

Industrialisation Beyond Mexico's Centre:
A Multilevel Approach to State-Led
Industrialisation

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Abstract

The present research project aims to contribute to the developmental literature on Mexico's industrialisation. In pursuing this, it will deviate from previous studies of Mexico's industrialisation where the state's federal level is generally the main focus. In contrast, this thesis highlights multilevel characteristics with the objective of providing a new perspective regarding state-led industrialisation.

The research questions for this project will thus be as follows: to what extent have subnational actors contributed to industrial transformation in Mexico? Then, as a following objective, this thesis will examine *how* these industrialising efforts have been consolidated at a subnational level.

To address these objectives, two subnational case studies will be compared. The states of Nuevo Leon – Mexico's early industrialiser and one of its bigger Northern states— and Queretaro –a catching-up state located in the centre, which is among the smallest in terms of territory and population. Using these case studies, it will be argued that in the case of Mexico, the state-society alliances necessary for industrial transformation have been formulated at the subnational, rather than national, level. As a result, these alliances have given way to parallel patterns of industrial policy and state-society relations enabling both subnational states to achieve rapid industrialisation.

Overall, this thesis aims to make two main contributions to the existing literature on state-led industrialisation. First, by undertaking more of a long term approach, it aims to examine the institutional origins and evolution of industrial policy in Mexico. Secondly, due to Mexico's more diffuse industrialisation, this research hopes to provide a testimony of the more multileveled characteristics that successful industrialisation has had in the Mexican case. Having undertaken this examination, the thesis also contributes to an agenda to broaden the explanatory scope of the literature on state-led industrialisation.

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Author's Declaration

I hereby declare that this thesis is my own work and has not previously been presented for an award at this, or any other, University.

Industrialisation beyond Mexico's Centre: A Multilevel Approach to State-Led Industrialisation

Chapter 1. Introduction

1.1 Research Questions

The main research question that this investigation poses is the following: to what extent have subnational actors contributed to Mexico's industrial transformation? Following this question, the main objective will then be to examine how industrialisation efforts have been undertaken at the subnational level.

In order to contribute to the existing literature on Mexico's industrialisation, I considered that the present research had to encompass a theoretical framework stretching beyond industrial policy. Due to the Mexican state's fragmentation and its incapacity to consolidate developmental capabilities at its centre, a theoretical framework consisting solely of industrial policy seemed insufficient. After my fieldwork, I was convinced that Mexico's political development and the fragmentation of its state had exerted a particular influence on its economic development. Thus, it became a central concern to relate these two analytical frameworks. Accordingly, the present section will expand on how this linkage could be explored in the case of Mexico.

Most of the prevailing literature on Mexico's industrialisation seems to put an overarching emphasis on the federal level and its involvement with industrial policy. There was some successful industrialisation in Mexico between the 1940s and the end of the 1970s; this led to GDP rates above 6%, however, the federal state was rarely seen as a driving agent for industrial transformation due to pervasive cronyism.

Consequently, throughout this research, I intend to explore the insights that a more multilevel approach could provide towards a better comprehension of Mexico's industrialisation processes. Thus, the following paragraphs of this section will relate how the developmental literature and Hirschman's "binding agents" (1958, p.10) contribute to an examination of Mexico's industrial transformation, particularly at the subnational level.

Regarding the literature on industrialisation, the main pillar for this investigation will be taken from developmental studies, considering their valuable contributions in

comprehending projects of rapid industrialisation. Around the time of Mexico's industrial decline, during the 1980s, the developmental literature began to take root in the academic field to explain the recent success of Latin American countries and the East Asian Newly Industrialised Countries (NICs) during the mid-20th century.

Through these developmental studies, authors like Chalmers Johnson (1982), Alice Amsden (1992), Robert Wade (1990), and Peter Evans (1992; 1995) have emphasised the important role that particular state agencies played in achieving rapid industrialisation. In Japan, for instance, the Ministry of International Trade and Industry (MITI) played a leading role in achieving successful industrialisation (Johnson, 1982, pp.10–34). While, similarly, in Korea, the role of the Economic Planning Board (EPB) was vital in enabling the country to construct comparative advantages in industry (Amsden, 1992; Evans, 1995, p. 52). Furthermore, in a Latin American context, Evans' seminal work, *Embedded Autonomy: States and Industrial Transformation*, reviewed Brazil's efforts at achieving industrial transformation as well. In this study, Brazil's CAPRE was also portrayed in its leading role as "pilot agency" for the country's industrial transformation in the electronics sector (Evans, 1995, p. 117).

When I arrived at portrayals of Mexico's industrialisation, however, I failed to find any state agency which had paralleled the above agencies in leading the country's industrial transformation. Schneider's insightful work on Mexico and Brazil as "desarrollista states" did manage to explain the unique characteristics and deficiencies of developmentalism in Latin America (Schneider, 1999, pp. 278–83), while Bennet and Sharpe's study (1982, pp. 182–9), in turn, undertook the task of explaining the Mexican development banks' role in incentivising growth through the ISI (Import-Substitution Industrialisation) years; this last particular study included an emphasis on finance as one of the vital aspects of rapid industrialisation.

Still, a developmental or political-economic account relating the actual processes of Mexico's industrial transformations was not found, as it was in the wider developmental literature. It seemed to me that the analytical time-frame employed by classical studies on Mexico's "desarrollismo" related mainly to a period when state agencies and big industries were already settled, namely during the ISI (1940s-1980s), thus leaving much of the institutional origins and evolution of industrial policy out of the picture, along with the actual agents of industrial transformation.

Along these lines, this research considered it necessary to characterise the main role that it was searching for under a more inclusive concept, one that could cover the

transformative characteristics of a Japanese MITI, a Korean EPB or a Brazilian CAPRE. In a sense, this research turns to Albert Hirschman's concept of "binding agents" (1958, p. 10) to transform underdeveloped economies. Thus, the role of a binding agent consists mainly of two features. First, having a "growth perspective" that includes not only some level of industrial desire or vocation but a perception of the optimal path towards it as well. And, second, the ability to achieve cooperation amongst every economic actor needed for the joint effort of industrial transformation (Op. cit. 1958, p. 17).

In this sense, the binding agent role is two-tiered according to the essential functions it has to play in terms of igniting industrial transformation. These two essential roles were eventually rescued and implemented by developmental studies as well. First, the organisation of the state *per se* in mobilising a developmental vocation of the country through an optimal organisation of both strategies and its bureaucratic units; and, second, the state-business coalitions leading this industrial transformation (Haggard, 2015, p. 46); or what Evans (1995, p. 12) defines, more simply, as the two main pillars of analysis for his case-studies on industrial transformation: state structure and state-society relations. In Evans' seminal work, the latter aspect is addressed through an "embedded autonomy" (Ibid.) where cooperative ties between public and private sectors are achieved in an institutionalised manner whilst avoiding state captures, rent-seeking or similar corruptive mechanisms.

Evidently, successful developmental states mastered this dual role of the state as binding agent. In Japan, the MITI unit fulfilled the transforming role of binding agent, as portrayed by the pioneering study of Chalmers Johnson (1982, pp. 305–27), with another case being the already cited Economic Planning Board of South Korea (Evans, 1995, p. 52; Kohli, 2004, pp. 94–7).

These binding agents were thus successful in setting out what they perceived as the optimal path or industrial policy toward industrial transformation, along with the required state-society cooperation needed to fulfil it. Through this success, they were able to foster new domestic industries, eventually transforming them into competitive and high-tech firms across global markets. Along these lines, the term "industrial policy" will be used as set out by Chalmers Johnson, who considered it as "the activities of governments that are intended to develop or retrench various industries in a national economy in order to maintain global competitiveness" (1982, p. 9).

In the Mexican case, the country achieved GDP growth rates above 6% while engaged in ISI from the 1940s until the end of the 1970s, leading researchers and

commentators to label this industrial process the “Mexican Miracle”. Likewise, there existed a domestic set of internationally competitive firms, although the federal state has rarely been depicted as fostering or inducing new industries. Rather, the state has generally been portrayed as a combination of protectionist regulator and direct producer (Bennett & Sharpe, 1982, pp. 169–70; Erfani, 1995, p. 60; Moreno-Brid & Ros, 2010), along with pervasive cronyism.

Throughout this research, I found it difficult to find a depiction of the Mexican state fostering and assisting domestic firms toward more challenging industrial activities. As stated by Gauss (2010, p. 15), the Mexican state “never came close to creating an agency that approximated the role” of the Japanese MITI or the French *Commisariat Général du Plan* in leading nation-wide efforts towards industrialisation.

It is here then that my main puzzle resides. There was an effective industrial transformation in Mexico, which enabled its industrial “Mexican Miracle”, but hardly any testimonies of binding agents at work. Therefore, the main objective of this project sets out to uncover how industrial transformations were achieved, and which state parts played the role of binding agents.

After my fieldwork, it became clearer to me that due to the Mexican state’s fragmentation, industrial transformation was constructed across the state’s different levels. Furthermore, initial fieldwork findings also hinted that it was at the subnational level, and not at Mexico’s centre, where the role of binding agent had better chances of crystallising. Consequently, this crossroad in the research process led me to reconsider the Mexican state’s capabilities and its particular political development.

Eventually, this task was helped by Alan Knight’s and Jeffrey Rubin’s characterisation of the Mexican state as a “Swiss cheese” state “full of holes” (Knight, 1990, p. 95). What this particular depiction managed to heighten was the necessity of tracing the actual mechanisms of the Mexican state beneath its façade of authority and autonomy. An approach that eventually led this research to a more historic and multileveled approximation of Mexico’s industrialisation.

This project therefore aims to broaden the aforementioned studies on Mexico’s industrialisation through two main approaches. First, through taking an historical institutional approach to Mexico’s industrialisation it intends to relate the origins and evolution that an institutional system of industrial policy had across time. Secondly, it aims to give a testimony of the more multileveled characteristics of successful industrial

transformations in Mexico, with a particular focus on the interactions between subnational and national governments.

In the following paragraphs, a chapter outline will be given to introduce the main themes and aspects that will be developed throughout this research.

1.2 Finding a theoretical framework for Mexico's multilevel industrialisation

In order to trace the industrialisation processes that have been taking place in Mexico, I will first expand on the theoretical framework underlying my research. Thus, in Chapter 2, I outline my theoretical framework with references to the pillars of the developmental literature. With this in mind, Chapter 2 will retrace the academic backbone of industrialisation studies, the majority of which used a comparative approach.

Firstly, the contributions of Friedrich List (List & Henderson, 1983; List, 2001) will be reviewed, as these have been particularly important over the past decades in setting the foundations for both the upsurge of developmental studies in the 1980s and current comparative historical analysis within the realm of political economy. According to Chang (2002, p.6), the pioneering comparative method of List consisted of “searching for persistent historical patterns, constructing theories to explain them, and applying these theories to contemporary problems, while taking into account changes in technological, institutional and political circumstances.” How, then, can the Mexican case benefit from such “persistent historical patterns”?

Fortunately, List just placed the first stepping stone for comparative industrialisation studies. In a rather long period after List, two researchers came forth to continue building on these studies through a comparative-historical approach: Alexander Gerschenkron and Albert O. Hirschman. As will be reviewed in this chapter, Gerschenkron's (1962) conceptions of economic backwardness, the prerequisites for industrialisation and the deviations between industrial pattern further contribute to understanding the “persistent patterns” of economic development.

In a parallel timeframe, German thinker Albert Hirschman was also exploring strategies toward economic development with a particular emphasis on the underdeveloped region of Latin America. Hirschman, however, extended the pragmatic manner of List and Gerschenkron by formulating “inducement devices” by which a country could overcome economic stagnation (Hirschman, 1958, p.203). Likewise, fundamental to this research project, was Hirschman's conception of a “binding agent” (Op. cit. 1958, p.6) for industrial transformation; in charge of laying the optimal path for

economic progress and the necessary coalitions between economic actors in order to attain it. Hirschman's use of the concept "social overhead capital" (SOC) will also be a guiding concept throughout the first chapters of the empirical case studies. In words of Hirschman (1958, p. 83), SOC stands for "all public services from law and order through education and public health to transportation, communications, power and water supply, as well as agricultural overhead capital as irrigation and drainage systems". Consequently, this concept will gain greater relevance when linked to the "developmental sequences" (Op. cit. 1958, p. 88) of the case studies and the key role that the binding agents played in consolidating the SOC of their subnational states as a stepping stone for both Nuevo Leon's and Queretaro's industrial transformations.

A couple of decades later, the aforementioned authors were revisited to explain the rise of emerging economies across the Third World. Chalmers Johnson (1982) study on the Japanese Miracle emphasised the central role that the Japanese Ministry of International Trade and Industry had in their country's rapid industrial transformation. In a similar vein, researchers such as Alice Amsden (1992) and Robert Wade (1990) also contributed to the related literature of East Asian's states and their roles in rapid industrialisation.

The particular circumstances of Mexico's multilevel industrialisation will lead, in the second part of Chapter 2, to search for an adequately organisational framework. As remarked above, due to Mexico's particular fragmentation as a state, a theoretical framework consisting only of industrial policy and approximations to an embedded autonomy seemed insufficient when aiming to examine Mexico's shortfalls and successes. Which framework, then, could provide the present research with a better understanding of how Mexico's political development has influenced its economic development?

The lack of a cohesive developmental centre in Mexico, for instance, led to multiple arenas of opposition to the state's intended industrial policies. Namely, what I refer to as a "cohesive developmental centre" is a state level or agency capable of leading industrial policy across the country. An absence of this in Mexico was already heightened by Gauss when referring contrastingly to the capacities of the Japanese MITI and the French *Commisariat Général* (Gauss, 2010, p.15).

During my fieldwork, it was perceived that a much more complicated and diffuse process had been leading the country's industrialisation. There were stark contradictions, not only within Mexico's central ministries or offices, but across the state's different

levels. Also, the overarching power that certain social groups exhibited along with the country's economic development seemed to pose further layers of complexity not present in classical developmental studies (Johnson, 1982; Evans, 1995) or in "state-directed development" (Kohli, 2004).

One of the main dilemmas this research found was that the undermined capabilities of the state's centre had enhanced the development of other agents willing to lead their distinct regions toward industrial transformation. Moreover, some of the time these actors managed to outmanoeuvre the state's intended directions for economic progress. So I also had to ask in which way could this research better illuminate this societal component within Mexico's industrial development?

As a starting point, I considered myself in the presence of a more dialectical relationship between state and society, in which the divisions between them were often blurred. The state was not only being constrained by its society, but it was being transformed by it as well, leading to a sort of mutation between agency-structure divisions. This eventually led the thesis back to considering Alan Knight's and Jeffrey Rubin's formulation of the PRI state as a Swiss cheese "full of holes" (Knight, 1990, p.95), in which pacts with regional strongmen were made to create a façade of stability and authority across the nation.

The acknowledgement of the Mexican state's shortfalls in the second chapter will then lead the theoretical framework to expand on the rewarding tools set forth by the "state in society" literature (Migdal, 2001, pp.3–38). Hopefully, this section will be able to explain the unique tools that this conceptual framework provides by explaining how a fragmented "Swiss cheese" state translates into projects of industrialisation. Or, in other words, how the uniqueness of Mexico's political development has translated into its economic development.

Moreover, the role of historical institutionalism as a backbone for the "state in society" approach will be used as a guideline for tracing the actual processes enabling industrial transformations across Mexico's history and territory. As depicted in seminal political economy studies (Polanyi, 2003, pp.15–31; Gerschenkron, 1962, pp.26–8), it generally takes long periods of time to achieve institutional changes or transformations. Thus, with the support of this particular branch of institutionalism, this research aims to offer a testimony of the different institutional changes that have crystallised across national and subnational platforms.

To end this chapter, a brief account will be offered regarding the methodological component of the present research. This part of the chapter will therefore depict the several sources, primary and secondary, that guided the investigation process along the way. Likewise, it will expand on the selection criteria undertaken for its two subnational case studies.

1.3 National context of industrial transformation: state capabilities, state-society relations, and state fragmentation

As an eventual stepping stone to revising industrialisation in Mexico beyond the traditional centre, Chapters 3 and 4 will depict why it was that the Mexican state failed to consolidate an efficient developmental centre. The main questions driving these initial chapters are: how did the political characteristics of a fragmented state translate into its industrialising drive? And what were the main impediments for the Mexican state in consolidating a cohesive developmental centre?

Chapter 3 will thus first address Mexico's attempts at industrialisation. Within these attempts, Polanyi's "great transformation" (Polanyi, 2003, p.31; p. 120) comes to mind, as President Porfirio Díaz (1876-1911) could be identified as the first President in charge of Mexico transitioning "from a semifeudal mode of production to a capitalist one" (Moreno-Brid & Ros, 2009, p.46).

This chapter will consequently trace the effects that Mexico's first encounter with a Great Transformation had on its developmental capacities and its state-society relations. It will likewise examine how the Finance Ministry (*Hacienda*) began to consolidate as a key power centre for economic decision-making in Mexico, although with a pervasive dependence on economic elites. A central part of this chapter will therefore be committed to portraying the factors that eventually hindered Mexico's chances at establishing a more embracing developmental centre within both of its essential pillars: state-structure and state-society relations.

Given both of these aspects, the characterisation of the PRI state as a "Swiss cheese" (Knight, 1990, p.95) again springs to mind, due to the regional and elitist pacts that the state made with economic elites. What were the consequent implications of these pacts for Mexico's economic development? It will be argued that the implications were mostly two-fold. In some cases, the PRI's hegemony was respected and stability consolidated. In others, these holes were filled by regulatory captures or by the rise of social groups as opposing forces to the state – a case better illuminated by the Monterrey Group.

Chapter 3 will thus relate how the cronyism implemented during the *Porfirian* regime had long-lasting and pervasive effects on Mexico's developmental evolution. The state-business ties formulated during the *Porfiriato* gradually set the scene for what became, as will be argued throughout the chapter, a "regulatory capture" of the Finance Ministry.

Likewise, in this chapter, an initial comparison to Mexico's Latin American counterpart, Brazil, will be undertaken. The Brazilian economic elites' capacity to re-establish themselves following the demise of the Old Republic (Hagopian, 1994, p.38) will be used to resemble the *Porfirian* economic elites' own capacity to re-establish themselves after Mexico's revolution. Nevertheless, from here onwards, differences will be highlighted to contradict the usual mirroring portrayals of Brazil's and Mexico's industrialisation (Hewlett & Weinert, 1982; Schneider, 1999, p.278).

As it will be reviewed throughout this chapter and those that follow, the Brazilian state, though also with intermediate capabilities, clearly superseded the Mexican state's autonomy or authority in regards to industrial policy. The former being generally able to start more ambitious indigenous industrial sectors, devaluations and fiscal reforms, whilst the Mexican state could only continue to falter in its related attempts due to the pressure of the economic elite.

In Chapter 4, the present project will thus continue to trace the state-business relations that shaped Mexico's industrial policy and economic development. The continuums of accommodation and opposition between state and business elites extended to the second half of the 20th century. Although Mexico was still within its "Miracle" years, during which its GDP growth was over 6%, the continuing contradictions between the state's intended industrialisation and its dependence on an increasingly powerful private sector, gradually led the state to a legitimate crisis.

Along these lines, the 1968 student massacre will be the departure point of this chapter, signalling the Mexican state's increasing fragmentation. The growing inequalities between economic elites and labour began to illuminate the pervasive effects that cronyism was having throughout Mexican society. The legitimacy of the PRI government as a legitimate heir of the Revolution thus began to be questioned across the Mexican constituency. Likewise, the cumulative frictions between bureaucratic factions and between state and economic elites eventually precipitated the end of Mexico's national industrialisation drive.

A neoliberal shift followed, but as Chapter 4 will relate, the most powerful industrial/financial conglomerates of the Mexican economy again managed to get their

interests catered to through privatisations. The state centre's role in the economy, however, has forever been reshaped since the 1980s, leading to a "state withdrawal" (Snyder, 1999, p.296) from its traditional leadership in economic development policies.

Later, the electoral alternation at Mexico's presidency eventually increased the state's fragmentation. And although the fragmentation of the state seemed like a further challenge to Mexico's economic development, silver linings soon presented themselves, as enhanced decentralisation, along with a more effective and proactive role from subnational governments. Therefore, Chapter 4 serves as a useful stepping stone for the subnational case studies, "linking macro- to micro-level change" – as termed by Migdal (2001, p.173).

Chapter 4 will likewise consider the institutional implications that state-business relations have had on Mexico's economic development. Accordingly, institutional processes carried out in a national context will then serve as a reference and background to the subnational case studies, whose institutional implications show insightful subnational variations.

