoxically, the emphasis of the economic restructuring model generates disincentives for exports to function as the growth pillar of trade liberalization, as a result of exchange rate policies. This is especially the case when overvaluation of the exchange rate, and high real interest rates turn against the manufacturing sectors (Dussel Peters, 2000; Calva 2000).

This interpretation can be useful for illuminating specific observations such as those regarding the Mexican economic sectors and activities. Consider that, for Mexico, the high concentration of manufacturing exports in a limited set of firms has been characterised by an even higher rise in imports, which accounts for growing volumes of intra-industry and intra-firm trade. In other words, commodities not only are traded within the same industries, but in some particular cases even within the same firms. This is particularly important in capital intensive branches where transnational corporations participate, especially in automobiles, autoparts, electronics and machinery subsectors. Similarly, inbound industries are responsible for a large share of intra-industry trade. The export oriented industrialization tends to feature an even stronger import orientation as the manufacturing sectors in Mexico follow a tendency towards further specialization in products which are also increasingly imported (Dussel Peters, 2000). These patterns only weaken to a greater degree, but even worse, they deter the creation of forward and backward value added linkages, crucial for the reinvigoration of the domestic market and the facilitation of endogenous equitable growth.

Since the 1980s, the patterns of social inequality and polarization have seen the accentuation of Mexico's uneven income distribution and the rise of poverty in general. It is a pressing issue, where social exclusion and high levels of relative inequality have steadily risen in a parallel fashion, as high capital and financial concentration also make few beneficiaries. The liberalization of economic activities has even worsened the conditions of the 'lost decade' of growth and development since the early 1980s (Székely, 1998; Kelly, 1999; Damián, 2001). As the population increases, the lower share of employment for poor families and the creation of jobs with health insurance and social security lags far behind the demand, dramatically reducing the number of options for job seekers. No wonder there is a rise in the informal sector and growing numbers of immigrants, especially illegal workers to the United States; they have become irrefutable evidence of re-commodification for an increasing number of Mexicans (Calva, 2000).[33] Furthermore, remittances sent from the US to Mexico are one of the most important foreign currency and capital inflow sources for the latter country at the aggregate level. More importantly at the agency level, the money which migrants sent to their families becomes in most cases a significant income source due to the wages and salaries disparity between the sides of the Rio Bravo. Hence, another quite crude expression of the processes of re-commodification in Mexico takes place when the richer and more developed market works as an economic magnet, despite the formal and informal series of deterrents and disincentives against illegal migration to the United States. Lack of proper economic opportunities enhances the attraction of better salaries on the northern side of the border. This becomes especially acute for a smaller and more neglected Mexican domestic market with quite weak, and for the most vulnerable social sectors and virtually non-existent social security systems. However, illegal workers face additional difficulties in that their irregular migratory status makes them ineligible for welfare and social protection where they are. Thus, increasing their income level turns out to be their route to modify their unpalatable economic status and conditions; they fall into a vicious circle of increasing their degree of re-commodification to secure better conditions of living, which would otherwise be difficult to reach.

Though the liberalization of economic activities has failed to generate adequate jobs, the unsolved challenge of absorbing the growing numbers of workers into the formal labour market remains a huge challenge over the coming decades (Székely, 1998).[34] I argue here

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[33] The North America Free Trade Agreement (NAFTA) embraces and points towards the free movement of capital and goods among the signatories. Needless to say, no free labour mobility is considered, especially for poorly qualified people. Nevertheless, migrants often seem to find holes on the otherwise most heavily patrolled border of the world, between Mexico and the United States. During 2007, Senate opposition derailed a Bush administration move towards migratory reform.

Regarding the demography of the latter, a country historically forged by immigrants, it reveals a growing share of the 'latino' population as a key tendency in its evolving demographic profile, where 'black' and 'asian' people are also on the rise, in contrast to the declining 'whites'.

[34] Official figures in Mexico fail to capture an accurate estimate of employment, unemployment and sub-employment. A loose definition of economically active population takes all those above twelve years old who had worked for at least an hour for a monetary income, other retribution, or even for no payment at all. Bearing in mind this definition, official figures report 52 % as the economically active population in 1990 and 57 % in 2001; whereas the open unemployment rate is said to be 2.8 % and 2.4 % respectively, for the same years. During 1995, the year after the

that the creation, development and strengthening of economic linkages between the inward looking and outward looking economic activities requires efforts to orientate policy towards meeting the employment demand both in quantitative and in qualitative terms. Overemphasizing manufacturing industries as the core sector of the economic model has failed to deliver jobs, since liberalization is neither associated with trade, nor specifically with exports (Dussel Peters, 2000). The low generation of employment, in which poor conditions are also a pressing concern, has meant that wages have fallen both in real and relative terms, making living conditions difficult for a big share of the population as households tend to rely heavily on employees' wages. Most importantly, economic activities not associated with the export orientation of the economy, such as construction, trade, restaurants and hotels, education and services have been overlooked as employment generators (Dussel Peters, 2000).

A few hundred manufacturing firms and the inbound industries account not only for the export push, but also for the deepening of net imports. Such trade deficits have been financed through foreign investment, which in turn, has been one of the factors behind portfolio inflows and the uncertain strategies of firms. Since one of the reasons for increased importance of transnational corporation intra-industry and intra-firm trade is that needed parts, components and processes from national suppliers are not available in the domestic market, these high exporters have to import their required inputs. In some cases the failure to satisfy technological, quality and organizational standards cannot be overcome easily by the micro, small and medium size enterprises. Due to their asymmetry, especially when compared with the Mexican firms, some transnational corporations have pursued different business expansion strategies. Two of them stand out: either they have merged with domestic firms, or they have bought up smaller ones (Dussel Peters, 2000).

The worsening conditions for endogenous growth are not only a result of the emphasis on the current outward economic strategy. Some historical factors have also played a role in affecting the domestic context. Consider for instance the renegotiation of the foreign external debt and the negative capital transfer during the 1980s. Additionally, the high priority given to the control of inflation, on one side, and the structural adjustment, on the other, have affected the exchange rate, adding overvaluation pressure to the macroeconomic conditions. On top of the increasing dependence on foreign investment and exports, the domestic banking sector bailout which ended up in foreign hands some years later, are not conducive to integrating and strengthening the forward and backward linkages of the commodity chains which the domestic market requires (Dussel Peters, 2000). Therefore, there is an unquestionable need for the support and creation of subcontracting mechanisms on the economic and productive activities side, whereas the small, micro and medium size firms which are mainly oriented towards the domestic market need to take full advantage of factors such as education, technological innovation and development, and financial instruments and credit. If the recovery of the domestic

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Mexican financial crisis erupted, open unemployment rose to 6.2 %, while the economically active population was reported to be 55 % of the total of Mexican working people (Instituto Nacional de Estadística, Geografía e Informática, 2002. Anuario Estadístico de los Estados Unidos Mexicanos).

market, and the aim of a more equitable and sustainable economic growth is to be fulfilled, stronger governmental efforts and attention need to be directed towards the generation of adequate, proper and quality employment. Moreover, increasing the supply of qualified labour for quality jobs cannot ignore the rising cost of wages in real terms, as the low cost jobs offer no realistic and sustainable solution in the medium and long term (Székely, 1998; Kelly, 1999; Damián, 2001). Therefore, a better integration of the Mexican economy on higher value added commodities and services chains requires an urgent reassessment of the priorities of the economic model. Quality and equitable growth and development cannot take place without reinvigorating the role and context of domestic economic actors.

Crucial to the reinvigoration of the forward and backward economic commodity and service chains linkages, is the proper organization of clusters of innovation aiming to stimulate progress. Institutions play a role of extreme importance for linking the production capacity of the economic sectors with their technological capability. Attention needs to be paid not only to the formal and informal markets, on the one hand, and non-market institutional frameworks, on the other, but also to the interactions and the characteristics of the economic networks within which public and private agencies interact. Therefore, national innovation systems should be oriented to a heavy promotion of linkages among firms, both, foreign and domestic, micro and transnational alike, and universities and research centres; in short, all the public and private actors involved in the innovation processes (Cimoli, 2000). The challenge is not to be avoided if the poor organization and connection of economic activities which inhibit the process of innovation is to be overcome, as it is hindering growth with equity in Mexico. Innovation in economic processes, globalization activities, goods and services, contributes to the inventive and original side of 'creative destruction'; this is vital if the economic cycles are to be kept in motion. What is needed is a decisive articulation of policies which do not place the domestic market second to the external market. What is also needed is an industrial policy which promotes an economically stronger articulation among firms and participants in the commodities and services chains; to generate equitable endogenous growth; to orientate coordinated efforts towards innovative steps in economic processes and activities; and finally, a strong political will for a better and brighter future ahead.[35]