1.4 Overcoming economic backwardness beyond the centre: Nuevo Leon as early industrialiser in Mexico and Querétaro as a catching-up state

After depicting an undermined developmental centre in the national context of Mexico's economic development, the transformation of subnational states into industrially competitive regions becomes more elusive and difficult to comprehend. The pending question to be analysed through this project's case studies is: how did this fragmentation of the state and its undermined developmental centre affect industrialisation beyond the centre of Mexico? One of the guiding narratives for the case studies will be uncovering the multileveled interactions that had to crystallise in order for subnational industrial transformation projects to be successful.

Thus, one of the main objectives of the case studies is to disaggregate the elusive myth of the Mexican state as a strong economic planner (Erfani, 1995, p.90). With Mexico's central offices committed to subsidising prevalent economic elites or extending practices of cronyism across strategic economic sectors, it is rather difficult to witness those same agents working as "binding agents" of economic progress. Instead of "maximising induced decision making" (Hirschman, 1958, p.10) in the economy toward industrial upgrading, PRI political elites usually chose to maximise the private sector's

returns in exchange for their permanence in power. How then were industrial groups and activities actually fostered beyond this crony centre?

The aim is therefore to illuminate the actual state-society synergies central to projects of industrial transformation. As mentioned above, these state-society synergies turned out to be generated from subnational platforms not Mexico's centre. As will be argued below, each subnational states' development was spearheaded by local economic and political elites – a perspective generally unaccounted for in Mexico's economic development literature.

In contrast to the traditional portrayal of governors as highly centre-dependent in the political sphere (Beer, 2003, p.103), in the fairly successful cases of states like Nuevo Leon and Queretaro, the governors were proactive policy-makers and power-brokers, working between local economic elites and federal government in regard to economic development. In this sense, the governors endeavoured to fulfil the role which Hirschman (1958, p.10) considered vital for the industrial transformation of underdeveloped countries: that of a “binding agent” for growth, not only establishing the developmental strategies but achieving cooperation among needed agents.

The first case study of Nuevo Leon will thus go back to Mexico's first solid attempt at a “Great Transformation”. In the last decades of the 19th century, Nuevo Leon went from being one of many typical agrarian Mexican states with its own share of wealthy land-holders to being the industrial crown of the country during the first decades of the following century. Thus, the objective in this chapter is to analyse how the state of Nuevo Leon achieved its first industrial transformation.

The central argument throughout Chapter 5 will thus be that the industrial transformation of Nuevo Leon was driven almost completely by the merits of local elites, rather than by the traditional overwhelming accounts of top-down or centre-periphery initiatives carried out during the *Porfiriato* (Moreno-Brid & Ros, 2009, pp.46–50). The aim is therefore to capture the mutual transformation, not only between state and society, but between centre and periphery as well. Furthermore, not only were these state-society ties not triggered at the centre, but the centre became even an initial obstacle to Monterrey's industrialisation, as most of the country's strategic sectors were jealously guarded through cronyism.

Also central to this chapter will be the characterisation of Nuevo Leon's sequence toward its industrial transformation – a task which will be undertaken by returning once

again to Hirschman's conceptualisations, in this case, regarding "development sequences" (Hirschman, 1958, p.88).

Nonetheless, paralleling other Third World cases (Evans, 1995, p.229), perils soon emerge in the fostering of private sector groups. Chapter 5 will thus conclude with an account of how Monterrey's group of industrialists (the Monterrey Group) outmanoeuvred the national state in terms of setting the corresponding rules for industry within the jurisdiction of Nuevo Leon.

The following section, Chapter 6, will in turn endeavour to trace the industrial transformation of Queretaro – a remarkably backward state during the mid-20th century. The transforming state-business relationships were also forged at a subnational level, though without the resulting opposition from economic elites as in Nuevo Leon.

Chapter 6, in tune with the previous depiction of Nuevo Leon's initial industrialisation, will argue that the state-society arrangements that enabled Queretaro's successful catch-up were formed at the subnational level, not at the national one; a similar case, in fact, with Nuevo Leon's industrialisation and its "scaling-up" factor as a key contribution to the process. The time-frame of Queretaro's industrial transformation, however, was to be englobed amidst Mexico's ISI drive or its "Miracle" years (1940-1980).

Hopefully, this contrast in time-frames between the two case studies selected will be one of the elements that illuminate the "method of agreement" (Skocpol & Somers, 1980, p.183). As will be further reviewed in the methodological section, despite widely different timeframes and characterisations of each subnational state, both case studies did manage to achieve rapid industrialisation. Nuevo Leon as one of the bigger northern states with big land-holders and merchants with national impact, and Queretaro as one of the smaller states in the centre with small *rancheros* (farmers) and merchants. What were then the patterns and traits that enabled such rapid industrialisation at the level of these subnational platforms? This will become a guiding question throughout our analysis of the case studies.

A main theme of Chapter 6 will also be Queretaro's development sequence and its effects on the institutionalisation of industrial policy. Although Queretaro's sequence of "development via shortage" (Hirschman, 1958, p.88) paralleled Nuevo Leon's, the much more acute deficiencies in its infrastructure posed bigger challenges to local elites. These bigger challenges strengthened state-society ties throughout Queretaro's industrial drive, enabling the layering of developmental institutions as a vehicle for economic progress.

Consequently, both chapter 5 and 6 reflect the importance that the element of continuity has when pursuing projects of industrialisation. As reviewed by Adrian Leftwich (2005, p. 695), “sustained growth and development has almost everywhere required a coherent, consistent and continuous policy path” implemented either through a “non-democratic authoritarian rule” or “dominant-party democracy”.

In the case studies, the element of continuity turned out to be essential for the industrialisation projects undertaken at a subnational level. Even more when a meritocratic bureaucracy could never set roots across the country. What the element of continuity provided for Nuevo Leon and Queretaro, however, was a sort of substitute or replacement for the meritocratic bureaucracy that studies like Evans’ (1994) or Chalmers Johnson’ (1982) highlighted. It could well be said that, just as in the case of Brazil (Evans, 1995, p. 64), the subnational bureaucracies of Nuevo Leon and Queretaro, though not meritocratic, managed to “be stretched further and still deliver”.

Furthermore, as noted in the methodological chapter’s comparison of Nuevo Leon and Queretaro, and following Leftwich’s distinction (Op. cit., p. 695), the continuity attained for the case studies’ industrial transformations were provided by different political contexts: “non-democratic authoritarian rule” in the case of Nuevo Leon and “dominant-party democracy” in the case of Queretaro.

A few years after Queretaro’s industrial transformation, however, the end of Mexico’s national industrialisation, accelerated by its neoliberal shift in the 1980s, eventually posed new challenges to both case studies. These new challenges were englobed within the “new internationalization” (Evans, 1995, p.15) of industry, in which open markets and TNCs represented further challenges and obstacles to domestic industries across the Third World. Moreover, the state’s withdrawal of its traditional role as industrial policy-maker and subsidiser exacerbated the challenges faced by domestic industries. As a silver lining, this new context eventually emphasised the importance of subnational governments and their role in fostering industrial progress, as will be traced in the following two chapters.

Thus, the following two chapters will cover the industrialisation projects undertaken by the subnational governments of Nuevo Leon and Queretaro, though now in the new internationalised context. As will be reviewed, the preceding institutional layering of industrial policy and state-society allegiances gave these states an advantage in recapturing their lost industrial momentum.

1.5 Constructing comparative advantages in the new internationalisation: Nuevo Leon and Queretaro after state withdrawal

In the present research, it is the devolution of economic development roles that will be the central concern of the case studies. However, this devolution was not a process devised from the centre or the periphery, but rather a response from subnational governments to the federal government's withdrawal of economic development policy arenas (Ferreira et al., 2008, p.191).

In an effort to trace this migration or revival of developmental capacities to subnational platforms after the neoliberal shift, the cases of Nuevo Leon and Queretaro will again serve to portray the "ecological variation" (Migdal, 1988, p.81) that this process had across Mexican states with an industrial drive. At the turn of the century, it was soon clear to state governors across Mexico that the federal state had once-and-for-all abandoned the *dirigiste* stance which it had exhibited in the country's past century. Now, the questions these subnational governments faced were about how to use their past industrialisation experiences and preceding institutional layering to favour their current economic development.

Although throughout the past century, the governors were much more than the expected intermediaries (Hernández-Rodríguez, 2003, p.103) or modern viceroys (Ward & Rodriguez, 1999, p.675) regarding economic development, the neoliberal shift following the 1980s and 90s proved to be a further challenge to these regional officers. Thus, the roles and initiatives that each state government enacted to trigger each state's economic development in this new scenario were of paramount importance. Again, as in previously detailed developmental experiments, the state-society arrangements at a subnational level proved to be definitive.

Thus, in Chapter 7, the case of Nuevo Leon will again be studied, though now in the new internationalised context, with a continuum of opposition and state-society synergies marking the institutional changes to Nuevo Leon's economic development. In the 1980s and first half of the 1990s, a large number of Nuevo Leon's economic elites was affected by the opening up of the country's economy, with Nuevo Leon's industry gradually losing its industrial competitiveness. Further, the signing of NAFTA benefited other northern and central states, while undermining Nuevo Leon's traditional industrial edge.

How could Nuevo Leon's political and economic elites address this threat to their traditional edge in industry? It is within this context that Nuevo Leon's governor once again played the role of "binding agent" for his state's industrial progress. Along these

lines, he implemented a vast array of microeconomic practices and regulations to foster a competitive advantage in what was seen as the next competitive edge in industry: the knowledge economy.

Nonetheless, the promises of developmental devolution soon became imperilled. As the latter part of Chapter 7 will depict, the devolution of crony practices within Nuevo Leon's following gubernatorial administration eventually fractured the shared projects of industrial transformation between state and society.

Regarding the next case-study, from the 1940s up to the end of the Mexican Miracle in 1982, Querétaro had been able to transform from a rural economy to one of Mexico's leading industrial entities. Even amidst the slow-down of Mexico's industrial Miracle, Queretaro went from being the 19th Mexican state in 1970 to the 13th in 1980, that is, in terms of industrial manufacturing growth (INEGI, 1986, p.11). But the end of Mexico's national industrialisation and the opening of its economy shook Queretaro's industrial outlook.

Following on from Chapter 6's account of Queretaro's industrial catching-up, the present chapter will devote itself to Queretaro's industrialisation following the period when the federal government began "vacating" the related "policy domains" – as termed by Snyder (2001a, p.7) – within Mexico's neoliberal shift. As will be related, the loss of protectionism and nationwide incentives to industrialisation posed significant problems to Queretaro's industrialists, as had also been the case with Nuevo Leon's industrialists. Domestic industries were being increasingly displaced by TNCs. Along these lines, Queretaro's industrial efforts again had to be redrawn in order to survive the new globalised competition. How, then, could Queretaro recapture its industrial momentum?

Amidst these circumstances of new internationalisation for Mexico, the federal government put an emphasis on attracting FDI as a surrogate for productive investments and industrial policy. Landing investments from these big automotive TNCs seemed to be the next logical step for the new century's industrialisation. However, it was the neighbouring Queretaro states that were landing the big TNC investments – Guanajuato, Aguascalientes, Puebla and Estado de México— in what soon became portrayed as a "race to the bottom" between states (OECD, 2009, p.140). Furthermore, the lack of any federal-led coordination or policy regarding FDI increasingly motivated this "race to the bottom" (Ibid.; Interview with Querétaro's economic development officials, 2015).

Queretaro thus began to see its industrial future threatened by the growing industrial capacities of neighbouring states. After unsuccessfully aiming to support Queretaro's

industrialisation in the low-linked “maquila” sector, Queretaro’s subnational governments began to deploy, once again, industrial incentives and practices to foster the capacities of their domestic industries. As in Nuevo Leon, a large part of their industrialising strategies led Queretaro’s officials to look for investments and alliances with TNCs, hoping to once more trigger industrial progress.

The most rewarding industrial strategy in Queretaro finally fell into the lap of what may currently be Mexico’s most dynamic emerging sector: the aeronautic industry. Faithful to their experiences of state-society synergies and the layering of industrial capacities, in the new century, Queretaro’s government spearheaded the rather successful strategy of constructing a comparative advantage in the said industry. To achieve this, Queretaro’s governors had to once again play the role of binding agents in industry, achieving the necessary alliances both at the federal and local level.

In regards to TNCs, the challenge was to positively involve them in their hosting state’s more encompassing goals – creating local suppliers and human capital, enhancing social responsibility and participating jointly in the state’s evolving industrial challenges. A more integrated development of Queretaro’s local industry, in the case of the aeronautic sector, seems, to this day, to be far from over. However, the present chapter will provide evidence of upgraded local producers and local industrial capacities as a testimony to the engaging efforts of Queretaro’s subnational government.

Chapter 2. Finding a Theoretical Framework for Mexico's Multilevel Industrialisation

2.1 Introduction

Following the general introduction to the research project, I will proceed to expose the theoretical and methodological backbone of the investigation. Accordingly, the present chapter will begin by giving an account of the theoretical framework which is, in turn, divided between two central pillars. First, regarding the political economy and industrialisation aspects of the research, an account of the academic contributions which were used as cornerstones for the present research will be undertaken.

Within the literature, the comparative-historical foundations of industrialisation literature across time will first be highlighted. Herein, the substantive part of the literature review on industrialisation will begin with the appreciation of the contributions that Friedrich List made in the related field. From here on, the thesis will trace the evolution that the industrialisation literature had in future decades, namely with regard to those authors and researchers whose work offers a resounding echo on the present project. Therefore, the literature review will continue by digesting the works of Gerschenkron and Hirschman, who, along with List, can well be considered the forefathers of what was to become the developmental literature.

The present chapter will continue by analysing contributions from developmental studies that proved to be quite useful for this thesis. Among these will be the Chalmers Johnson study of the Japanese Industrialisation Miracle (1982), along with similar studies developed by Amsden (1992) and Wade (1990) regarding East Asian economies. Subsequently, this section will proceed with related accounts that also consider industrialisation projects in the Latin American hemisphere, with a focus on Evans' "embedded autonomy" (1995), Schneider's "desarrollista states" (1999) and Kohli's "state-directed development" (2004).

Following on from the section on industrialisation, I will then refer to the specific conceptual and organisational framework of the present research. In this section, I will relate how it was that Migdal's refreshing and enlightening accounts of Third World states (1994; 2001; 1988) enabled a better scope for the thesis' case studies. This section will thus expand on Migdal's "state-in-society" literature and how it was used to develop a conceptual framework for Mexico's multilevel industrialisation.

Finally, this chapter ends with a brief account of the methodological constitution of the thesis. In this segment, the sources used to gather this project's information and the methodological criteria undertaken for the present research will be related.

2.2 The Industrialisation literature and its comparative underpinnings

The comparative-historical method, even before its formal entitlements or naming, is one of the cornerstones of the social sciences, with Montesquieu, Adam Smith, Alexis de Tocqueville and Max Weber almost always comprising the canon for historical-comparative authors.

In the comparative context, Tocqueville, in one of his letters, claimed that “the mind can gain clarity only through comparison” (in Richter, 1969, p.136). Either in *The Old Regime* or *Democracy in America*, he intended to analyse the relationship, similarities and differences of institutions (such as democracy) or events (such as revolutions or social upheavals) within various countries and their influence on succeeding outcomes. His work became pioneering due in large part to its comparative outset. John Stuart Mill went as far as claiming that Tocqueville had “changed the face of political philosophy” (in Drolet, 2003, p.vi).

In a rather parallel manner and time-frame, Friedrich List embarked upon a comparative task on his own, although relying upon his own particular expertise, which happened to be political economy and industrialisation.

Much as Tocqueville, in relation to *Democracy in America*, List profited from his experiences living in the United States (from 1825 to 1832) to give a clear and more integral version of the other pole of the story: protectionism in the United States vis-à-vis the proclaimed free-trade championed by England. Many of these insights helped him write his treatise *The Natural System of Political Economy*, along with *The National System of Political Economy*.

In both books, the comparative-historical method additionally represents a springboard towards theory formulation. In this writings, List argued that contrary to what “one of the greatest falsehoods promulgated in the present century” claimed (2001, p.25), referring to the works of Adam Smith and Jean-Baptiste Say, England had become the industrial power that it was *because*, rather than *in spite*, of its early protection policies. In this particular matter, extensive quoting from List (2001, pp. 25-6) is indulged in order to summarise the whole underpinning of protection policies on England's development:

Had the English left everything to itself –‘*Laissé faire et laissé aller*’, as the popular economical school recommends– the merchants of the Steelyard would be still carrying on their trade in London, the Belgians would be still manufacturing cloth for the English, England would have still continued to be the sheep-farm of the Hansards, just as Portugal became the vineyard of England, and has remained so till our days.

Many of these statements from List were later rescued by the developmental literature regarding the necessity of states to “construct” comparative advantages, rather than be dependent on static or natural comparative advantages. In List’s consideration then, the state must be in charge of constructing those comparative advantages. Therefore, here lies the principal contribution of List in redefining political economy: bringing politics (and the state) back in the equation of development precisely through its fundamental role of protecting and nurturing each state’s “productive powers” or resources (Levi-Faur, 1997, pp.157–8).

With this refreshed equation of the political economy, List took a comparative-historical approach to analyse the linked development of agriculture, manufacturing and commerce in countries such as England, France, Spain, Portugal, United States, among others. In the process, he managed to elucidate how, in each case, commercial and industrial policies created particular paths towards growth, with the state’s role at the centre. At the same time, he managed to give political economy (as a national unit of analysis) its own place.

On these grounds, it could fairly be said that List, in a manner resembling Mill’s appraisal of Tocqueville, managed to change the face of political economy. List’s theories consequently broadened the evidence of the manner in which states, mainly through their national executives, carry out their roles regarding economic growth and development from a comparative perspective. The manner in which List compared patterns of industrialisation amongst different countries consequently provided a great lesson for this research project. Throughout this thesis, the testimonies of other industrial efforts, world-wide, were vital in comprehending Mexico’s own patterns of industrialisation.

The German economist’s comparative-historical works eventually served as the springboard for future thinkers such as Alexander Gerschenkron and Albert O. Hirschman as they continued the academic efforts of bringing the state back into the political economy. In a heightened likeness to List, Gerschenkron developed his works through a

comparative-historical method, as “an economic historian and a comparativist writing on the European past and the Soviet present” (McCloskey, 1992, p.241). He published his seminal work in 1962, a compilation of earlier essays titled *Economic Backwardness in Historical Perspective*.

It was through this seminal work that Gerschenkron advanced the comparative approach of industrialisation first set out by List. Through these essays on European industrialisation, with England seen as the role model for subsequent industrialised countries, the Russian thinker emphasised the necessity of avoiding overly generalised patterns of development in favour of patterns in which the particular deviations of each country ended up playing a fundamental part. Or as Gerschenkron (1962, p.44) put it: “So viewed, the industrial history of Europe appears not as a series of mere repetitions of the ‘first’ industrialization but as an orderly system of graduated deviations from that industrialization”.

From here on out, the Russian economist pinpointed the state’s role in economic development at the gravitational centre of all of his country cases. In a similar manner to List, Gerschenkron also contradicted the recurring tendencies of laissez faire or economic liberalism. In this regard, he stated that “a stronger medicine is needed than the promise of better allocation of resources or even the lower price of bread” in order to overcome a country’s economic and industrial stagnation (Op. cit. 1962, p.24).

One of these particularities which triggered further comparisons was precisely what Gerschenkron named “economic backwardness”, a relative and, thus, comparative term for underdeveloped countries in relation to other more advanced countries (Ibid.). Therefore, the degree of economic backwardness that a country presents determines the degree of state-led policies in economic development, the relation between fostered industries (competitive versus monopolised) and the sources of investment for the country’s development. The latter in fact became an emphasis, mainly regarding investing banks, that represented a building block of economic development for later studies and applications within countries (see Woo-Cummings, 1999).

The distinctions made throughout his works – of discrete industrial stages, backwardness, prerequisites and deviations of patterns – thus represented a further advancement towards a more integral and context-based approach to development. In these contextual approaches, the state was again placed at the centre, directing efforts, even if supporting its efforts through the promotion or sponsorship of sector activities by private banks.

To further strengthen Gerschenkron's efforts in the 20th century, along came Albert Hirschman. Although his intellectual outputs were rather varied, the German thinker left a big mark upon development, with a substantial focus on Latin America. Along these lines, his most memorable contributions on development were contained in *The Strategy of Economic Development*, which regarded "unbalanced growth" as the ideal path for developing countries instead of the "balanced growth" exposed by authors such as Rosentein-Rodan, Ragnar Nurkse, W. A. Lewis, and Tibor Scitovsky (Hirschman, 1958, pp.50–1).

Along with his critique of the balanced growth doctrine, Hirschman spoke up as well against the so called "big push", arguing that it postulated the belief that "to make development possible it is necessary to start, 'at one and the same time', a large number of new industries which will be each other's clients" (Ibid.). Not only was the 'self-contained' characteristic of this big push contravened by Hirschman, but also the baseless presumption that underdeveloped countries had enough resources to start a large number of new industries simultaneously. The scarcity of resources in underdeveloped countries however implied a different approach: unbalanced growth through inducement or pacing devices and backward and forward linkages.

According to Hirschman, growth in underdeveloped countries failed in many instances due to problematic or erroneous decision-making from state authorities and policy makers. Development always presents risks and the path towards it (as has been extensively evidenced by developmental studies as a whole) has no sure recipes for success. Consequently, the German economist formulated specific methods, devices and mechanisms to facilitate the process of decision-making, not only in government but in the private sector as well.

In this sense, he provided a further block following what his contemporary Gerschenkron had already brought forth. When referring to Gerschenkron's "prerequisites" (such as law and order, infrastructure and technical skills, among others) Hirschman (1958, p.203) summarised the aim of his seminal work with the following:

As such [referring to the alluded prerequisites], they permit and invite, rather than compel, other activities to follow suit. We have argued that in underdeveloped countries purely permissive sequences may be ineffective in inducing growth; and that in some cases the government may well have to take the first step in the more

compulsive sequences that may be indicated, for example through active leadership in industrialization.

There is, consequently, an effort to shift from these “prerequisites” or conditions of development towards the precise methods that may ignite it, in which case unbalanced growth is most helpful. In Hirschman’s view, these “compelling” methods are more efficient due to their more proactive manner of enhancing changes and breakthroughs.

These mechanisms were the induced method (unbalancing) and, later, the inducing method (balancing) to be applied by governments’ industrialisation efforts. The initial task for governments focused precisely on the induced activities – starting new or more advanced industries with or without a fair amount of precedents or prerequisites. In the latter case, the Korean steel industry comes to mind, particularly as detailed by Peter Evans (1995, pp.74–5). By means of the cited induced activities, development is initiated with the objective of generating pressure and incentives for investments and actions, with both the government and the private sector following through (Hirschman, 1958, p.202).

This follow-through will then precisely conform the inducing or balancing mechanism of growth. In Hirschman’s ideas, development is an inevitable catching up process: an unbalanced industrial impulse from the state that appears to invites further activities and investments to “join the bandwagon of economic development” (Op. cit. 1958, p.5).

This second part, concerned with balancing or levelling the playing field, includes the linkages that will further enhance development. Linkages, in turn, supported mainly by the creation of external or satellite industries, either through the increased inputs needed by the unbalancing industry (backward linkage) or through the increased outputs of the same unbalancing industry put to use in other new sectors (forward linkage) (Op. cit. 1958, pp.100–5).

The contribution of these linkages is precise at facilitating decision-making; through pressures or incentives, decisions respecting investment opportunities would then be much less stressful to make. That is why Hirschman, along the preceding developmental backbone provided by List and Gerschenkron, stresses the importance of manufacturing growth: it is because of its clear superiority in establishing linkages as paths for new industries and enterprises when compared to agriculture or the primary production long characterising catching-up countries – as the Latin American case.

The main contribution that Hirschman's *Strategy of Economic Development* provides to this research however is the gravitational centre which coordinates and leads these inducement methods: his "binding agent" (Op. cit. 1958, p.6). This agent of growth was devised by Hirschman to be in tune with Gerschenkron's "stronger medicine". To overcome stagnation, in the words of Hirschman, "a far stronger agent is required than deficit spending or similar Keynesian remedies for unemployment" (Ibid.).

Two aspects can then be identified as the main pillars supporting a binding agent's role. First, having a "growth perspective", including not only industrial desire or vocation but a perception of the optimal path and organisation towards it as well (Op. cit. 1958, p.10). And, second, the ability to achieve cooperation amongst every economic actor needed for the joint effort of industrial transformation (Op. cit. 1958, p.17). As the thesis will examine in the first chapters of its case studies, these binding agents were vital in overcoming the deficiencies that their states' "Social Overhead Capital" (Op. cit. 1958, p. 83) presented—which consists of the infrastructure and the political and legal order required to achieve an industrial transformation.

Almost three decades after Hirschman's seminal work on economic development, these two essential roles were eventually rescued and implemented by developmental studies as well. That is, by the organisation of the state per se in mobilising a developmental vocation of the country through the optimal organisation of both strategies and its bureaucratic units, and the state-business coalitions leading this industrial transformation (Haggard, 2015, p.46).

Evidently, these dual role of the state as binding agent was mastered by successful developmental states. Clearly, in Japan the MITI unit played the transforming role of binding agent; as portrayed by the pioneering study of Chalmers Johnson (1982). Another case was that of the equally efficient Economic Planning Board of South Korea (Evans, 1995, p.52; Kohli, 2004, pp.94–7). Therefore, through this shared backbone of industrialisation foundations (List, Gerschenkron, Hirschman), the "developmental" literature surged, with Chalmers Johnson's study of Japan as a departure point.

The appraisal of the "East Asian Miracle" during the 1980s forced academics into a review of what could well be considered their developmental forefathers: List, Gerschenkron, and Hirschman. The study of Chalmers Johnson (1982) on the Japanese Miracle and the Ministry of International Trade and Industry's central role in their country's rapid industrial transformation again emphasised the role of the state in triggering the aforementioned process.

In Johnson's study, MITI's role in Japan's industrial transformation can clearly be translated as a "binding agent" role. A feat that, according to Chalmers Johnson, had a unique cornerstone which he termed "administrative guidance" (Johnson, 1982, pp.242–75). This "guidance" somewhat represented a step further in the "inducement methods" introduced by Albert Hirschman. In the Japanese case, "administrative guidance" was a much more frontal and aggressive approach: Japanese meritocratic bureaucracy in MITI not only provided directions, guidelines and encouragements to industries within a given strategic industry, but also retaliated and punished them with a wide-range of actions, depending on each situation, in the cases where those enterprises did not follow MITI's guidance.

To further strengthen this attempt to reposition the state at the centre of industrial transformations across the globe, researchers such as Alice Amsden (1992) and Robert Wade (1990) also contributed to the related literature of East Asian's states and their roles in rapid industrialisation. In Amsden's account of the Korean industrialisation, the Korean State is seen not only playing Gerschenkron's banker role, but also as an entrepreneur (Amsden, 1992, pp.17–8), whilst building a developmental trajectory through the trial-and-error methods that have shaped successful industrial transformations throughout history.

Wade's account of industrial transformation in Taiwan, *Governing the Market*, likewise consolidates the portraits of East Asian states as main conductors of their countries' growth (Wade, 1990, pp. 73–112). In all of these seminal works, a cohesive, meritocratic and committed bureaucracy is also portrayed as one of the cornerstones of successful developmental cases (see also Jessop, 2016, p.33). Nonetheless, it is Wade's account that is particularly acute in stressing the importance of joint efforts between the public and private sectors (Op. cit. 1990, pp. 298–9). So how could these accounts of industrial transformation relate to the case of Mexico?

Later, and more in tune with the Mexican case, accounts began to surface regarding states with "intermediate" capabilities. Along these lines, Ben Ross Schneider published his treatise on Mexico and Brazil as an intermediate case, highlighting "developmental states", which he termed "desarrollista" (Schneider, 1999, p. 278). Its main deficiencies were accounted namely as the countries' weak bureaucratic traditions and the pervasiveness of cronyism across their economies.

Peter Evans continued to illuminate the particular case of "intermediate states" (Evans, 1995, pp. 12–3) engaged in industrial transformation. By acknowledging the case

of Brazil as a state with “intermediate” capabilities, Evans (1995, p. 64) managed to relate how it was that a country with an absence of meritocratic bureaucracy and persistent crony practices could still achieve success in projects of industrial transformation. Throughout this study, Evans stressed the importance that an “embedded autonomy” had on public-private collaboration, with regard to industrial transformation. This concept of embedded autonomy was thus able to represent the optimal balance of state-society synergies based on two pillars. First, an interconnectedness between the state and business, in order for the related state agencies to gather the needed information from the private sector to then formulate the necessary policies and their supervision. And, secondly, the prevalence of state autonomy or an “internal coherence” (Op. cit., 1995, p. 126) of the involved agencies so as to avoid corruptive practices.

In the Mexican case, however, this research could hardly find any depiction of the central state succeeding in projects of industrial transformation from start to finish. In the words of Evans (1995, p. 64), the present research began finding testimonies where the federal government was not the state level that had “stretched” its intermediate bureaucracy and capabilities to “deliver” success regarding industrial transformation; rather, it was the subnational governments who seemed to be undertaking these transformative roles as binding agents.

Consequently, to better distinguish the roles undertaken by different state levels, Evans’ characterisation of state roles in industrialisation will also constitute one of the thesis’ tools for examining Mexico’s multileveled industrialisation. That is, state roles which could go from a higher to lower degree of state intervention, from direct producer (or “demiurge”), regulator (“custodian”), inducer (“midwifery”), to assistant (“husbandry”) (Evans, 1995, p.13).

Furthermore, in the last two chapters of this thesis’ case studies, the present research will be supported by the literature concerned with the emergence of a “new developmentalism” during a new century; which, thus far, has had a particular focus on Brazil and, to a lesser extent, Latin America (Trubek, 2013; Trubek et al., 2013; Schneider, 2015).

Still, an approach relying solely on industrial policy seems rather insufficient to explain, as an organisational framework, the particular circumstances of Mexico’s multilevel industrialisation. Indeed, due to Mexico’s incohesive developmental centre and lack-lustre capabilities for mobilising indigenous industrialisation, a theoretical

framework consisting only of industrial policy seems insufficient for comprehending Mexico's shortfalls and successes.

The lack of a cohesive developmental centre in Mexico, for instance, led to multiplied arenas driving industrialisation but, also, to multiple arenas of opposition to the state. During fieldwork, it was thus perceived that a much more complicated and diffuse process had been leading the country's industrialisation. There were stark contradictions, not only within Mexico's related central ministries or offices, but across the state's different levels. Also, the overarching power that certain social groups exhibited with regard to the country's economic development, seemed to pose further layers of complexity which seemed difficult to encompass in the more characteristic approaches of developmental studies (Evans, 1995; Johnson, 1982).

This led the research, in turn, to reconsider Mexico's own fragmentations and traditional incapability to mobilise the whole nation into a shared project of industrial transformation. One of the main dilemmas found in the Mexican case was that the weakened capabilities of the state's centre had enhanced the development of other actors eager to lead their distinct regions toward industrial transformation. Moreover, in some instances although these actors did not belong to the state, they still managed to outmanoeuvre the rules or policies the state dictated.

As reviewed already by classical authors, Mexico's revolution was amongst the most successful in achieving political stability. Huntington (2006, pp.317–24), for instance, considered the Mexican revolution to be “highly successful” due to its capacity to establish an adaptable and institutional order, one which eventually kept the PRI government in the Presidential chair for approximately seven decades. O'Donnell (1989, pp.5–6) also remarked upon the success of Mexico's revolution, considering its capacity to implement a government with high degrees of institutionalisation and continuity.

But it was other insights from O'Donnell's “bureaucratic-authoritarian” model which were the most useful in grasping Mexico's state fragmentation. Even though O'Donnell named Mexico as a “type in itself” (Ibid.) amongst governments in Latin America, his insights on the underlying structures of these regimes are highly insightful in understanding Mexico's shortfalls. To achieve this, O'Donnell (1979, p.286) first alluded to the appearance of bureaucratic-authoritarian states as “monolithic” and “imposing force(s)” as more of a “façade”. Underneath this façade, he argued, were states subject to “contradictions, dilemmas, and perils—which reflect the extraordinary difficulties of consolidating a system of domination” (Ibid.).

Accordingly, throughout this research, contradictions between the Mexican state's façade and its underlying tensions were soon evidenced. Building upon the aforementioned insights, it was Knight's (1990, pp.95–100) acknowledgement of the Mexican state as a "Swiss cheese" state full of holes that enabled the thesis to better examine the effects that a state's fragmentation had on its projects of industrialisation.

In the "Swiss cheese" view, the Mexican state was finally disaggregated from its traditional façade of authority and autonomy. Due to the fragmentations of the Mexican state following independence, it was reliant on informal and, sometimes, illicit pacts with regional strongmen or caudillos in an attempt to control the country's vast territories. Some of the time these regional strongmen acquiesced to the central state's dictums' at other times, however, they opposed the state until they achieved their own ends or benefits.

By using this insight, this research was then able to appreciate that the same circumstances had been implemented in Mexico's economic development through what Elizondo-Mayer (2010, p.136) termed "alianza para las ganancias" or "alliance for profits". In this alliance, the federal government made a pact with the bigger businessmen of Mexico: unconditional support for businessmen to make money as long as they did not intervene in political matters. Again, the variation of results in this pact was present across Mexico. Historically, the Mexican state managed to subdue regional businessmen, as in Puebla (Gauss, 2010, pp.10–12), but failed at times to control more powerful business groups throughout the north, as in the case of Monterrey (Snodgrass, 2003, pp.204–22).

Moreover, due to this fragmentation across the country, the central state also relied on governors as "intermediaries" (Hernández-Rodríguez, 2003, p.103), expecting them to subdue local insurrections and maintain order. In the words of Hernández-Rodríguez (Ibid.) there was "a recognition that the country's geographical and social complexity made it impossible for a single institution to meet the huge diversity of citizens' claims and petitions." Consequently, beneath the façade of the state's autonomy was this complex network of pacts and holes with governors, caudillos, strongmen and businessmen, with the results able to vary in every single one of the holes that the state was unable to cover.

This research thus considered itself to be in presence of a more dialectical relationship between state and society, somewhere in which the divisions between them were often blurred. The state was not only being constrained by its society, but it was being transformed by it as well in a sort of mutation between agency-structure divisions.

This eventually led the thesis to adopt the “state-in-society” approach (Migdal, 2001), through which it became possible to take into account elements that seemed previously lacking in studies regarding Mexico’s industrialisation. The following section will thus endeavour to explain how the state-in-society approach proved to be a rather useful framework for explaining Mexico’s multilevel industrialisation.

2.3 State-in-society framework and its key concepts

As related in Chapter 1, it has been made clear in preceding studies (Schneider, 1999, pp.278–80; Gauss, 2010, p.15) that the Mexican state has historically failed to develop a coordinated and cohesive developmental centre. Owing maybe to the influence of successful developmental cases and their academic examinations (Johnson, 1982; Wade, 1990; Amsden, 1992), studies on Mexico (Schneider, 1999; Bennett & Sharpe, 1982; Moreno-Brid & Ros, 2009) have relied on the same centre-based approach in an effort to illustrate the country’s industrialisation process. The benchmark for comparison has thus generally been Korea, Japan or Taiwan, which proved to have a successful developmental centre through the MITI, EPB, respectively, and, in the case of Taiwan, a handful of central agencies with shared roles; however, Mexico’s industrialisation has not exhibited the same capabilities.

In other words, Mexico has never quite consolidated the required developmental agency as, say, the Japanese MITI or the French *Commisariat Général du Plan* (Gauss, 2010, p.15). Or even, it might be argued, a “pilot agency” for specific sectors such as the Brazilian CAPRE (Evans, 1995, p.117). At times during the 1960s and 1970s, Mexico’s Ministry of Industry and Commerce showed the potential to become the said “pilot agency” for the country’s industrialisation, but it was constantly overwhelmed by the Finance Ministry, with its crony practices and almost hegemonic stronghold on the country’s economy.

How, then, could this thesis examine the industrial transformations that generated Mexico’s industrial Miracle from the 1940s to the 1980s? As a first step, the state-in-society approach showed potential in allowing for the disaggregation of the more elusive and centre-exclusive approaches that had been defining Mexico’s industrialisation studies. Along these lines, Migdal’s formulation of a state’s image and practices was crucial in enabling the comprehension of Mexico’s developmental shortfalls. In the following paragraphs, therefore, the thesis will distinguish the key concepts from the

state-in-society literature which were considered helpful in enabling a better understanding of Mexico's actual processes of industrialisation.

Firstly, and as a departure point, Migdal's state-in-society literature began by differentiating itself from the "ideal state" underlying the classical Weberian approach. In the Weberian approach (Weber, Lassman, & Speirs 1994, pp.310–1), the state is seen as the monopoliser of the use of force and the capacity to make rules as the means to keeping order in a determined territory. In Migdal's considerations, this premise of the state as monopoliser in the said roles was obscuring many of the prevalent circumstances of actual states across the developing world, leading merely to measuring sticks on states or to characterisations of failed, weak or non-states (Migdal, 2001, p.15).

Migdal (2001, p. 16) presented his own definition of a state as follows:

(...) a field of power marked by the use and threat of violence and shaped by (1) the image of a coherent, controlling organization in a territory, which is a representation of the people bounded by that territory, and (2) the actual practices of its multiple parts.

Thus, according to the state-in-society approach, actual states were constituted by two founding elements: image and practices, which could "be overlapping and reinforcing, or contradictory and mutually destructive" (Ibid.). This disambiguation was similarly emphasised a long time ago by Machiavelli, when he distinguished between "imagined republics and principalities" and the "effectual truth of the matter" (Hirschman, 2014, p.203; Machiavelli, 2005, p.53).

In the state-in-society approach, the "image" is then the state's intended approximation to the "ideal state": a centre with autonomy and the capacity to set the necessary rules of behaviour across its ruling territory. The practices, however, turn out to be the actual interactions between the state and its society or what Foucault called the "tactics of governmentality" (in Migdal, 2001, p.19) – the acts of government deployed by a state in an effort to control its given territory. Even the reference to Foucault can obviously spur discursive implications for related research.

In this sense, the "developmental states" of East Asia may come to mind as effectively implementing industrialisation practices in accordance to a state's image of national industrialisation, through what has been seen as "developmental discourse". But often in the Third World, the state has been seen to struggle to impose order across its

territory; this is particularly the case in Latin American states which have fallen into practices highly contradictory of their national objectives. In this particular area of study then, national industrialisation projects turned into cronyism or the accommodation of economic elites.

Thus, the empirical core of my investigation on Mexico's industrialisation will be the actual industrial practices of the state, and the state's image will be referenced at times to show the state's shortcomings in terms of industrialisation. In the Mexican case, this shortcoming of its industrialisation drive was due in large part, as will be argued throughout Chapters 3 and 4, to the overwhelming power of certain economic elites and the dependency that the state had created around them. In a "Swiss cheese" state, Mexico's economic elites were among several actors managing to fill the holes with their own intended rules.

It was by taking this route that the research began to examine the state as just another social organisation aiming to consolidate power and control over its territory, and often failing to do so. In the words of Migdal (2001, p.50):

(...) in many Third World societies (...) states face a multitude of social organizations that maintain and vie for the power to set rules. Families, clans, multinational corporations, domestic businesses, tribes, political parties, and patron-client dyads may be among those actively engaged in the environment of conflict.

And these environments or arenas of conflict in the Third World have usually led to state-societal elite alliances with disparaging results. In Korea's industrialisation, for instance, the state was able to forge alliances with economic elites until achieving industrial transformation, though eventually it had to subdue substantial challenges from the economic elites it had fostered. Industrialisation projects in Zaire, in contrast, generally resulted in predation (Evans, 1989, pp.569–572), while in the case of Latin America, in cronyism and a half-way industrialisation.

In this sense, the state-in-society literature emphasises the evolving and varying capacities that both the state and society have in relation to each other. A symbiotic reconstitution is always ongoing between them across a state's multiple platforms, be it industrialisation, democratisation, social policy or others. The state thus has to wage

different battles or negotiations with different social organisations in order to establish its goals across multiple platforms or arenas.

Industrialisation, therefore, is one of these platforms which requires a particular set of rules and institutions. Moreover, in the case of Mexico's industrialisation, its incapacity to consolidate an efficient developmental centre led to multiplying the arenas in which industrial policies were to be set. But Mexico is not alone in this matter. As related by Shils, the Third World seldom exhibits an effective centre (in Migdal, 2001, p.48), let alone an effective *developmental* centre; one reason why the state-in-society approach underscores the importance of the periphery and periphery-feedbacks in regards to the Third World.

Consequently, through this literature, the state not only becomes disentangled from its more unitary approaches of autonomy, but also from its unitary centre. In a country where the state is incapable of centralising control, the multiple feedbacks generated from the periphery or from below gain further relevance. And these are feedbacks which, in turn, have been seldom portrayed, in the particular case of Mexico's industrialisation.

Given this order of things, during my fieldwork, I was able to appreciate that the periphery had historically possessed a large say in the country's industrialisation. There was not only a subnational variation in industrialisation processes across Mexico, as expected during the outset of this project, but there was also a *subnational determination*. Mexico's several stages and projects of industrial transformation were therefore constructed through various sets of industrial practices at different state levels (national and subnational). Consequently, as stated by Migdal, the periphery became "far more important in shaping the future of society" (2001, p.54) than the more traditional centre-focused studies. In this case, it became far more important in shaping the future of the country's industrialisation than would be expected from centre-based studies on Mexico's industrialisation.