[35] Alternatives exist, however, as the role of a long-term industrial policy, redistribution and welfare provision can be led only by the State. Important tasks ahead need not be delayed as the qualitative transformation for a more equitable future includes: a) decreasing the vulnerability of the Mexican economy to external markets, i.e., relying less on short term portfolio investment flows among others; b) adopting an exchange rate policy with reference to balanced external accounts excluding inbound industries; c) articulating consistent links between industrial policy and trade policy, where the latter is not subordinated to the former; d) promoting and facilitating endogenous conditions for financing economic development, increasing domestic savings and investment rates, and reducing financial external dependency; e) implementing a domestic industrial policy orientated towards easing productive non-speculative economic activities; f) not keeping sound public finances and inflation rates under control in isolation, while strengthening fiscal reform and tax collection; g) reassessing the importance of welfare, employment and income distribution, where investing in human capital must not be postponed; h) putting into practice sustainable regional integration policies which are environmentally sustainable, and which aim to decommodify the commodity status which nature has been given and which has so far been taken for granted; and i) increasing not only the efficiency and efficacy, but also the accountability of all government agencies (Calva, 2000).

6. Final remarks: Productive links and clusters within socially embedded markets

Ever since the late 1970s the Mexican economy has faced a range of many different facets of Schumpeterian 'destruction', which unfortunately have not been adequately balanced by equally strong 'creative' pushes. Leaving aside a short-sighted strategy based on the comparative advantages of geographical proximity to the United States and low cost labour is merely the prerequisite for aiming at and reaching a qualitative improvement in living standards. It is imperative to avoid falling into a path dependent vicious circle of neoclassical economic orthodoxy which, even though relatively successful in its own narrow terms, falls far short of delivering sustainable and equitable progress at the national, and especially at the individual level. The need to create stronger and more sustainable linkages and cluster connections among the economic actors is something which Mexico cannot afford to ignore. A more comprehensive and coherent model, attentive to the social embeddedness of economic activities is required to re-orientate both the means and the ends of the contemporary re-commodification experience. We need to think of alternatives to replace the current import-prone export-oriented strategy. Alternatives which encourage a proper articulation between domestic and external markets, and where the endogenous conditions deliver more equitable rates of growth and development for the population needs must be considered more seriously than they have been so far (Cuadra-Montiel, 2009 and 2011).

It must be clear by now that my interpretation of the process of economic transformation in Mexico has highlighted crucial causal relations, regular without being law-like, in the country's globalization and re-commodification experience. By taking a balanced account of the situated economic agents in context, and the material and ideational factors, I have highlighted the most acute problems in the socially embedded economic networks, which are otherwise considered totally isolated from their context. Regarding the industrial disintegration between a handful of highly exporting firms and most of the Mexican firms and groups, it is important to bear in mind that quite a high number of medium, small and micro enterprises are mainly oriented towards the domestic market. It is precisely to the domestic market that scant attention has been given. For a relatively large number of cases, this market has not totally recovered since the 1980s, where the companies which account for the biggest share of the economically active people face difficulties in financing their operations through the Mexican financial system (Székely, 1998).[36] Since international financing is beyond their reach, high domestic interest rates and credit ineligibility further disarticulate the spread and dissemination of productive non-speculative activities. Consider, for instance, that as a consequence of the formal economic constraints, the rise of the informal sector and the

[36] The financial liberalization in Mexico failed to open credit availability for the biggest share of the population. At the same time that the richest firms and individuals expanded their credit options and resources, the liquidity constraint has affected a vast majority of the citizens and enterprises. For the disadvantaged sectors, credit scarcity has represented further constraints to avoid the social cost of reorientation of the economic model; while the richest deciles have been provided with better opportunities to protect their income, assets and capital (Székely, 1998).

growth of the black market, particularly since the 1980s, has not been checked. As long as the incentives for remaining there outweigh what hundreds of thousands of people could get in the formal markets, the problem will not be sorted out. Immigration shares to a great extent the same origin, as the vertical implementation of liberalization and privatization strategies has thrown people out on the streets, and left peasants with no work to do. It is no secret that the open unemployment statistics fail to capture the massive increase in the informal sector and black market on the one hand, and of the high numbers of immigrants principally to the United States, on the other. This is, undoubtedly, a critical issue in a country where no unemployment insurance or reliable safety net exists to attenuate, compensate or alleviate economic displacements. There is, therefore, the need to provide welfare, grant protection from the markets and reverse the re-commodification status, either intentionally or unintentionally, so far embraced by the Mexican government.