If the fieldwork's findings culminated only with this periphery or multilevel feedback, other theoretical or organisational frameworks would have sufficed. Herein, for instance, the literature on multilevel governance would seem also like an appropriate vehicle for explaining the empirical substance of the present research. Indeed, at first glance, the classifications of multilevel governance done through the seminal works of Hooghe and Marks (2001) appear to have contributed to the definition of new intergovernmental relations that were heightened through decentralisation post 1980 or through regional integration, as in the European Union.

Nonetheless, the problem encountered when considering this approach is two tiered. First, the multilevel interactions in Mexico's industrialisation were generating and evolving at least a century before the surge of decentralisation across the world, in around the 1980s. And, second, the public-private frontier or feedback in the selected case studies went well beyond the privatisation or outsourcing of practices generally contemplated by the multilevel governance literature (Hooghe & Marks, 2001, p.10).

Accordingly, regarding the first aspect, the examination of how industrial transformations sprung up across Mexico required more of a long-term approach. At the outset of this research project, I had naively expected that the substantial contributions made by subnational governments had only occurred *after* decentralisation. Much of this had to do with reading the *political* characterisations of governors as "modern viceroys" (Ward & Rodríguez, 1999, p.695) or Presidential "intermediaries" (Hernández-Rodríguez, 2003, p.103), either subservient to Mexico's Presidential powers or as mediators of local conflicts, respectively.

In the particular case of economic development, however, I soon discovered otherwise in both case studies. The role of subnational governors, since Mexico's first industrialising efforts and through ISI, far exceeded their political characterisations. These findings consequently led the researcher to consider the utility of historical institutionalist approaches – one of the central pillars of the state-in-society approach.

With regards to the second aspect, the public-private frontier regarding Mexico's industrialisation was much blurrier and contested than what has been generally appraised in the multilevel governance literature for other cases. In this literature, the public-private frontier is generally redrawn on bases of privatisations, outsourcing or self-regulation regarding specific issues, i.e. product, and health & safety standards (Hooghe & Marks, 2001, p.10).

The fieldwork research on the case studies, namely Nuevo Leon, did however exhibit a much different story regarding the public-private divide. It is here then that the "Swiss cheese" state again comes to mind. Due to the Mexican state's incapacity to cover or control every locality of the country, they instead entered into regional pacts with local strongmen, pretending to cover these holes. Likewise, they relied on governors as "intermediaries" on the political front to pursue political stability across the territory.

In the case of Mexico's economic development, it was these holes or pacts that eventually enabled other actors to redefine the state's intended policies or rules toward industrialisation. As will be argued throughout Chapters 3 and 4, the "alliance for profits"

allowed economic elites to achieve a regulatory capture of the state's economic centre. Moreover, beyond its centre, the state's "Swiss cheese" holes across its territory allowed other actors to redraw industrial policy according to their own set of rules or strategies.

In Queretaro, for instance, the leading actors (binding agents) were constituted by several generations of governors committed to the industrial transformation of Queretaro. These governors were remarkably successful in building public-private synergies toward industrial transformation. In Nuevo Leon, however, the story took a different form due to the economic power of the economic elites. During Nuevo Leon's first attempts at industrial transformation, around the end of the 19th century, it was the state governor who led and reshaped the subnational state's industrial policy. Nevertheless, this initiative was soon taken away by Nuevo Leon's economic elites, namely, its powerful Monterrey Group.

From the end of the 19th century, the Monterrey Group of economic elites grew to be a considerable power centre in Mexico. Moreover, as is the usual case across the Third World, they were fostered by the state within a project of industrial transformation. Thus, their implications on reframing industrial policy throughout Mexico's history ended up blurring the more traditional public-private divides or the supposed "monopoly" of the state in terms of devising the rules over its territory. Likewise, this Group proved to be a testimony to the multiple shortfalls of a supposedly autonomous state in Mexico, whilst trying to implement its intended policies.

Given these findings, along with the periphery feedback mentioned earlier, the research began to appraise a much richer interaction between state-society transformations. It was clear that the state had not been the only "agent" of change in itself or in regards to Mexican society, another element that was indeed central to choosing the state-in-society approach as an organisational framework. In White's (2008, p.50) words, the state-in-society model "cuts a third way" into the traditional agency-structure dichotomies: that is, neither state-centric, nor completely societal- or structure-ridden.

Consequently, by emphasising the mutual transformations of the state-in-society approach, this thesis has managed to heighten the contributions of social groups in transforming their society and even the state. However, the state can never be taken completely out of the picture as state-society interactions in turn modify the "strategies of survival" (Migdal, 1988, p.105) of social groups.

Here then is where the state's practices come into play as a result of ongoing negotiations and interactions with different social groups. According to Migdal (2001, p.49), "these other formal and informal social organizations have joined forces with parts of the state, sometimes even with the beleaguered heads of the states themselves, and developed practices contradicting the official laws and regulations of the state". Furthermore, as mentioned above, the platforms for devising these practices in regards to industrialisation multiplied due to Mexico's incohesive developmental centre. It was the different holes of the Mexican state which eventually turned into platforms for developing new sets of industrial practices, sometimes in contradiction to the state's intentions.

Therefore, the insight gained from these centre-periphery and state-society dynamics enabled me to examine the actual industrial practices and actual agents that drove the country's industrialisation across different platforms, both national and subnational. It is in this particular aspect, the multilevel and centre-periphery dynamics, that this research project aims to make an extension on Migdal's state-in-society framework. Whereas the state-in-society approach to Mexico has been used by Migdal to contrast the state's image and its practices –as in his review of the implementation of social policies (2001, pp.84-89)--, this thesis main use of the state-in-society framework is to contrast not only a state's image and its practices, but the difference between the practices pursued by different governmental levels –in this case, regarding industrial policy. Thus, the state-in-society approach enabled me to better contrast the diverging industrial practices that have been developed by the federal and the subnational levels.

Through these multilevel demarcations then, this thesis will be able to distinguish two main industrial practices that have been shaping Mexico's industrialisation thus far: crony and microeconomic practices.

The first set, "crony practices", refers to the practices that were consolidated between the Porfirian political and economic elites during the end of the 19th century. These practices were termed according to Haber's (2002, p. xii) definition of crony capitalism in Latin America:

(...) a system in which those close to the political authorities who make and enforce policies receive favors that have large economic value. These favors allow politically connected economic agents to earn returns above those that would prevail in an economy in which the factors of production were priced by the market.

If this system were put it in Evans' terms (1995, pp.12–3), it could well be said that cronyism flourishes when political connectedness or embeddedness supersedes state autonomy, along with the requisites needed for industrial transformation. As reviewed by Little and Posada-Carbó (1996, p. 8), the characteristics of Mexico as a one-party system and its lack of democratic controls seemed to enhance furthermore these crony and corrupt practices.

In Mexico, either through the Porfirian image of *laissez-faire* or the nationalistic image during ISI, these crony practices between political and economic elites at the centre kept setting the tone for Mexico's industrialisation. As depicted already by several authors (Haber, 2002, p.xii; Coatsworth, 1978, p.94; Bennett & Sharpe, 1982, pp.169–70; Schneider, 1999, p.280), cronyism has managed to pervasively prevail in Mexico's economic development history. In addition, these practices have largely been controlled from within Mexico's economic neuralgic centre: the Finance Ministry (Maxfield, 1990, p.33; Erfani, 1995, pp.60–1).

Thus, when new bureaucratic units – such as the *cardenista* groups in the Ministry of Industry and Commerce, Nafinsa, or the Ministry of National Works – attempted to implement macroeconomic practices more attuned with Mexico's nationalistic image, they were generally undermined by the prevailing set of crony practices. Accordingly, it began to become increasingly difficult to think of attempts to foster new industries within this captured context.

Likewise, the empirical research will be supported by what has been termed “microeconomic practices”; industrial practices, subnationally driven, both by local political and economic elites. Generally, the subnational governor became the main artificer of these practices as a response to his constituency's potential or interest in an industrial transformation. These microeconomic practices were devised by subnational governors as a response to the state's image. In this sense, this research has chosen to review two subnational case studies (Nuevo Leon and Queretaro) to better elucidate the actual multilevel practices employed toward successful industrial transformation in Mexico. The two case studies will eventually provide important shared and contrasting traits or patterns of multilevel industrialisation in the country.

In the case of Nuevo Leon, the research will relate microeconomic practices which were generally contradictory to the state's image. In the *Porfiriato* (1876-1911), for instance, when Díaz was construing a state image of “*laissez-faire*”, Nuevo Leon's

governor managed to devise an ambitious and protectionist set of microeconomic practices. Eventually, these had to encounter resistance from the crony practices devised at Mexico's centre – which was trying to jealously guard strategic economic sectors for closer political and economic allies.

In Queretaro's case, its first industrial transformation was much more attuned to the national state's image, as its microeconomic practices were closely related to the national industrialisation goals set during ISI (1940-1980). However, Queretaro's state-business synergies and practices also found substantial resistance, not from the national state's image, but from prevalent crony practices at the federal level. Indeed, as will be related throughout Chapters 3 and 4, Mexico's myth or image of a strong national industrialiser was continually undermined by its pervasive dependence on economic elites and the cronyism that ensued.

The two final chapters of the case studies are set during the 21st century in order to show how the institutionalisation of industrial policy has evolved and responded to new challenges. Amidst the “new internationalization” (Evans, 1995, p.15), both Nuevo Leon and Queretaro found themselves pressured into once again implementing a set of microeconomic practices in order to regain their lost competitiveness. Both cases outrightly contravene the state's image at the time, due to Mexico's continuing neoliberal or laissez-faire approach that kicked off in the mid-1980s.

Lastly, the formulation of the state-in-society approach as a branch of historical institutionalism (Migdal, 2001, pp.246–53) allows the research to identify the *longue durée* processes enabling institutional change as being as impactful as industrial transformation. In this research, the institutions of industrialisation in Mexico, due to their ample constitution, will be thus considered as a rather scattered “system” constituted by both formal and informal subsystems from national and subnational platforms: industrial relations, banking institutions, industrial regulations, patterns of interaction between state and society, among others; an approach that was supported by Thelen's (1999, p.283) formulations of “institutional systems” and “sub-systems” when reviewing studies of institutional change in the German political economy. Within this institutional system, a particular emphasis will be made regarding “institutional layering” (Streeck & Thelen, 2005, pp.23–4) that industrial policy underwent in the subnational case studies. Change through this process consists of the addition of “layers” to a set of institutions, mostly through “amendments, additions, or revisions” (Ibid.).

Within this institutional system, the thesis will distinguish the main “organisations” engaged in industrial transformation throughout the investigation. To achieve this demarcation, this project considers the definition of organisation as put forth by North (1990, p.73): “purposive entities designed by their creators to maximise wealth, income or other objectives defined by the opportunities afforded by the institutional structure of society”. Along these lines, the main entities studied throughout this project will be the ministries and state agencies involved in industrial policy, namely when examining the subnational case studies.

With this in mind, this research will be able to depict the gradual formalisation that industrialisation institutions had throughout Mexico’s history. Likewise, this approach will enable to illuminate how “institutionalized relationship of the state to the private sector is key to understanding the relative effectiveness of state intervention in the economy” (Kohli, 2004, p.12).

As a last note regarding the theoretical framework of this research project, the state-in-society approach will be concomitantly supported by the contributions reviewed in the previous sections. Throughout the first chapters of the case-studies, Chapters 5 and 6, Hirschman’s “sequences of development” (1958, p.88), will likewise be helpful in highlighting the similar development sequences that Nuevo Leon and Queretaro undertook for their first industrial transformation, despite the contrasting characteristics of the two states and their respective societies. Throughout the different timeframes, Evans’ state roles in industrialisation will contribute in distinguishing the roles that several state levels played during Mexico’s economic development. Finally, central to the narrative of the entire research will be, as remarked in previous occasions, the goal of distinguishing the “binding agents” of Mexico’s diffuse industrialisation processes.

The next section will provide a short description of the methodological formulations that contributed to the organisational framework of this research project.

2.4 Methodology

Considering the more qualitative-laden backbone of the literature on political economy and industrialisation (Gerschenkron, 1962; Hirschman, 1958; List & Henderson, 1983; Polanyi, 2003) this research set out to appreciate, from the start, the advantages that the qualitative research methods yielded. Firstly, the aforementioned literature did not shy away from stressing the importance of inductive methods of study. Quite similar to the German Historical School, the inductive methods allowed the thesis to study the *longue*

durée processes of industrial transformation across Mexico as a stepping stone before assimilating its patterns, through comparison, with other industrialising processes across the globe.

Given the unique patterns and conjunctures of each industrial transformation across history, it was likely that this thesis would surely encounter limitations on it being generalizable or “transferable” (Bryman, 2001, pp.270–2). That, however, has been the main challenge not only for countries willing to overcome industrial backwardness or stagnation, but for those academics working in the related fields.

As Gerschenkron (1962, p.44) related in his seminal study on European industrialisation, “the industrial history of Europe appears not as a series of mere repetitions of the ‘first’ industrialization but as an orderly system of graduated deviations from that industrialization” – highlighting the uniqueness of each industrialising process.

Nonetheless, from the start, the uniqueness of the said processes was one of the main incentives for embracing this research project. I became aware, therefore, that contributing to the literature on industrialisation in Mexico required a “thick description” (Bryman, 2001, p.272) of its details. As such, this research project found further motives for choosing qualitative research methods, especially when faced with Evans’ illustrative study on embedded autonomy and industrial transformation (1995). In this sense, from the start, this thesis has intended to trace the processes of industrial transformation in Mexico, despite its intermediate capabilities, in a similar vein to Evans’ depiction of Brazil and India.

Given this order of things, the research follows Evans’ (1995, p.19) methodological steps in building his study through a combination of secondary sources (scholarly accounts and comparative studies) with primary sources (such as government documents, news accounts, historical records, statistical evidence and key informant interviews).

There is, furthermore, a varying degree of the said sources depending on the case studies’ particular time-period. For obvious reasons, the first industrial endeavours of Nuevo Leon and Queretaro were mostly supported by government documents, historical records and historical studies. Regarding historical studies as secondary sources, I aim to support my research on them and bring forth new contributions to the field by using new perspectives on past materials. Thus, a multi-level perspective allowed me to study the centre-periphery dynamics that the different testimonies of authors working on Nuevo Leon’s industrialisation –such as Isidro Vizcaya and Mario Ceruti—and Queretaro’s industrialisation –such as Eduardo Miranda, Neri Rodríguez and Gustavo Ávila—could

contribute in relation to the national level. Likewise, these secondary sources on subnational industrialisation also enabled me to trace the evolution of the industrial policy institutions that took place from the end of the 19th century to the turn of the 21st century. To further illustrate the contribution of both primary and secondary sources, the empirical chapters (chapters 5 to 8) will detail the use of these materials.

Regarding the documentary primary sources (historical records, statistical evidence, news accounts), I was able to visit the local governmental archives (*Archivos Estatales*) both in Nuevo Leon and Queretaro, along with public libraries in both states. In both of these states, legislative and gubernatorial decrees were key in shedding more light in regards to the industrial policy framework that was implemented in each state. In Nuevo Leon's Archivo Histórico Estatal, for instance, I was able to have a first-hand look at the laws that governors from the 19th century decreed to trigger the state's industrialisation – for instance, the Law in Protection of Industry (*Ley de Protección a la Industria*) of 1888. Likewise, in the case of Nuevo Leon and its Governor Bernardo Reyes, I was able to review the personal diaries and notes of Governor Reyes to have a better testimony of his experience at the helm of Nuevo Leon's administration. In the case of Queretaro's *Archivo Histórico*, I too had a first-hand look at the subsequent laws or acts that were decreed to trigger the state's industrial transformation –for instance, *Ley Número 33* (Law Number 33). Moreover, I had the opportunity to review several volumes of Queretaro's official newspaper during the mid-20th century, *La Sombra de Arteaga*, which also contributed to the thesis as a testimony of the circumstances and hardships that were prevalent in those days.

A research visit to the LLILAS Benson Centre for Latin American Studies and Collections of the University of Texas at Austin also offered a key source for the aforementioned documents, considering its widely renowned collection on Mexican themes. This Centre was particularly useful in providing me with the more recent State Development Plans (*Planes Estatales de Desarrollo*) of both Nuevo Leon and Queretaro that I could not find elsewhere. It was from these State Development Plans that I had the opportunity to compare the industrial policies and development programmes implemented in each state, and the results that they generated throughout the new century. All translations from resources that were originally in Spanish are my own.

It was in the latter “new internationalisation” context then that the thesis has been able to enrich the investigation with key informant interviews, done in a semi-structured manner. Regarding the interviews, these were done in a semi-structured manner in order

to heighten the interviewees' "leeway in how to reply" and to maintain the questionnaires in a certain comparative range, considering cross-case implications (Bryman, 2001, pp.314–5). The rich details and findings that were provided through these interviews indeed managed to contribute substantially to the pursuit of depicting Mexico's actual industrialisation practices. An example of the semi-structured questionnaire is given in the appendixes, along with the transcribed interviews, which amounted to a total of 15.

There were, as well, many interviews that I could not elaborate in a semi-structured manner or even with a recording device due to the unexpected circumstances in which some development actors were encountered. For example, I was able to interview the President of Nuevo Leon's Chamber of the Transformative Industries while I encountered him coincidentally whilst boarding a plane from Monterrey to Mexico City. In a similar manner, I interviewed several academics working on development and industrial policy after a conference given in the Monterrey Tech's *School of Government and Public Transformation*. Though I could not record several interviews in this conference, their points of view and experiences were particularly helpful in setting the bases for my empirical chapters. In a similar vein, I interviewed the Head of Queretaro's Airport and the President of Queretaro's Aeronautic Cluster, along with other actors in Nuevo Leon's clusters—for instance, the past minister of Social Development which had a leading role in establishing Nuevo Leon's cluster for medicine.

Moreover, there were several interviews that I could not materialise, such as those with the current Economic Minister of Mexico or past economic development ministers from Nuevo Leon and Queretaro. However, as an effort to complement their testimonies, I resorted to public conferences or other interviews that these actors had given to the media. This fieldwork, overall, was undertaken in a lapse of around six months in Mexico and another three months in the LLILAS Benson Centre of the University of Texas.

The interviewees were either current or former officials in the ministries related to economic development, both at the national and subnational level. Most of the interviewees were elite officials, such as the head of the related ministries or under-ministers. However, taking into account the "level of practice" (Smith, 2013, pp.206–7) emphasised by the state-in-society literature, the research also held interviews with street-level officials to get a more holistic view of the related processes, as well as with related businessmen or entrepreneurs.

None of the interviewees petitioned for an anonymous treatment of their testimonies. Nevertheless, due to the eventual politically-sensitive material that arose, I preferred to

abstain from directly identifying interviewees throughout the research's writing. For instance, it was only due to the interviews with elite officials that I was made aware of the crony or politicised allocation of preferences regarding foreign investment across the Mexican states during the administration of Vicente Fox. These accounts surfaced at every level with subnational and national officials, and both during interviews in Nuevo Leon and in Queretaro. Thus, I thought it unnecessary to single out the officials, keeping in mind the political implications this could eventually have for an official's career.

Furthermore, I did not want to expose ministers as not being transparent or even being deceitful – a circumstance that also arose at times when triangulating information with other officials and other documentary sources. In the case of Nuevo Leon, for instance, a top official was interviewed regarding the negotiating process for landing the recent Kia investment of around 2.5 billion USD. During this interview, he related that no monetary or real estate incentives were offered to the TNC, even though they were contemplated in Nuevo Leon's Law for Fomenting Industry and Employment of 2007. After an alternation in the gubernatorial chair, the actual agreement of the Kia investment surfaced, in which Nuevo Leon's government appeared to have committed to tax exemptions for the next 20 years, a donation of the related industrial real estate and other incentives.

Due to the current "race to the bottom" context of FDI across subnational states, subnational ministers in economic development generally denounce these aggressive incentive-laden negotiations from others, whilst hiding their own practices. Furthermore, the aggressive incentives given to TNCs have begun to make the domestic industrialists discontent as well. Overall, this "multi-methodological triangulation" (Philip Davies in White, 2008, p.246) has additionally allowed us to strengthen the "credibility" criteria stressed for social sciences (Bryman, 2001, pp.272–3).

Within the appendixes, however, a list is given noting interviewees with their names and positions, keeping in mind the requisites of "dependability" for the present research. Considering "confirmability" aspects as well, it has been made clear by the social sciences that no study can be completely objective (Bryman, 2001, p.274; White, 2008, p.241). The complete detour that arose as a result of the research's fieldwork can, however, serve as a token of good faith from the present thesis in that there were no manifest distortions of findings or theories.

To recall this aforementioned detour, I have already accounted how this research project started with a rather naïve premise whereby subnational governments' role in developmental matters appeared to only have flourished after decentralisation policies

were put in place in the 1980s. An account that would have been more in tune with strict political accounts of governors as “viceroys” (Ward & Rodriguez, 1999, p.675) or as tightly constrained by the President’s meta-constitutional powers (Hernández-Rodríguez, 2003, p.103). It did not take much time during the fieldwork to prove otherwise with regards to the governors’ salience in Nuevo Leon and Queretaro’s initial industrial transformations. Eventually, these findings led me not only to alter the theoretical underpinnings of the research, but also its organisational framework, along with the time-period that it covered.



Within these considerations, providing an account of the selection criteria of the case-studies seems in order. What this research aimed at through its case-study selection is the building of a comparative case-study between two Mexican states, based on the “method of agreement” (Mahoney, 2007, p.134). These being two substantially different cases, Nuevo Leon and Queretaro, which achieved a similar end, in this case, an industrial transformation. It was thus considered that one of the main contributions this research project could make was in showing how, despite substantial differences between these two Mexican states, the presence of political continuity and binding agents able to build transforming state-society synergies led to successful industrialisation.

Nuevo Leon is the eighth largest Mexican state in terms of population, and the thirteenth in terms of territory (out of a total of 31 states). Nuevo Leon, furthermore, was the pioneering industrial state in Mexico, and since the beginning of the 20th century was considered the “industrial crown” of Mexico. At the end of the 19th century, its society was led by big, wealthy families of land-holders who eventually became the country’s leading industrial families in the past century. During the end of the 19th century and the first decades of the 20th, Nuevo Leon experienced its first industrial transformation led by local political and economic elites.

In contrast, Queretaro is one of the smaller Mexican states. Located in Mexico’s centre, it is the twenty-seventh state in terms of territory and the twenty-first regarding population. During the 1950s, when Nuevo Leon was already the industrial leader in Mexico, Queretaro was still one of the poorest and most marginalised Mexican state, with a predominantly rural outlook. As of now, however, Queretaro usually comes up among the top three leaders regarding industrial activity in Mexico (INEGI, 2015; Márquez, 2015). Its first industrial transformation came thus during “Mexico’s Miracle” (1940-1980), in a substantially different timeframe and context than Nuevo Leon’s first industrial transformation. Moreover, before its industrialisation, Queretaro’s society was

characterised by small rancheros (farmers) and merchants, and lacked the sufficient accumulation of preindustrial capital needed for industrial transformation.

Table 1. Comparative outlook between Nuevo Leon and Queretaro

Nuevo Leon	Queretaro
 <p data-bbox="300 869 742 902">Source for both maps: SEP (2017)</p>	
Geographic location	
State in the north-east	State in the central part of Mexico, north to Mexico’s capital; part of the “Bajío”
Type of industrialiser regarding its timing	
Pioneering state regarding industrialisation in Mexico.	Late-comer regarding industrialisation.
Size	
One of Mexico’s bigger states: 64,156 km ² (13 th in Mexico of 32 states), with a population of around 5 million (8 th).	Small state: 11,699 km ² (27 th in Mexico), population of around 2 million (21 st in Mexico)
Political involvement	
Was rather isolated from political manoeuvring and decision-making during Mexico’s Independence (1810) and Revolution (1910).	At the centre of Mexico’s founding political events: cradle of insurgents both in Mexico’s Independence (1810) and Revolution (1910), during which it was made capital of Mexico by Carranza’s federal government.
Timeframe of first industrial transformation	

End of the 19 th century-beginning of the 20 th century	Mid-20 th century
Pre-industrial capital before industrial transformation	
Abundance of pre-industrial capital	Absence of pre-industrial capital
Type of rule during first industrial transformation	
Non-democratic authoritarian rule	Dominant-party democracy
Parties in government during 21st century	
Prevalence of the PRI at the governor's seat; only one time did it lose to the National Action Party (PAN) in 1997. In 2015, first gubernatorial election of an independent governor –meaning without party affiliation.	Continuing alternation between the two main political parties (PRI and PAN) since political competition was effective in Mexico; PAN won in 1997 and in 2003; in 2009, PRI won the state back. In 2015, PAN again won the election.

How, then, did these two substantially different states engage in a project of industrial transformation with similar rates of success? Were there any shared patterns or traits that could benefit the examination of these two subnational cases? Regarding the comparative framework, these were two of the guiding questions that this thesis intends to unravel. Accordingly, this research chose to compare these two subnational cases supported by Snyder's "subnational comparative method" (2001b, p.94). As a starting point, I considered this method to be helpful for engaging with "many variables, small N" comparisons. Although as a process, industrialisation encompasses a large number of variables, this subnational comparison has illuminated the common patterns and traits of this thesis that were contributory to the success of these processes.

Thus, Table 1 is an effort to include the main variables that are usually considered in studies of industrialisation. Alexander Gerschenkron, for instance, emphasises the importance of "sizeable preindustrial accumulation of capital" (1962, p. 35), whilst Hirschman (1958, p. 53) also points to the scarcity of preindustrial capital as a traditional obstacle for underdeveloped countries. Gallup, Sachs & Mellinger (1999), in contrast, point more emphatically toward the relevance of geography in a country's development or industrial outlook, when authors such as W. Brian Arthur (1994), in turn, highlight the relevance of timing in relation to industrialisation, with the concepts of increasing returns and path dependence at its centre.

The principal aim of my application of the “method of agreement” for Mexico’s subnational cases of industrialisation is thus to highlight what I considered to be the main factors or “independent variables”: the presence of both “binding agents” and continuity. It was thus as a result of this conjuncture of binding agents and political continuity that transforming and sustainable institutions for industrialisation were put into place in these two subnational states –emphasising as well the importance of institutions regarding economic development (see Acemoglu & Robinson, 2012; Hausman, Rodrik & Sabel, 2008). However, I am not pretending to state that binding agents and continuity suffice for projects of industrial transformation, because other variables matter as well. In the case of Mexico, it seems farfetched to think of a rapid industrialisation in southern states as Chiapas or Guerrero considering Mexico’s regional disparities or what Dávila, Kessel and Levy (2002) call a “distorsion of comparative advantages” to inhibit the southeast throughout Mexico’s development.

Rather what this thesis acknowledges from the start is that, in words of De Schweinitz (1964, p.7), these independent variables were “necessary but not sufficient conditions”. The dependent variable for my case studies was thus industrial transformation. Furthermore, in all intentions of being transparent, I also recognise the presence of a selection bias given the inherent character of a “method of agreement” or “most different design system”, considering I chose the cases based on the dependent variable (see Landman, 2000). Thus, the differences listed in Table I helped me not only in discarding other variables as driving factors (geography, timeframe, accumulation of preindustrial capital, among others), but also in highlighting the role of the aforementioned independent variables (binding agents and continuity). Nonetheless, I do not intend to say that geography or the timing of the cases’ industrial transformation did not matter; rather, one of my arguments is that binding agents who secured or enjoyed political continuity had the opportunity of exploiting a favourable constellation of factors –be it geography, timing, state-society synergies, foreign or domestic capital, alliances with other levels of government, to name a few.

Table 2. Top 5 Mexican states regarding annual rate of growth from 2005-2014
(Márquez, 2015)

State	Annual rate of growth
Queretaro	5.0%

Aguascalientes	4.7%
Quintana Roo	4.4%
Zacatecas	4.1%
Nuevo Leon	4.0%

Table 3. Top 5 Mexican states regarding non-mining GDP Per Capita in 2014
(Meléndez, 2015, based on INEGI)

State	GDP Per Capita
Federal District (Mexico City)	\$311,857
Nuevo Leon	\$235,374
Coahuila	\$185,159
Campeche	\$180,632
Queretaro	\$175,334

Furthermore, through this subnational comparison between Nuevo Leon and Queretaro, the thesis explores the different impacts that a same national and even international context has had on subnational industrialisation, i.e. ISI within Latin America or the modernisation process of the *Porfiriato*. Comparisons and contrasts are thus drawn from both case studies in order to highlight what can be considered the transforming factors in both cases, the presence of continuity and the presence of binding agents able to lead an industrial transformation through the consolidation of state-society synergies and industrial policies.

By implementing this comparative approach, this project is able to reach the three goals set by Skocpol and Somers for comparative-historical studies (Collier, 1993, p.108). First, examining the covariation or, in this case, subnational variation among the two cases in order to construe a causal analysis of industrial transformation. Second, exposing how a particular set of models (of state-society relations, in this case) and concepts (e.g. “binding agents”, practices) “usefully illuminates these cases”. And, third, examining how different these cases are but, still, how they have managed to recreate “parallel processes of change” (e.g. industrial transformation).

Lastly, this section returns to the matter of “generalisability” regarding the case studies’ findings; an aspect which also has implications for further research. Although industrial transformation processes have been remarkably unique throughout history, in

the selected case studies, the shared patterns of microeconomic practices, governors acting as “binding agents”, “scaling-up” and state-society synergies can be easily related to other successful accounts of subnational industrialisation across Mexico, for instance, northern Coahuila, central Estado de México, or Bajío’s Aguascalientes and Guanajuato.

In this sense, this project’s formulation of “microeconomic practices” toward industrial progress may very well have the chance of being transferred to other subnational states across Mexico, or even to other cases across the globe, for example, Sao Paulo in Brazil or California in the United States, where subnational governments have recently been identified as efficient and successful transformers of their respective states’ industrial outlook (Ferreira et al. 2008, p.178).

In this instance, nonetheless, I am careful of pointing out that my research does not intend to generalise nor hope that these circumstances hold constant in each and every case across Mexico, even less when considering its *longue durée* approach. In a few words, I do not have any intentions or illusions of creating any “predictive science” or model (see Steinmo on “evolutionary narratives”, 2015, p. 10), aware that the social or political studies will never attain the precision of the physical branches, with its more rigorous sets of laws and principles. Having said that, I would state again that, from a brief lecture of other subnational cases in Mexico, binding agents and political continuity might contribute substantially to the comprehension of other subnational industrialisation processes across Mexico –such as, for instance, the cases of Governor Marcelino García Barragán in Guadalajara and Governors Alberto del Valle and Luis Ortega Douglas in Aguascalientes, to name a couple.

Chapter 3. Revisiting State-Society Relations and Developmental Capabilities in Mexico (1876-1968)

3.1 Introduction: Revisiting state capabilities in Mexico's development

When portraying Mexico's political development through the lens of academic studies over the past century, the PRI government's capacity to achieve political continuity and stability through an authoritarian manner is generally highlighted (Huntington, 2006, p.317; Kaufman, 1979, p.250). Gradually, however, the underlying fractures of the Mexican state begin to be revealed, through insights gained by means of the "bureaucratic-authoritarian" model within Latin America (O'Donnell, 1989, p.286) or through the aforementioned characterisation of the PRI state as a "Swiss cheese" state (Knight, 1990, p.95).

Recently, this characterisation of Mexico as a state with limited autonomy and control has been gaining ground. Additionally, regarding the particular subject of this project, economic development, Mexico's limited autonomy has begun to be illumined by scholars to explain the pitfalls regarding its economy and its prevalent high poverty rates. Indeed, this academic view of a weakened Mexican state was one that finally surfaced during both the 80s and later decades, through a number of acutely illustrative studies.

Nora Hamilton (1982, pp.271–275) managed to show how Mexico's progressive autonomy was contradicted, and eventually weakened by its ties to the private sector. Maxfield (1990, p.33), in turn, depicted how the consolidation of a public-private "bankers' alliance" continually undermined the state's political economy decision-making. This last approach was also paralleled by Erfani (1995), who related the rise of the *Hacienda* (Ministry of Finance) as the bureaucratic stronghold of monetarists and private business elites throughout the previous century. Therefore, the sum of these accounts contributed to clarifying the underlying fractures that the Mexican state had been carrying out long before the 1980s crises. Likewise, they contributed to highlighting the impediments or obstacles that prevented the Mexican state from consolidating a more integral and coordinated industrialisation during the past century.

It is only when the Mexican state's perpetual struggle with other social forces is witnessed that one can better understand its failure to attain sustainable economic growth. In this regard, Migdal's approach of "state-in-society" (1988; 2001) made a remarkable contribution in terms of understanding the prevailing contradictions of states from the Third World, including Mexico. Through this account, the Mexican state was finally

disaggregated from its unitary and autonomous perspective into a fragmented state waging different struggles for social control across different platforms. Grindle's account (1980) was referenced by Migdal as an example of Mexico's failure to implement social policies far away from its capital city. This was a failure generated due to a continuing "politics of survival" and "triangles of accommodation" which had been reducing Mexico's state capabilities (Migdal, 1988, pp.206–256).

The prevalent polarisation of Mexico's economy has continued to intrigue scholars since the end of the last century. While there seems to be a booming export economy in parts of the country, economic growth has showed mediocre growth rates since the mid-1980s, ranging around 2.6% of GDP growth and less than 1% in GDP per capita from 1985 to 2010 (Palma, 2009, pp.225–6).

Moreover, there is a stark contrast *within* Mexico, which contains an acute north and south story that frequently surfaced in the media at every level – national and international. The most recent version of this testimony was supported by comments of development experts such as Richard Hausmann and Dani Rodrik. In it, they commented on the contrast of Mexican states with levels of productivity as in South Korea vis-à-vis southern states with levels similar to those in Honduras (The Economist, 2015). Indeed, while states in the centre and north of Mexico exhibit some traits which have garnered comparisons to the East Asian tigers, Mexico has around 16 states with "the majority of its population living in conditions of generalised poverty" (Tello, 2010a, p.42).

Where, then, can such a fragmented Mexico be situated given its *desarrollista* and subsequent economic development results? And which factors are able to explain its successes and failures?

Building on the past chapter's theoretical framework regarding industrialisation, this chapter will be supported by the state-in-society approach as a vehicle to better explore the development of the Mexican state regarding its industrial policy outcomes. Key contributions from this approach are to be generated from the explicative potential of fragmented states, mutual transformations between state and society, contrast between a state's image and its practices, and a continuum between collaboration and struggle with other social forces.

The present chapter's main argument is, therefore, that during the last century, state-business relations consisting of accommodation and power struggles hindered the state's developmental capabilities, resulting in partial captures of the state. Vital to this argument will be the state-in-society's dialectical relationship between a state's image and its

practices. In this sense, this chapter will depict the contradiction of “crony practices” represented vis-à-vis the state’s image at different periods in time. In the long run, these crony practices used to nurture economic elites have ended up diminishing the state’s capabilities to steer the elites towards a higher level of sustainable growth.

During the *Porfiriato*, the state’s self-boasting image as a laissez-faire state was soon overwhelmed by crony practices devised by its President, Porfirio Díaz, and its main central office (Finance Ministry). Later on, after Mexico’s Revolution, these same crony practices were patched up from within the state’s central offices to undermine the state’s revolutionary image of redistribution (with Cárdenas) and national industrialisation (during the latter Mexican Miracle).

Since the ground-breaking analyses of Weber (Weber, Lassman and Speirs, 1994) on bureaucracy, scholars have been divided between the promises and perils of state-capital relations to promote growth. Some late-late developers’ successes have been fundamentally grounded in these public-private ties for promoting growth (Evans, 1992; Jessop, 2016, p.33; Kohli, 2004). Other developing failures or shortfalls, in turn, have also located much of the blame on this relationship, often characterising it as “predatory” (Evans, 1995, p.12) or crony capitalism (Haber, 2002, p.xii).

The latter developmental shortfalls seem indeed to crystallise Mexico’s developmental history. Due to the Mexican state’s fragmentation following independence, the state has become a “grand arena of accommodation” (Migdal, 2001, p.92) when responding to opposition from economic elites. Section 3.2 will thus relate how Mexico’s pervasive continuum of contestation and accommodation of economic elites’ interests first came into shape through Mexico’s first consolidation of political order.

This section will consequently expand on how the discretionary allocations of benefits marked the *Porfiriato* status quo (1876-1911), consolidating the state’s crony practices which gradually but evermore diverged from the state’s laissez-faire image. In these practices, informal ties between state and economic elites were strengthened as a surrogate for precarious institutions regarding property rights and rule of law. Then, moreover, these informal interactions acquired a more formal institutionalisation as economic elites gained direct access to the law- and policy-making that affected their interests. Hence, this led to a consolidation of a hampering embeddedness between the Mexican state and economic elites in Mexico’s first encounter with the Great Transformation.

In the following section, it will also be detailed how, after Mexico's Revolution, economic elites were able to restore crony practices with the assistance of the Finance Ministry (*Hacienda*). In this sense, the crony practices of the state started to contradict the state's image of social justice and redistribution. Within this time-frame, the same range of informal and formalised arrangements between state and the surviving *Porfirian* economic elites, allowed the latter to re-capture the Finance Ministry as a way of securing their interests.

Later, however, as will be reviewed in section 3.4, the arrival of President Cárdenas and his reinforced state image of redistribution and social justice, posed a significant threat to the aforementioned crony practices. Key to Cárdenas' survival strategies was the incorporation of the poorer sectors of society in order to counterbalance the growing social force accrued by big industrialists and financiers. But these economic elite's resources and capabilities proved too much for Cárdenas' intended reform.

Thus, the following sub-chapter, 3.5, will detail how these elites were able to reinforce the favourable crony practices during the *desarrollista* years, enabling them to undermine the state's autonomy whenever their interests were not fully catered for. It was the pressure of both "business as association" and "business as capital" (Schneider, 1997, p.192) that allowed the economic elites to straighten the path (according to their interests). As a consequence, at the end of the 60s, the image of the Mexican state as a nationalistic state driven by its revolutionary leitmotifs of social justice and redistribution, began exposing its underlying fragmentations.

3.2 The *Porfiriato*: Tackling modernity after Independence (1876-1911)

As reviewed by classic scholars such as Weber, Durkheim and Marx, the effects of the Industrial Revolution in Western Europe were seen as the new departure point for re-assessing the state's role in society (Kohli & Shue, 1994, p.295). Karl Polanyi (2003) was particularly precise in capturing capitalism's mutation of prevailing social and economic arrangements: the expansion of capitalism also meant a risk-prone erosion of previous means of subsistence. As reviewed by contemporary scholars, this erosion also meant an opportunity for the state to achieve widespread domination (Migdal, 2001, pp.100–1) or political order (Huntington, 2006, p.5).

In the Third World, a Great Transformation occurred later than in Western Europe but with the same disruptive characteristics. Furthermore, in some countries of the Third World this transformation was accompanied by a still recent form of independence or

constitution, creating a juncture of expanded proportions. As acutely framed by Migdal (1988, p.141), “the severe dislocation caused by the spreading of the world market in the late nineteenth century” meant a once-in-a-lifetime opportunity for state-building.

The joint circumstances of state-building and the introduction of capitalism in the Third World resembled the same conjuncture that had occurred in Europe during the previous century. Additionally, in some states of Europe, such as Britain, Russia, and France, “inherent linkages between the two transformations” took shape, and “state formation in general went hand in hand with the rise of capitalism” (Weiss & Hobson, 1995, p.57).

Across the Third World, the cited conjuncture had quite disparate results: creating strong states as in Israel or weak states as in Sierra Leone, depending on the struggle or accommodation that the states waged with other social forces (Migdal, 1988, p.173).

Consequently, the current section will depict the effects that Mexico’s first encounter with a Great Transformation had on its state-building capacities and its state-society relations. It will likewise show how the Finance Ministry (*Hacienda*) began to consolidate as a key power centre for economic decision-making in Mexico. Likewise, it will be related how crony practices were initially put into place following Mexico’s independence.

At the start of its independence, the political turmoil following the ousting of the Spanish vice-royal colony put Mexico in continuous predicaments, due to both national and international factors. On the national platform, the country’s political and economic project went back and forth between liberal and conservative forces that resembled two groups of pirates fighting for a bounty. Moreover, Mexico’s still fragile independence had to overcome opportunistic attacks from abroad. First, there were French interventions in 1838. Then a war with its northern neighbour, the United States, from 1846-1848, in which it lost half of its territory. And finally, another conflict with France that lasted from 1862 to 1867.

Without political stability, Mexico had little chance of consolidating a sustainable economic project – let alone a “developmental coalition” (Moreno-Brid & Ros, 2010, p.30). Likewise, this long delayed stability particularly hindered Mexico’s chances to implement formal institutions such as a civil-career service, rule of law, or effective protection of property rights (Musacchio & Read, 2007, p.849). Furthermore, there also existed a grave lack of fiscal or economic resources.

During the period of political turmoil (1820-1870), all these factors eventually facilitated extractive arrangements that were an outright abuse of authority. Government elites became the habitual practitioners of illicit enrichment. Mainly in the treasury department, officials played the usurer role with the government it was part of, making public loans with their own resources in exchange for substantially high interests (Tello, 2010b, p.73).