For an important number of Mexican manufacturing industries and firms, improved management efficiency has not been accompanied by innovative techniques or procedures, leaving it to price and market signals to steer the direction of the firms. Based on the 'self-regulatory' and 'self-adjustable' market assumptions that mainly price signals should be followed to guarantee the optimal allocation of resources and technological upgrading, the critical result has been a careless lack of effort in the creation of networks between firms (Cimoli, 2000). This is of the utmost importance, as the creation, development and strengthening of linkages critically impinge on the economic performance and competitiveness of the firms. Furthermore, the links within economic actors such as firms within a sector, and between sectors, on the one hand, and within the institutions, on the other, may impact and have spillover effects which go beyond any specific economic transaction.

Weak levels of cooperation which characterize the manufacturing, and especially the inbound industries, are responsible for the poor diffusion of innovations within economic networks. The loss of articulation of the dichotomy between a handful of outward oriented firms, and a vast number of micro, small and medium size firms inwardly directed cannot be disregarded. In addition, the intense dependence on foreign technology makes 'maquiladoras' to support and to stimulate networking activities with foreign firms and institutions. Needless to say, this reinforces knowledge and technological innovation, mainly in the United States, but also in other countries. The dependence on imported capital goods and equipment has not only prevented, but also has been used to replace the learning capability which otherwise have accumulated in specialized domestic suppliers (Cimoli, 2000). Since innovative technology can be bought, used, adapted, improved and created, the challenge ahead of substantially improving the sectoral innovation clusters embedded in a framework of particular competitive relationships and institutional linkages must not be postponed.

The problem of leaving technological learning and innovation as a response to globalization price and market signals lies in the fact that it does not provide any clear incentive for articulating science and technology policies aimed at specific purposes with properly defined goals. Therefore, in such cases the results are badly addressed programmes. Clearly, adopting such a risky selection shock-strategy condemns not only the individual firms, but also all the agencies involved in the processes, or linked to the sectors, to lag behind the international frontier. Even a simple concern to catch up increases the difficulty if the emphasis is merely on management modernization and competitiveness, following a narrow governmental policy, and an equally short sighted management vision. In order to avoid the stagnation of technological innovation and increased re-commodification, efforts and incentives need to be orientated towards the re-articulation and re-strengthening of domestic linkages, to promote endogenous equitable growth conditions. If this is to happen, local economic networking activities must be drastically improved, both in terms of quality and quantity, and the production system and technological capabilities enhanced. For instance, the present low technological opportunities and the research and development efforts have to be improved. There also need to be an improvement in the organizational and institutional response. Additionally, not only must foreign direct investment flows be orientated towards contributing more significantly to local technological activities, but also the linkages among scientific sectors and local institutions have to be reinvigorated (Cimoli, 2000).

Crucial for these steps will be the replacement of the labour-intensive low skilled strategy by one which promotes and reinvigorates ideas, knowledge, science, technology, research and development. In addition, specialization in the mature technology traditional activities, which faces increasing quantitative international competition, will have to be abandoned in favour of a more cooperative approach to diffuse technological and scientific innovations through networking. The development of human capital, where technicians, engineers and scientists play a core part, must not be abandoned or left to the imperfect and incomplete market forces. Since the governmental policies and the efforts of management to make use of modernization and competitiveness have proved inadequate for catching up at the international technological and innovation frontier, increasing the sectoral innovation within clusters could clearly be a more decisive step towards that goal. Furthermore, education, training and specialization on the side of human capital and local networking on the relational side could help to re-orientate the efforts to this direction. Most importantly, from my point of view this would not only be a market driven process, since economic activities are subsumed within a broader social context. There is a great need to put into practice long term industrial policy initiatives, with the decisive and qualitative involvement of the government. All the different stages of the process have to be reviewed, not only by those with whom exchange but all economic debate should be socially inclusive. The idea is to domestically reinvigorate and balance all the links in the productive chains, if the current economic strategy in Mexico which has shown vital shortcomings and lack of proper articulation is to be addressed and corrected (Cimoli, 2000).

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