Therefore, it was political instability that recreated a vicious cycle which also generated financial instability and illicit practices. In this regard, in 1876, a rather controversial figure in Mexico's history emerged, one who had the intention of modernising Mexico: Porfirio Díaz.

In recent studies, scholars' perceptions on the Diaz regime (1876-1910) has changed. From being the landmark "period of dictatorship and harsh exploitation of peasants, it has come to be considered a key phase in Mexico's transition from a semi-feudal mode of production toward a capitalist one" (Moreno-Brid & Ros, 2009, p.46).

Díaz managed to conquer the political stability that had long been missing as a trigger for Mexico's potential economic development. His regime waged a centralising power struggle against remaining regional caudillos. After securing social peace through subdual or negotiation with these caudillos, Diaz' government headed its ambitious efforts towards tackling two of the country's causes of under-development: low infrastructure (mainly in transport and railways) and lack of fiscal and financial resources (initially these were mostly dealt with through foreign investment).

Constrained by an inherited administration with dismal inefficiency, Díaz prioritised one main goal as an overarching task of his government: the efficient balance of the government's incomes and expenditures (Zárate, 1987, p.236). In the words of Díaz, México needed a "little politics and a lot of administration" (Bassols, 1992, p.173) – thus signalling since his early years the *laissez-faire* image he intended for the state.

The distribution of the regime's expenditures evidences the growing salience that the Treasury or Finance Ministry was to achieve in its role as administrator of the state's affairs. In Diaz's first year as President, the Ministry of War and Navy, had 52.5% of the expenditures, followed by the Treasury, as a far second, with a mere 18.8%. A decade later, in 1887, the Treasury had passed the War and Navy Ministry with the highest budget, a trend that continued to expand (see Zárate, 1987, p.238).

The evolution of the Treasury as the neuralgic centre of Mexico's decision-making on the political economy was driven by its preceding incapability on the collection of

taxes and organisation of its financial resources. Initial acceptance of Mexico's lack of administrative and technical capacities gave rise to a recipe that was already entrenching across Latin America: Comte's positivism (Centeno & Silva, 1998, p.5), based on "order and progress".

With Comte's ideology, the *Porfirian* regime began Mexico's first attempt towards modernity. This necessity of order brought forth a group of highly educated politicians who pledged, along with Díaz, to bring modernity to Mexico through scientific knowledge – these were the *científicos*. In the words of Michael Baud (1998, p.14) regarding these 19th century technocrats, "what bound them was a relentless belief in the potential of technology and scientific knowledge to reach the goal of modernization and development."

This tight group of men surrounding the Finance Ministry, gradually accrued larger attributions in policymaking, establishing themselves as full-fledged technocrats opposed to mere implementing or advising *técnicos* (Centeno & Silva, 1998, p.3; Whitehead, 2006, p. 139-42). Eventually, they exhibited the same traits as the contemporary technocrats: "highly educated, they were upper-middle class in social origin, they were prominent professional men, and their representatives came to dominate the 'technical' agencies of their era: treasury, industry and commerce" (Camp, 1998, p.199).

These technocrats' quest towards administrative dominance started with Finance Minister, Matías Romero, who had become almost an institution by himself in the Finance Ministry. Romero served as Finance Minister in numerous administrations since the time of Benito Juárez in 1868, then in Lerdo de Tejada's administration (1872-76) and, finally, during the *Porfirian* regime. Through Matías Romero's efforts, the Finance Ministry gradually started to fulfil the ordering duties that Porfirio Díaz held in such high esteem.

During the second half of Porfirio Díaz's government, the need to consolidate a more capable and technical bureaucracy in accordance with Comte's positivism kept dictating the recruitment patterns of the federal administration. In 1884, 54% percent of public officials had received a formal education, while in 1901, that percentage multiplied to 91% (Camp, 1998, p.199).

The successor of Matías Romero, José Ives Limantour, finally consolidated the dominant position of the Ministry through its technical capabilities. The Treasury was thus put in charge of a vast array of attributions: paying public officers' salaries, keeping track and recollecting customs duty, arranging the pay-off of Mexico's foreign debt to be

once again the recipient of international credit, payment of domestic debt, along with administrative and fiscal reforms (Zárate, 1987, pp.236–8).

In this manner, the Ministry of Finance became the ultimate decision-maker regarding the state's political economy. As the most important organisation within the *Porfirian* government, it also secured economic development and progress as its main priorities. And “for them, progress meant railroads, advanced urban transports such as trolleys and – later – undergrounds, wharves and harbors, new telecommunications such as telephone and cablegram, and modernization of mining technology” (Baud, 1998, p.18).

But the problem was the initial lack of resources to enhance this Great Transformation. Constrained by this, Díaz began his administration with a *laissez-faire* image, heavily supported by the only solid source of investment: foreign capital.

This *laissez-faire* approach eventually backfired as the railways became gradually dominated by United States' capital. And when US interests grew in opposition to Díaz's manoeuvrings to communicate the entire country, the government decided to promote the diversification of the railways' ownership through the orchestrations of the Finance Ministry (Zárate, 1987, p.240). Although Díaz faced considerable opposition and manifestations at first from United States' businessmen, the government finally achieved the diversification of railway ownership and better regulation of its development.

The Díaz government and the Finance Ministry then became much more cautious on assigning railway or any other construction works. Instead, they put an emphasis on diversifying their sources of foreign capital as to avoid dependence on United States' capital. But the mobilisation of capital for the state's intended progress was still gravely needed in the midst of pending weaknesses of formal institutions such as tax collection, rule of law, property rights or access to credit.

Consequently, the Díaz government devised a set of crony practices to trigger economic growth amidst the pending institutional deficiencies. Government officials knitted what Haber, Razo and Mauer (2002, p.35) called “vertical political integration”: a partnership between government and economic groups that decided and benefitted mutually through the assessment of privileges and rents on economic activities.

These crony arrangements began to be first consolidated in the banking industry. The first regulations of the banking sector during the *Porfiriato* not only privileged big bankers, mainly from Mexico City, but they ended up being written in association with those same banking elites. Furthermore, the Finance Minister who coordinated these

regulating interactions served as an important shareholder in one of Mexico City's biggest private banks. In exchange, the private *Banco Nacional de México* facilitated the federal government with its own line of credit for the state's infrastructural projects (Op. cit. 2002, p.40).

As a result, the two bigger banks located in Mexico City, which were central to the concerted regulation above, made a huge leap in concentrating the banking sector. In effect, "35 banks were created from 1864 to 1910, but by 1911 *Banamex (Banco Nacional de México)* and *Banco de Londres y México* held more than 60% of the total assets of the domestic banking system" (Moreno-Brid & Ros, 2009, p.53).

In the industrial sector, the same crony practices soon took shape, contradicting the *Porfirian* state's image of laissez-faire or "little-politics-and-much-administration". Furthermore, the concentration of the banking sector and its exclusive access to credit spilled over to the industrial sector as well, gravely restricting access to credit for entrepreneurs or businessmen who did not have an affiliation with the above banking groups (Moreno-Brid & Ros, 2009, p.62).

Consequently, through the Finance Ministry, the state in the second half of the *Porfiriato* cast aside its non-interventionist approach in order to protect these selected industrialists through a system of "cascading tariffs" (Haber et al., 2002, p.40). These tariffs covered both needs of the industrialists: high percentages on the import of competing final outputs or manufactures, and low percentages regarding a sector's inputs.

Through these arrangements, the Finance Ministry and President Porfirio began allocating highly profitable works and contracts to investors – both national and foreign. As the overall result, at the end of the 19th century, the *Porfiriato* achieved an increase of 30% for manufacturing activities (Moreno-Brid & Ros, 2010, pp.99–100) and 800% for its railway infrastructure (Migdal, 1988, p.71). Moreno-Brid and Ros (2009, p.47) describe this new accommodation of interests and privileges as follows:

(...) the state's arbitrary protection of the economic interests and property rights of certain business and banking groups led to the formation of highly profitable oligopolies/monopolies protected from market competition by high barriers to entry. The concentration of market power and land was fostered by the special privileges and concessions granted by the government.

Due to the lack of formal institutions such as property rights, rule of law and fair access to finance, political and economic ties between elites were woven as a substitute for the former (Musacchio & Read, 2007, p.873). Through these crony practices, top politicians kept extending their presence in big business: participating even as members of business boards and consolidating state-capital partnerships toward protected rents and privileges.

Inversely proportional to this empowerment of economic elites, however, was the marginalisation of most of the country's peasants. An important amount of lands was expropriated in favour of railway construction or entrepreneurial projects of the economic elite. Thousands of "dispossessed villagers swelled the ranks of the nation's landless rural and urban proletariat" (Coatsworth, 1978, pp.99–100). Eventually, dispossessed villagers joined forces with the "displaced middle sectors" constituting the opposition that culminated in Mexico's Revolution – meaning another long period of political instability – and the exile of Porfirio Díaz (Ibid. 1978).

In general, the *Porfirian* regime represented Mexico's first encounter with a Great Transformation. In this context as well, the three factors which Migdal considered fundamental for a state looking to achieve social control and transformation, presented themselves: land tenure laws, tax procedures, and transportation upgrades (Migdal, 1988, p.80).

It was the regime's failure in its state-society arrangements that nonetheless hampered the emergence of a state with strong capabilities. In order to trigger Mexico's "modernisation", the regime's land tenure re-distribution to regional elites created the eventual centres of power and contestation. In the words of Migdal, covering the Third World modifications of land tenure, "Instead of affecting more secure central control over a territory, they found that they had fostered the growth in power of landlords hostile to state centralization." (1988, p.58)

The strength of regional strongmen as *caudillos*, *caciques* or even businessmen with separate interests therefore increased the state's fragmentation. The eventual Revolution of 1910 was thus forged not only by displaced peasants and the middle-classes, but also by economic groups who had been excluded by the regime's catered interests (Coatsworth, 1978, p.100; Musacchio & Read, 2007, p.876). An example of these groups or families was the Madero family in the north, who resisted centralisation. Thus, the *Porfirian* regime failed at integrating social control of its national space; a circumstance

which was caused in part by a continuing reliance on semi-feudal arrangements across different regions (Bassols, 1992, pp.159–60).

The next effort toward Mexico's transformation had to wait until another 20 years of political instability has passed. In the following section, therefore, the second solid attempt of the Mexican state to consolidate its social control over other social forces is seen to be implemented, once again, going hand-in-hand with industrialisation.

It will nevertheless be shown that *Porfirian* state-capital relations did survive the Revolution until consolidating, once more, their niche in the very centre of Mexico's political economy. Through this survival, the crony practices forged during the *Porfiriato* were extended throughout Mexico in the following decades. From here on, the state's developmental capabilities to steer the economy was largely subdued and fragmented by economic elites who had been continually nurtured by the state.

3.3 Mexico's first revolutionary governments: the restauration of crony practices (1923-1934)

Much has been written regarding the initiation of Mexico's developmental and industrialisation projects over the past century (Hewlett & Weinert, 1982; Schneider, 1999; Bennett & Sharpe, 1982; Moreno-Brid & Ros, 2009, pp.94–119). The results of this industrialisation was what many have called Mexico's "Miracle" or "golden years", and through which it attained unprecedented rates of growth from 1933 to 1982, totalling over 6% GDP and 3% GDP per capita (Tello, 2010b, p.6).

As shown in the developmental literature, state-capital alliances have been critical to enhance possibilities of the rapid drive of industrialisation (Evans, 1995; Johnson, 1982; Wade, 1990; Amsden, 1992; Kohli, 1994). Successful late-late developers, such as Japan and South Korea, among others, consolidated these alliances in order to mobilise indigenous capital in a "joint project" of national development (see Evans, 1995, p.65). But what then happens if capital or economic elites become overwhelming power centres when the state is still developing its capacities?

As this chapter will relate, Mexico's economic elites or national bourgeoisie became an overwhelming social force vis-à-vis the state. Consequently, throughout the political reconstruction of Mexico following its Revolution they quickly deployed their resources to dictate once again the rules on Mexico's economic development.

Along these lines, this section will argue that Mexico's economic elites, mainly through a "bankers' alliance" (Maxfield, 1990, p.33), managed to capture the Finance

Ministry, which once more consolidated itself as Mexico's economic neuralgic centre. From within this niche, crony practices were again generated in contradiction to Mexico's state image. This time around, however, the state portrayed either a revolutionary image of redistribution (with the administrations of Obregón, Elías Calles, and Cárdenas) or the image of a strong national developer (during ISI).

The growing power of capital in Mexico after the main conflicts generated by the Revolution (1910-1924) indeed represented one of the central contradictions to Mexico's self-titled "revolutionary governments". The early experiences of land dislocation during the *Porfiriato* and its industrial drive prevailed even after the Revolution. The concentration of large haciendas and the wealth in small families were left largely intact.

During the Carranza government (1917-1920), only 132,000 hectares were redistributed to peasants. In the following administrations of Álvaro Obregón and Elías Calles (1920-1928), the total number of hectares amounted to 4 million (Zúñiga & Castillo, 2010, p.509). For reference, a single United States' businessman had a total of 7 million hectares around this time in the northern state of Chihuahua (Op. cit. 2010, p.503) – more than the total number of hectares redistributed by the cited revolutionary administrations. Moreover, when political stability was being consolidated during Elías Calles' administration and his Maximato (1924-1936), these economic elites promptly turned into Calles' allies in triggering economic growth.

In the Third World, as reviewed by Migdal (1988, pp.62–65), landowners who benefited from land rearrangements during the past century used their resources to pose "new strategies of survival". As "land-grabbers", they reinforced an early advantage over other social segments. In some regions of Mexico (such as the north-east, south-east and centre) this landed elite also became able to upgrade their capabilities through Mexico's first pioneering industrial and financial experiments. They strengthened their positions, upgrading from *hacendatarios* and merchants to become the early industrialists and financiers (Cerutti, 1999, pp.117–20).

Thus, when Álvaro Obregón and, later, Calles entered the Presidency as true heirs of the "revolutionary family" (Buenfil, 2004, p.43), they seemingly embraced the peasants' and workers' struggles through their portrayal of a state with a revolutionary image and heritage. Despite this, however, the state's practices soon reflected otherwise.

Mexico's overall situation was indeed critical. Economy-wise, large parts of its economy were still stagnant due to industrial shutouts and recent confiscations of the *Carrancista* factions. In financial matters, the same landscape was present. Mexico's

treasury was devastated by the Revolution's predatory militarism, there was a lack of financial resources and the country was projected as an international outcast due to constant defaults on its foreign debts. Following *Porfirian* lessons, the Finance Ministry was called upon to re-order Mexico's political economy.

Along these lines, Calles' Finance Minister, Alberto Pani, supported the effort to stabilise and mobilise the economy with the same business industrialists and financiers who had dominated the *Porfirian* economy through crony practices. Likewise, he reconstructed the state's financial regulations with the assistance of Miguel Macedo, a financial expert who had worked with Díaz's Finance Minister, José Limantour (Maxfield, 1990, p.39).

It was thus during this period, the mid-1920s, that the crony "banker's alliance", as it was termed by Maxfield (1990, p.33), was born. This alliance was formulated between:

Porfirian-era bankers and industrialists who (...) survived the revolution with much of their wealth intact. In the 1920s they collaborated with government officials in the Finance Ministry to build a new financial system. Together, Porfirian-era bankers and Finance Ministry officials negotiated and legislated governing principles for financial institutions and monetary policy (Ibid.)

Through this network of public and private financier elites, the bankers' alliance re-wrote the state's financial regulations, and, eventually, its political economy as well. Around this time, Minister Pani implemented annual National Banking Conventions, which took place with the participation of public officials and private bank owners and experts (Marichal, 2001, p.36). Accordingly, one of these conventions' main themes was the creation of a Central Bank to resolve Mexico's pending struggles with its lack of financial resources and looming external debt. But private bankers saw the idea of a central bank as a threat to their interests.

After several conventions, the powerful private bankers' opposition to the existence of a Central Bank withered down. Then, Minister Pani, with the financial and intellectual support of three *científicos* of the *Porfiriato* and the bankers' alliance, was finally able to constitute Mexico's first Central Bank (Maxfield, 1990, p.40; Marichal, 2001, p.36). By 1927, Mexico's Central Bank consolidated as the country's third largest bank, with its board of administrators largely filled by big businessmen; likewise, in 1928, the Association of Mexican Bankers was promoted by the Finance Ministry "to facilitate

public-private financial collaboration”, eventually becoming the “more direct channel of communication to the highest levels of the Mexican government” (Maxfield, 1990, pp.42–3).

In this sense, again, the manufacturing industry was prompted to parallel the banking sector. Just as stability seemed to arrive with President Obregón, groups of industrialists demanded protective tariffs, as during the *Porfirian* era, to guard themselves against international competition. Obregón thus began to implement moderate protective tariffs of around 10% through informal arrangements with big industrialists (Haber, 2002, pp.56–7). But the industrialists’ demands escalated across the years, demanding increasing percentages and their participation in setting them.

By the time President Calles (1924-1928) had entered his administration, the emphasis was on the need to achieve economic growth as a way to also support the growing capabilities of Mexico’s *Hacienda*. In his 1925 Presidential address, he declared that “This Executive hopes, realistically, that persisting (...) in the path of the economies that it has followed thus far, our government will soon be able to put the public Treasury afloat to great benefit of the country’s economic development and its foreign credit” (Elías, 2004, p.30).

Mexico’s industrialists accordingly took advantage of Calles’ economic drive by continuing to pressure the Finance Ministry for protective tariffs. Groups both exerted pressure individually, such as, for instance, the already powerful Monterrey Group through the Mexico City offices of *Fundidora*; or through the recent peak association CONCAMIN –Mexico’s National Confederation of Commercial and Industrial Chambers.

In 1925, both President Calles and the Finance Ministry acceded once again to the industrialists’ petitions until their previous tariff-setting arrangements were formalised. President Calles (2004, p.43) declared that:

By decree of date 22 of April of 1925, the Tariff Commission was reorganised, with the objective of making its duties more efficient in pro of the country’s industrial and commercial development. The commission was integrated by two delegates of the Finance Ministry and two of industry, with voice and vote, and only with informing voice, a delegate of the Ministries of Agriculture and of Communications and another of each of the Confederations of Commerce and Industry Chambers.

As a result, throughout the Presidential administrations of Obregón and Calles, “companies with Porfirian origins continued to dominate many industrial sectors (...) including cement, textiles, steel, beer, dynamite, soap, paper, glass, and cigarettes” (Op. cit. 2010, pp.35–6).

Thus, during the mid-1920s, the public-private divides of Mexico’s political economy were as blurred as ever. These circumstances eventually led to heightened crony practices, in which public and private elites extracted corrupt loans from Banco de México (Gauss, 2010, p.33). In turn, the big businesses consolidated in the *Porfirian* regime, led largely by the same financiers/industrialists, were again reinstated at the centre of Mexico’s economy. In this manner, their economic power in turn multiplied their lobbying capabilities and their influence to shape Mexico’s economy according to their own interests.

In the words of Susan Gauss (2010, p.25), “an alliance of revolutionary victors with the surviving Porfirian business aristocracy dominated this new revolutionary capitalism”. As a result, throughout the 1920s, “the key markings of Porfirian political economy initially remained in place, including cronyism, the dominion of foreign capital, and the state’s conservative fiscal and monetary policies” (Op. cit. 2010, p.27).

As shown in the current section, the decade of the 1920s saw Mexico’s economic elites deploy their survival strategies and early resources to once again capture the state’s central office regarding the economy – the *Hacienda*. However, the arrival of Lázaro Cárdenas to the presidency contested the bankers’ alliance stronghold on Mexico’s economic development. To achieve this contestation, as will be portrayed in the following section, Cárdenas deployed the innovative strategies of corporatism to contest the grip that the bankers’ alliance and its economic elites had on Mexico’s political economy.

3.4 Cardenismo and its failure to regain control over Mexico’s economic development (1934-1940)

At the start of the 1930s – with the Great Depression still present, the First World War, and the continuing decline of primary exports’ values – , the Latin American region saw the rise of a national development model (Munck, 2013, p.73) as an alternative for more sustainable growth. Import-substituting industrialisation (ISI) began to consolidate itself as the common trend across the region, and Mexico was no exception.

President Lázaro Cárdenas (1934-40) was particularly aware of the growing dependency and constraints that foreign capital frequently posed to Mexico's economy – one of the reasons why he eventually nationalised the oil industry in Mexico. Likewise, he created a vast developmental framework of institutes and organisations to trigger the domestic industry such as the *Banco de Crédito Ejidal*, *Nacional Financiera*, *Banco Nacional de Comercio Exterior*, among others (see Bennett & Sharpe, 1982).

But there were additional domestic constraints to be faced when he entered his administration. The objectives of Mexico's Revolution seemed far from crystallising as the country had basically the same wealth inequalities as before. And by the 1930s, Mexico's economic and fiscal policy-making were submerged in crony practices that triangulated between the President, the Finance Ministry, Banco de México and their commitment to big industrial and financial conglomerates.

Therefore, when Lázaro Cárdenas was elected in 1934, the socioeconomic landscape was strikingly similar to that in *Porfirian* times. Moreover, the resuscitated arrangement between the *Porfiriato's* economic elites, officials of the Finance Ministry, and the Central Bank had been greatly shaping Mexico's economy since the 1920s (Gauss, 2010, pp.28–36; Maxfield, 1990, p.9). Again, the contradiction between the new revolutionary state's image of social justice and redistribution was being blatantly contradicted by crony practices schemed largely from the Finance Ministry. President Elías Calles, Cárdenas' predecessor, had been emphatic at avoiding confrontation with the wealthy classes as it could once again amount to political and economic instabilities (Tello, 2010b, pp.170–3).

As a response, the first objective of Cárdenas' administration was to redraw the state's practices in the hope of approximating them to its redistribution image. Along these lines, Cárdenas sought the inclusion of the lower classes within the state party, not only to control these segments of society through incorporation, but to check the increasing power of the landed elites and fulfil the redistributive efforts of the Revolution. As explained by Kohli in terms of Third World countries, “challenged political elites in fragmented-multiclass states may ally with the working class and other lower classes in order to check the growing power of capital” (2004, p.416).

After the eventual triumph of the revolutionaries, several administrations from Presidents such as Alvaro Obregón and Elías Calles passed by until the Revolution's promise of land redistribution was finally thoroughly dealt with by Lázaro Cárdenas. Cárdenas' administration indeed represented Mexico's most ambitious platform for

redistributing land. Pieces of land which were largely held by economic elites, began to be distributed to dispossessed villagers or peasants. The above process was dealt with through the collective concept of *ejidos*: large pieces of land with collective rights of ownership and work. In 1930, the *ejidos* had an equal 13% of both arable and irrigated land in the country; at the end of Lázaro Cárdenas regime in 1940, these rates had multiplied into a surprising 47% and 57% for the respective rates (Tello, 2010b, p.160). Overall, Cárdenas ended up redistributing more land (17 million hectares) than all the revolutionary administrations that had preceded him (Zúñiga & Castillo, 2010, p.509).

Then, Cárdenas began his nationwide effort to empower the other sector that was just as marginalised as the peasant sector: the sector of the workers. With the help of a national union (*Confederación de Trabajadores Mexicanos, CTM*), Cárdenas distanced himself from his predecessors who saw workers' demands and strikes as obstacles to national development. In fact, he even supported workers' strikes as a way for workers to gain better working rights and salaries (Snodgrass, 2003, pp.31–53). This support from Cárdenas and a substantial increase in the number of strikes across the country, consequently irritated the rising national bourgeoisie.

Table 4. Number of labour strikes during the Cárdenas administration.

Source: Tello 2012, p. 173

Year	Number of strikes	Number of workers involved
1934	202	14,685
1935	642	145,212
1936	674	113,885
1937	576	61,732
1938	319	13,435
1939	303	14,486
1940	357	19,784

Through the empowerment of previously dispossessed and marginalised sectors of society, Cárdenas consolidated his corporatist infrastructure as a counterbalance to the social force that economic elites had amassed. However, the growing national bourgeoisie

and its effervescent opposition deployed their own efforts in securing the previous “rules of the game” regarding economic development.

Through these efforts, Mexico’s economic elites contested the state’s attempt at regaining social control. The Monterrey Group of financiers/industrialists were particularly determined to place obstacles in the path of President Cárdenas pro-labour policies (as will be expanded upon in Chapter 5). This Group relied on capital flights, paramilitaries, industrial shutdowns of Monterrey and the creation of several associations opposing Cardenismo.

At the same time, across the Northern region of México, the Mexican Confederation of Owners (Coparmex) became the vehicle for industrialists and financiers to express their fervent opposition to Cardenismo. Moreover, after President Cárdenas visit to reinforce his support of Monterrey’s workers, the Monterrey Group created Nationalist Civic Action (which later became the PAN party) with support throughout the northern and centre states such as Puebla, Tamaulipas and Jalisco (Snodgrass, 2003, p.219).

To augment the pressure from these economic elites, the bankers’ alliance also made its presence felt. Though it had already lost its stronghold on the Finance Ministry to an official appointed by Cárdenas, the alliance relied on the remaining organisation sharing their interests: the Central Bank. Accordingly, when Cárdenas proposed an initiative related to tax capital exports, the banking groups managed to repeal it through *Banco de Mexico*’s President. The Bank’s President convinced Cárdenas and his Finance Minister of dropping the initiative by arguing that the tax actually “encouraged capital exports by creating fears that it would be raised” (Maxfield, 1990, p.85).

Likewise, in 1939, this banker’s alliance was quick to mobilise when Cárdenas proposed an initiative to tax excess profits. The recently created Association of Mexican Bankers countered this initiative with a public campaign in the national media denouncing the Cárdenas regime as fascist, even comparing it with Hitler’s totalitarian regime (Hamilton, 1982, pp.112–3).

The opposition of the economic elites soon proved too much of an obstacle for Cárdenas’ image of the revolutionary state – surpassing even its massive corporatist support structure including peasants, workers, and the military. Eventually, most of Cárdenas’ “experiments failed, given various problems of implementation and the hostile environment of capitalism” (Op. cit. 1982, p.140). As a consequence, and as would be repeated throughout Mexico’s history, “the peasants put the dynamite to destroy the old order but (were) the first victims of the new society” (Aguilar, 1989, p.89).

To end these continuing struggles with the economic elites Cárdenas forfeited the future of his “utopia” – as it has been phrased by several scholars (Gilly, 2001; Meyer & Aguilar, 1989, p.162). To alleviate tensions with economic elites and in an effort to avoid any economic instabilities, as his successor he picked a moderate leader much more attuned to the bourgeoisie’s interests.

In this sense, the Mexican elite’s capacities to continually find leverages towards subsistence resembles the reiteratively comparative case of Brazil. Hagopian’s account (1994) of the failure of the new military regime in Brazil to get rid of elites from the Old Republic draws striking similarities with Cárdenas’ inability to get rid of the elites consolidated during *Porfirian* times.

As will be related in the next section, Cárdenas’ successor, President Ávila Camacho, again turned the economy towards pro-business priorities (Erfani, 1995, p.70), resulting in a reinforcement of the prevailing crony practices.

3.5 ISI and Mexico’s industrial take-off (1940-1964)

The current section, following on from the triumph of the bankers’ alliance over Cárdenas’ intended reforms, will expand on the mutual reinforcement of the crony practices occurring between state and economic elites. To achieve this, as will be seen here-after, the economic elites managed to take advantage of the state’s drive toward rapid industrialisation – a drive which was highly influenced by external factors present around that period.

During the 1940s, the rising voice of the Economic Commission for Latin America and the Caribbean (ECLAC) reinforced the region’s drive toward national industrialisation and ISI. Countries across the region began showing remarkable rates of growth and a seemingly successful rise in domestic industries. Within this landscape, and through ISI, Mexico also garnered an industrial breakthrough though with the prevailing crony nuisances.

In his first Presidential address, Ávila Camacho (2006, p.23) declared the following in regards to Mexico’s ISI:

The objective pursued is applying every available element to the development of the basic industries, either for the expansion of existing industries, or to incentivise in well-defined cases the establishment of activities that may help avoid the need of importing articles susceptible of being elaborated in the country

for domestic consumers; likewise, it is intended to incentivise, with the required prudence regarding permanent investments, the exports of those outputs that Mexico might produce in better conditions, to distribute them in the markets that are currently available for us.

The on-going events of World War II only augmented the pressure on Mexico to consolidate its own productive capabilities, as in other Latin American countries. In the words of President Ávila Camacho (2006, p.34), “the abnormal conditions created in the world by the war, have made official action in this matter (national economy) particularly delicate”. As a silver lining, however, the circumstances of war also created a form of “natural protectionism” (Miranda, 2005, pp.113–4) for Mexico’s domestic industries. The difficulties of importing, for instance, German metallic gates for dams or foreign machinery for electrical plants (Ávila, 2006, pp.31–7), also represented an opportunity for domestic industries’ diversification.

Accordingly, with President Ávila Camacho in 1940, Mexico’s industrialisation efforts took off to their full extent. And largely due to the rising “economic forces” of the bourgeoisie (Tello, 2010b, p.189), Mexico disregarded the more agrarian *cardenista* policies (of the *ejidos*) for industrialisation at full-throttle. The state, pressured by the said international factors and by its domestic elites, thus decided to constrain itself in terms of nurturing the economic elite of entrepreneurs and industrialists in an effort to achieve rapid industrialisation. This elite eventually became a “major force” in Mexico’s golden years, enabling growth which “some argue (...) was built in the backs of the Mexican lower class” (Bennett & Sharpe, 1982, p.169).

The above arrangement was extended for the next four Presidential administrations, reinstating the state’s crony practices – through its President and central offices– for the large part of Mexico’s ISI. These practices or “strategy involved all-out government support for private investors via tax incentives, public subsidies, trade protectionism, and government restraints on wages” (Erfani, 1995, p.89). Again, at the helm of this arrangement, was what Maxfield (1990, p.9) had coined as the “bankers’ alliance” – the close circle knit between the Finance Ministry, Central Bank, and economic elites, originating in the *Porfirian* regime. From here-on, this regulatory capture (Dal, 2006, pp.204–5) of the Finance Ministry, enabled the bankers’ alliance to dictate Mexico’s economic development rules according to these elites’ interests, and not the more inclusive objective of national industrialisation.

As related by Ortiz Mena, Finance Minister from 1958 to 1970, the national bourgeoisie, mainly bankers who were also heads of big industrial/financial conglomerates, were always to be consulted first about fiscal and economic policies; surveys of entrepreneurs from the 60s and 80s also related the view that private “bankers (had) privileged access to the public policy process” (Maxfield, 1990, pp.44–5).

The public oil enterprises nationalised during Cárdenas’ tenure, symbols of the state’s revolutionary and national image, were soon developed as public subsidy resources to reduce production costs from the larger private enterprises. Moreover, the developmental financier organisations, such as *Nafinsa* and *Bancomext*, were used as a frequent solution to save both public and private enterprises from massive failure (Bennett & Sharpe, 1982, p.188). According to Erfani (1995, p.60):

After 1940, PRI presidents’ promotion of rapid industrialization involved the creation of parastatal enterprises and agencies as well as an expansion of the state’s intervention in macroeconomic processes. Both of these forms of state economic intervention were designed to subsidize private investment and correct for private sector deficiencies restricting local industrial growth.

Although in the developmental literature, and in economic development history, successful industrialisers relied on state-capital alliances, state autonomy or authority was also essential for states looking to mobilise the entire nation towards economic growth (Evans, 1995; Kohli, 2004; Weiss & Hobson, 1995). Hence the persuasive concept of “embedded autonomy” throughout the Third World (Evans, 1995, pp.3–21). In Mexico, it was precisely this element that went missing within national platforms. Using Evans’ approach (1995), embeddedness – between state bureaucrats and private sector – was there but without the necessary state autonomy.

The lack of state capacity to enforce “sticks” on the private sector, or even tax reforms without massive capital flight, tipped the balance between embeddedness and autonomy towards the former. Eventually, the federal government could not even convince the private sector of engaging in the country’s joint project of industrial transformation –as will be evidenced through the next chapter’s examination of the automobile industry. Starting from 1940, “not much time transpired before that rising bourgeoisie –not the *ejidatarios*, nor the cooperatives– became the axis of the Mexican economic process with the firm support of the State” (Meyer & Aguilar, 1989, p.162).

The state soon appeared to have largely constrained itself in accommodating big financial and industrial conglomerates. The continuing failure of the federal government to recollect higher taxes evidenced this accommodation and lack of autonomy. During the 60s and 70s, “tax reform proposals were watered down, if not defeated, by government officials and private businessmen who argued that they would seriously damage the investment climate” (Maxfield, 1990, p.88).

Hence, the increasing contradiction between the state’s revolutionary and national image and, on the other hand, its crony practices. Nonetheless, by then, the firm stronghold of the bankers’ alliance on the Finance Ministry seemed to be unyielding. This kept procreating, in the words of Erfani (1995, p.90), the myth of the revolutionary President as leader and planner of a “strong, progressive state while the Treasury controlled all public spending and investment in the interest of private investors”.

Throughout ISI, the growing detachment of domestic business from making an investment in productive activities, slowly asphyxiated any possibility of a joint project of transformation. Private utilities and economic gain were minimally reinvested during Mexico’s “golden years”. They were used only to “maintain a high level of luxurious consumption, or to send it out of the country by part of a minority of privileged *usufructuarios* of the economic growth”; through the decades of the 50s and 60s, the utilities of private enterprises were over 50% of the total non-rural income of the country, whilst private investment was never over 10% (Tello, 2010b, p.191).

Still, the Mexican state was emphatic at continuing to cater for big-business interests –even to the point of limiting its own developmental priorities, as was made evident at the end of the 50s. In 1958, President López Mateos faced the challenge of fuelling the country’s industrialisation process amidst threats of a slow-down. Manufacturing in the automotive sector seemed like the next logical step; even more so as Brazil and Argentina were threatening to gain an early advantage in Latin America (Bennett & Sharpe, 1986, p.218).

As it will be reviewed throughout this chapter and those that follow, the Brazilian state, though also with intermediate capabilities, clearly superseded the Mexican state’s autonomy or authority in regards to industrial policy. The former being generally able to start more ambitious indigenous industrial sectors, devaluations and fiscal reforms, whilst the Mexican state, as will be examined below, could only continue to falter in its related attempts due to the pressure of the economic elite.

During this particular conjuncture then, the expected practice of Mexico's revolutionary state image of national development seemed to be fostering a domestic automobile industry, as also in Brazil or South Korea. Instead, however, the Mexican state, under the leadership of the Finance Ministry, arranged an agreement with transnational automobile corporations to settle in Mexico *without* restrictions regarding national content or national ownership. According to Bennet and Sharpe's study (1986, p. 228) much had to do with state-capital relations or accommodations.

These classes (referring to the national bourgeoisie) wanted what they had become accustomed to: modern, U.S.-style products. A Mexican car would not have been acceptable. The relationship of the Mexican state to its national bourgeoisie thus demanded that Mexico needed the sort of automobile industry that only the transnational firms could provide.

Furthermore, the state secured the ownership of several automotive subsidiaries in the hands of powerful domestic families, despite the risk of market saturation (Bennett & Sharpe, 1986, p.233).

The limits of the state's capacity to mobilise the private sector in a joint project of development began to be evermore evident during the 60s. The state's nationalistic and autonomous image thus saw greater separation from its crony practices, which were highly dependent on the national bourgeoisie's interests. Aggravating the state's legitimacy was the stark contrast of its treatment to workers and peasants, whose conditions were rather precarious. Furthermore, the frustrations of Mexico's Presidents, who had their hands tied by the financial and technical expertise of the Finance Ministry (Erfani, 1995, p.81), continued to escalate. Both situations began to be increasingly exposed at the end of the 60s, eventually contributing to a crisis of state legitimacy – which will be related in the following chapter.

3.6 Conclusion

As examined above, Mexico's economic development has been a result of the state's struggles and allegiances with economic elites. Consistent with path-dependent perspectives, the Mexican case of state-building and a drive towards industrialisation, shows the importance of gaining early advantages or leverages. Thus, it is only when the

state's authority is not taken for granted that one is able to see the struggles it wages over other social groups in a bid to consolidate its primacy.

In this sense, the capacities of the Mexican elite to continually find leverage towards subsistence resembles the reiteratively comparative case of Brazil. Hagopian's account (1994) of the new military regime's failure to get rid of elites from the Old Republic draws striking similarities with Cárdenas' failure to get rid of the elites consolidated during *Porfirian* times.

Throughout this chapter, the portrayal of the Mexican state's fragmentation has begun to exhibit some of the effects it had on the country's economic development. Gradually, the surviving strategies devised by Mexico's national bourgeoisie allowed them to carve out a niche within Mexico's neuralgic centre of economic policymaking – the Finance Ministry. From here-on, this regulatory capture (Dal, 2006, pp.204–5) enabled the bankers' alliance to dictate Mexico's economic development according to these elites' interests, instead of towards the elusive objective of national industrialisation.

Within this niche, they managed to undermine every substantial governmental effort of the state to re-direct the country's path towards a more autonomous, inclusive or redistributive growth during the first revolutionary governments. Eventually, at the end of the 60s, the dependence on this particular economic group of big bankers and industrialists exposed the Mexican state's compromised legitimacy. Within this timeframe, the state's apparent lack of legitimacy or departure from its nationalist and revolutionary image represented an overwhelming challenge.

Thus, in the following chapter, the Mexican state's subsequent "politics of survival" (Migdal, 1988, pp.206–236) will be analysed. With a legitimacy torn down by cronyism, prevailing poverty, the polarisation of regions and the marginalisation of workers' conditions, achieving social control seemed evermore complex. As a result, the nationalist drive towards economic growth that once seemed attainable came to an end.

Chapter 4. A Fragmented State Exposed (1968-2012)

4.1 Introduction

As depicted in the last chapter, from the 1940s to the 1960s, the Mexican state increasingly subdued its own autonomy in trying to accommodate industrialists, bankers and other economic elites who were pursuing industrialisation. Regarding economic development, these diversified accommodations of economic elites resulted, as framed by Migdal for Third World countries in general, in an increasingly “dispersed domination, in which neither the state (nor any other social force) manages to achieve countrywide domination” (1994, p.9); hence, likewise, Knight’s (1990, p.95) depiction of the Mexican state as the patchy “Swiss cheese” state.

At this point, the state had largely bound itself to its array of crony practices, which accommodated demands from economic elites via two alternatives. First, on an organizational basis, with contracts and policy acquiescence, either through the “bankers’ alliance” regarding fiscal and monetary policies (Maxfield, 1990, p.33), or national organizations such as the National Chamber of Manufacturing Industries (Migdal, 1988, p.235). Secondly, on a territorial basis, responding to economic elites’ interests depending on their economic power or salience, with different negotiations in each state (Gauss, 2010, p.2).

To further diminish the state’s attempts to assert more integrated control of its economic development, the corporatist pillars of the ruling party began to escalate their demands after decades of neglect. The state thus found itself obliged to respond to this multiplicity of interests and voices. The current chapter’s main objective is, therefore, to trace the continuing state’s failure to assert political and social control over the country’s economic development – a failure which eventually contributed to the state’s withdrawal from industrial policy.

In section 3.2, the 1968 student massacre at Tlatelolco will be related as the first national exposure of state fragmentation. Then, the subsequent Presidential administrations of Presidents Echeverría and López Portillo and their failures to re-legitimise the state’s nationalist image will be analysed, along with the concomitant end of the state’s interventionist approach to industrialisation. Since the beginning of President Echeverría’s (1970) administration, it became evident that the social forces amassed by the state-nurtured economic elites had got out of state control. Later on, these two Presidents’ attempts at re-legitimising the PRI state with more pro-poor initiatives

ended up fracturing the crony state-business arrangement that had prevailed throughout the century.

The following section, 3.3, covers the state's neoliberal shift. Likewise, it relates the resuscitated crony practices employed to appease the overpowering economic elites who had been expropriated of their banking enterprises by the last remnants of the nationalist drive. Again, within this time-span, the state-capital alliance was restructured, though with limited results as to the state's legitimacy. Decentralisation and an enhanced political competition thus became unavoidable as the state's next tactic for political survival.

Sub-chapter 3.4 then depicts the end of the hegemonic PRI party's rule of the state, even after it had implemented further decentralisation and political competition. The above policies eventually led to an alternation of power, as shown in section 3.5.

To conclude, it will be argued that it was the propagation of the state's crony practices within this chapter's timeframe that contributed to the state's inability to consolidate an effective centre for the country's economic development.

4.2 A fragmented state exposed (1968-1982)

The present section will follow upon the past chapter's depiction of the regulatory capture experienced by the Finance Ministry. During the Presidential administrations of Echeverría (1970-1976) and López Portillo (1976-1982), the excessive power that the Finance Ministry had amassed exacerbated the frictions between its own initiatives and those proposed by Mexico's Presidents. These frictions, as will be portrayed in the current section, eventually spilled over into the ongoing state-capital alliance, making its fracture imminent.

Accordingly, this section's objective is to relate the fluctuations that the continuum of state-capital relations underwent from the 1960s and the effects it generated as to the state's legitimacy. It will expose how the growing control of the state by the bankers' alliance exacerbated the contestation with other groups of society until it precipitated the end of Mexico's industrialisation "Miracle".

In a comparative light within this timeframe, Mexico increasingly assimilated the core dilemma that Brazil also had with its industrialisation process: "how to promote the narrow interests of private capital, which was essential for rapid industrialization, while simultaneously legitimising their hold on power in the eyes of the majority of citizens" (Kohli, 2004, p.405). The underlying difference between these two regimes, however, is more evident in the long run. Even when facing similar fragmentations, throughout ISI

and through a large part of the 1980s, the Brazilian state had the capacity to engage economic elites into more indigenous efforts toward industrial transformation – with the considerable and resulting successes of its local auto industry (Evans, 1995, p.91), its information technologies (Op. cit. 1995, p.178) and the aeronautic, Embraer, which was eventually considered one of Brazil’s “national champions” (Trubek, 2013, p.23).

As shown in the past section, a more indigenous form of industrialisation in Mexico was seen as too risky or too painful by its economic elites – particularly in its automotive sector. Despite the state’s accommodation of economic elites, however, the slow-down of Mexico’s economy during the 1970s eroded the PRI government’s legitimacy. Furthermore, from the end of the 60s, the growing fragmentation of Mexico’s diverging societal groups forced the PRI government to prove that they were *still* the legitimate drivers of Mexico’s development. Or, in other words, they were still the legitimate heirs of Mexico’s Revolution.

In trend with the bureaucratic power struggles depicted in the past chapter, the “bankers’ alliance” (Maxfield, 1990, p.9) within the Mexican state kept growing in power and human resources. Indeed, “After 1958 Rodrigo Gómez and new finance minister Ortiz Mena formed a fiscally conservative team that dominated Mexican economic policy until 1970” (Maxfield, 1990, p.84). Even the Presidents began to feel like outsiders as the underlying crony practices between the Finance Ministry and economic elites kept debilitating from within the “myth” of the President as ultimate decision-maker of a “strong, progressive state” (Erfani, 1995, p.90).

Following the end of the 1950s, the response of the President to this private stronghold on economic policy, generated through the regulatory capture of the Finance Ministry, was to enact several administrative reforms in order to create what were meant to be counter-balancing institutions: the *Secretaría de Patrimonio Nacional*, *Secretaría de la Presidencia*, and, later, the *Secretaría de Programación y Presupuesto*. Their effects were nonetheless limited throughout the 50s and 60s.

To make matters more difficult for Mexico’s fragile autonomy throughout the 1960s, the marginalised population also voiced their discontent regarding welfare and income disparities. In 1963, the percentage of the Mexican population living in poverty was still an alarming 73% (Tello, 2010b, p.349).

Labour unions began voicing their protests regarding the recurring preferential treatment which was given to the national bourgeoisie vis-à-vis their still precarious wages. Finally, both peasants and workers, through a growing population of educated

youth who served as their spokesmen, escalated their protests, only to result in the 1968 student massacre, which was led by the state.

As stated by Foweraker, Landman, and Harvey (2003, pp. 24-5) “Public outrage at this act led subsequent governments to make gradual political reforms that allowed for greater pluralism with the intention of bolstering the regime’s legitimacy.”

Hence, when President Echeverría entered his administration in 1970, the PRI’s legitimacy was compromised more than ever. Not only was there polarisation between classes, but within regions as well. The recurrent accommodation of business elites had also contributed to concentrate growth around the more powerful industrial conglomerates. In 1970, more than 60% of the manufacturing industry was concentrated in just three cities: Monterrey in the north, Guadalajara in the west and Mexico City (Tello, 2010b, p.202). The south, in contrast, began sinking deeper and deeper into neglect.

This regional polarisation had already been building for almost a century. Following the *Porfirian* regime, “Investors designed the Mexican railway in order to reach the most productive areas of the country, unlike others in Latin America, which were used to stimulate settlements” (Migdal, 1988, pp.77–8).

Again, this concentration process was gradually reinforced throughout the following decades. Much later, for instance, the 1955 Act of New and Necessary Industries was decreed in order to promote the creation or improvement of manufacturing activities. Nevertheless, 90% of the enterprises benefitting through this law ended up establishing in Guadalajara, Mexico City, its neighbour State of Mexico, and Nuevo Leon, with Monterrey as its capital (CEPAL, 1979, p.57).

Therefore, the policy response from Echeverría was to enact his Shared Development (*Desarrollo Compartido*) project. By implementing this policy, he looked to regain the PRI’s lost legitimacy regarding economic development, by spreading benefits of the already struggling “Mexican Miracle” across the country’s different regions and populations. Throughout the 1971, 1972 and 1973 Decrees of Decentralisation, Echeverría consequently favoured the installation of enterprises outside Mexico City, Guadalajara and Monterrey. Also, a federal government programme focused on industrial estate – pieces of real estate furnished or built by the government in order to attract private sector projects either in greenfield or brownfield capacities – was pursued in order to promote industrialisation in areas other than the cited metropolises.

Alongside these initiatives, Echeverría's industrial policy was designed to address Mexico's pending challenge to undertake the country's second-phase of ISI – nurturing a domestic capital goods industry able to compete internationally. In this sense, his administration put more emphasis on export promotion of the said industries through export subsidies, short term credits and financing opportunities for export-oriented investments; at the same time, he decreed the 1973 Law of Foreign Investment regulating FDI in specific sectors and restricting foreign ownerships of key industries. This was done with the hope of triggering the domestic sector's capacities (Moreno-Brid & Ros, 2009, p.126).

But then the decreasing participation of the private sector in industrial investment became a more pressing matter. Indeed, these initiatives faced a complex scenario considering the state's growing incapability to mobilise private capital. In fact, even collecting higher taxes had long been a perilous duty, as the federal government correspondingly faced capital flight threats from the private sector. To respond to the private sector's growing apathy towards industrialisation and to a "shared development" goal, an increase in public revenue and expenditure was apparently in order.

It was in these matters, nevertheless, that the "bankers' alliance" stronghold on macroeconomic policy was felt over and over again; and "From 1958 until 1972, PRI Presidents consistently accepted the Treasury's orthodox economic arguments that economic growth declined if corporate profits were heavily taxed and private investors' confidence fell" (Erfani, 1995, p.94). Besides the years of Cárdenas' administration (1934-1940), Mexico's political economy had largely been devised by the Finance Ministry, following the demands of the evolving heirs of the *Porfirian* bankers and industrialists.

Thus, President Echeverría sought to implement an integral tax reform to increase the state's revenues with attempted increases at personal income tax levels, taxes on financial activities and the eradication of anonymity in certain corporate holdings to avoid tax evasion (Moreno-Brid & Ros, 2009, p.126). The economic elites and the central bank's opposition, however, proved too much for President Echeverría's initiatives, as the threat of capital flight was made by economic elites and their allies – the Central Bank and the Finance Minister (Ibid. 2009; Ornelas 2005, pp.100–1). This resistance recreated once again what Sánchez-Ancochea and Morgan (2008, p. 7) characterised as the vicious circle of Latin American countries in terms of weak fiscal capacities and lack of state credibility: "fiscal institutions that lack credibility are unable to secure enough tax

revenues and public credit and consequently lack the capacity and resources to provide an optimum level of public goods – further weakening state credibility”.

To confront this vicious circle after decades of constraints to Presidential initiatives, in 1972, Echeverría got rid of the last bastion of the bankers’ alliance in his cabinet, minister Hugo Margáin. In his place, he put a *cardenista* with neo-Keynesian beliefs. Still, President Echeverría was unable to carry out his integral reform on revenues due to the ongoing threats of capital flight voiced by the economic elites. Instead, he undertook “timid” reforms to the taxation system (Ornelas 2005, p.101), relying on heavy loans from abroad in order to finance industrialisation and a more ambitious set of social policies. As related by Erfani (Op. cit. 1995, p.132) “In the absence of tax reform and private sector economic cooperation with the government’s reform efforts, neo-Keynesian technocrats sought other means to finance the dramatic growth in public expenditure and public intervention.”

Some advantages for the industrial sector were seen. Manufacturing exports grew by 14% and 15% in 1972 and 1973, respectively, while the Gini coefficient went from .54 to .49 between 1968-1977 (Moreno-Brid & Ros, 2009, pp.127–8). Adverse circumstances in the international context, nevertheless, overwhelmed the Echeverría administration, eventually generating soaring financial deficits and external debts (Ibid.).

Consequently, setbacks did not take long in presenting themselves. Macroeconomic instabilities ensued and Echeverría’s administration was characterised as “quasipopulist”, “populist”, or “radical” (Aguilar 1989, p.27). Accordingly, the economic elites rose again, both as association and capital (Schneider, 1997, p.212), to oppose the deviations of a path where their profits were at stake – as was the case with Cárdenas, almost three decades earlier. Near the end of Echeverría’s term, the private sector’s discontent culminated in massive capital flight, to which Echeverría responded by expropriating more than 30,000 hectares in the northeast – where the bourgeoisie opposition was niched (Aguilar 1989, p.56).

The depicted continuum of negotiation, accommodation and radical confrontation was to be repeated with Echeverría’s successor. President López Portillo initiated his Presidential term in 1976 with extensive investments and bailouts for private enterprises through his program *Alianza por la Producción* (Alliance toward Production). He also committed himself to constrained monetary spending as a further token of faith towards the private sector, which was additionally strengthened by a loan agreement with the International Monetary Fund.

The restricted monetary policies were, nonetheless, soon derailed by the discovery of substantial oil resources. In 1978, Portillo's euphoric declarations announced new times of abundance for Mexico's economy (López, 2006b, p.82). Thus, he abandoned his initial compromises regarding fiscal constraints and escalated the government's public spending. Eventually, these public expenditures following the oil boom resulted, as characterised by Little and Posada-Carbó (1996, p. 12), in an "abuse of public monies". Shortly after boosting the economy, the oil shocks of the 1980s derailed the fragile macroeconomic stability of Mexico. Alongside inflation, the government's external debt grew out of all proportion, and the results for state-business relations were once again critical, leading to "open confrontation. Business confidence in the regime plummeted. Capital flight assumed perilous proportions" (Heredia, 1995, pp.192–3).

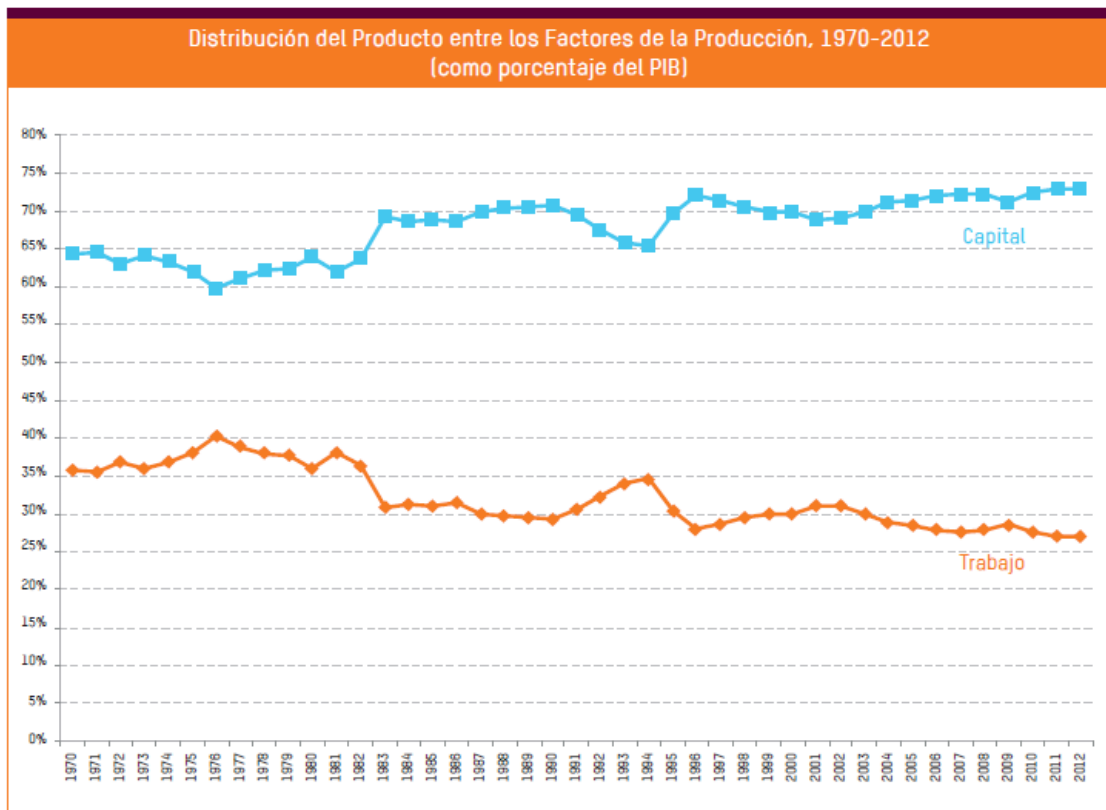
From 1976 to 1988, the cumulative flight of capital represented 28% of Mexico's GDP (Schneider, 1997, p.196), which Presidents Echeverría, López Portillo and even the national media called a "financial *coup d'état*" (Aguilar 1989, p.56). The exit of President López Portillo was however more radical than that of his predecessor, as he nationalised the bank industry in an attempt to free the state from the private sector's constraints.

The overwhelming sensation that the bankers' alliance had projected upon the state's economic policy-making was precisely framed by Erfani and the minister Carlos Tello, who was the main deviser of the bank's nationalisation (Erfani, 1995, p.146):

From Tello's perspective, the nationalization of private banks represented, 'above all (that) the State could once and for all put an end to the principal adversary which... had limited the State's capacity to maneuver.' His motives were to break the internationalized private sector's hold over the state's financial position.

As shown in Esquivel's graph, Figure 1, regarding the distribution of gains between capital/owners (blue) versus workers (orange), Mexico's greatest shrinkage of the income gap was achieved during the administrations of Presidents Echeverría and López Portillo. Poverty rates were also substantially reduced during this period, dropping from 73% in 1963 to 29% in 1981 (Tello, 2010b, p.349).

Figure 1 Distribution between the Factors of Production (1970-2012). Source: Esquivel, 2015, p. 86



Nevertheless, the constant opposition of the leading industrial and financial elites to these new arrangements proved to be overwhelming for the state, despite its nationalisation of the banking sector. The social force that these economic elites had amassed since the start of the century had surpassed the control of the state. The end of these fluctuations, that is, between accommodation and opposition, gave birth to Mexico’s next critical juncture in 1982: a neoliberal shift which once again expanded the income distribution gap, the polarisation among regions and reinforced the economic elite’s interests through the previously cited crony practices – now relying mostly on privatisations and bailouts.

As will be related in section 3.3, the following conjunction of an open-market shift and decentralisation, consequently led to the end of the state’s industrialisation drive.

4.3 The neoliberal shift (1982-1994)

Mexico entered the 1980s with an exposed fragmentation of its state, while the rupture between state and economic elites weakened the state’s image of autonomy even more.

The underlying crony practices of constant appeasement of the private sector kept building up until the state's autonomy on economic development seemed quite illusory. As framed by Migdal regarding Third World states (2001, p.19), "practices may also work against these myths and perceptions", in some cases, even amounting to a state capture. In the case of Mexico, the economic elites that the state had nurtured were able to crystallise a regulatory capture of the Finance Ministry, through which they gained a wide array of benefits: tax exemptions, public bids, subsidies, protectionism without supervision and continuous financial bailouts.

Thus, the myth of the Mexican state with its revolutionary origin of nationalist growth and social justice was gradually captured until it was eventually shattered. But the same result ensued as in past Revolutions, reforms or junctures in Mexico's history. For example, in the case of the Mexican Revolution trying to vanquish *Porfirian* elites or in Cárdenas' reform which tried to control the survivors and heirs of the above elites; nationalising the bank resulted in a subsequent appeasement of the same economic elites.

The central theme of the current section will be the diverse strategies of survival that the Mexican state deployed in an attempt to re-legitimise their position. Among these strategies were the following: political and fiscal decentralisation, accommodation of big-business' priorities through privatisations and financial bailouts (crony practices) and an enhancement of political competition.

With a substantial slowdown of the economy entering the 1980s, both the Presidential administrations of Miguel de la Madrid (1982-88) and Carlos Salinas (1988-1994) were once again obliged to attempt to re-legitimise their party's hegemonic rule. But the arenas of contestation had increasingly multiplied as a result of more fragmented social control. With a growing variety of interests in society, decentralisation now seemed a high order for both international (World Bank and IFM) and national actors.

In Latin America, the same trend towards democratisation and decentralisation was also making waves. During the 80s, Latin America was the first region to undertake widespread decentralisation duties as a measure to strengthen democracy (Falleti, 2010, p.6; see also Landman, 1999, p. 615). Democratising a region which had recently been governed mostly by authoritarian or military regimes was seen as a priority among national institutions and international organisations. Accordingly, decentralisation was largely held as the main vehicle for improved government accountability and responsiveness.

As a first antecedent, the decentralising measures enacted by Echeverría in 1972 were more related to industry, and not as embracing as expected. Even though the three cities where industry was concentrated (Mexico, Guadalajara and Monterrey) evidenced a *desaceleración* (Guadarrama & Olivera, 2001) or loss of industrial momentum, the industrial activities continued to concentrate around those pioneering nucleuses of growth (and their industrial strongmen).

On strict political matters, the increased competition of opposition parties seemed evermore alarming to the PRI. According to Middlebrook, the PAN, in existence for more than 40 years, managed a “surprisingly large electoral sharing in 1982 (which) was largely due to its long established role as a channel for urban-middle class discontent with the government/PRI apparatus” (1985, p.140).

With all these pieces aligned on the political chess board of Mexico, de la Madrid saw the next step to be taken by his administration. Just months into the Presidential chair, he formulated the 1983 constitutional reform. This reform became the first step towards political decentralisation, making a strong emphasis for empowering municipalities.

For the first time since the PRI was founded, nearly 50 years, it began to let go of its centralised grip on politics. As suggested by Dickovick (2011, p.183) “national elites at a head of a long-governing party – the PSI in Senegal, like the PRI in México – sought proactively to share up their legitimacy and electability by conferring some limited autonomy to subnational actors”.

Regarding Mexico’s economic elites, their appeasement soon arrived, as they had just lost their banking enterprises. Crony practices were again implemented to compensate for expropriating the banking sector. Domestic and disgruntled business elites received “privileged access” to new financial intermediary services (Aguilar 1988, p.58) and the arbitrary appointment (or sale) of privatised industries, well below their actual market value (Petras, Veltmeyer & Vieux, 1997, p.26).

Furthermore, President de la Madrid gave in to the demands of the most powerful economic elites (mainly, the surviving bankers’ alliance through the Mexican Association of Bankers, and the employers’ association, COPARMEX, led by the Monterrey Group) (Camp, 1989, pp.160–3). The demand of these business elites revolved around an opening up of the Mexican economy, which de la Madrid used to negotiate the GATT agreement, which was eventually signed in 1985.

From the beginning of de la Madrid’s administration, what Whitehead termed “the ‘neoliberal’ ascendancy” (2006, p. 149-50) began to take shape. In words of this same

author, “the rise of ‘neoliberalism’ was promoted initially by the collapse (through internal dissension and demoralization) of its traditional counterweight: statist and nationalist approaches” (Op. cit. 2006, p. 150).

This new opening of the Mexican economy did not generate however immediate results. Mexico’s economic recovery still seemed a long way off and the economy was far from stabilising. Amidst a continuing debt crisis, the Mexican government began to rely on International Financial Institutions’ loans as a stepping stone towards stabilisation. This time around, the IMF seemed less willing to allow any disobedience. In the 1980s, the administration of de la Madrid thus represented the IMF’s transformation from mere short-term lender to policy maker and reformer of market priorities (Panizza, 2009, p.31). Instead of directing the country’s opening up in a gradual and selective manner, as in the case of East Asia (López, 2007, p.65) or Brazil (Grugel & Riggirozzi, 2009, p.6), de la Madrid followed the “one-size-fits-all” adjustments prescribed by IFIs.

The first implication, following IMF’s structural measures, were drastic cuts in public investment: from 1935 to 1982, public investment grew at an annual rate of over 8%; but from 1983 it shrank to a mere 2% up until the new century (Calva, 2010, p.16). This then led to a heightened dependency on private investment and foreign capital, two agents that seemed increasingly reluctant to relaunch Mexico’s industrialisation. Furthermore, de la Madrid’s ratification of the GATT agreement divided the private sector into supporting and opposing groups. Mexico’s entry into the GATT accordingly shook once more the state-capital arrangements that had existed throughout the PRI’s hegemony, as “political connections” began to be insufficient for business success (Riner & Sweeney, 1998, p.161).

Likewise, in the case of the private sector, many investments were shifted from productive or manufacturing activities towards the less dynamic services sector (Tello, 2010b, p.302). In MNCs’ case, with a presence that was increasing along with Mexico’s more market oriented stance, the emphasis was made on pursuing profits based on cheap labour rather than on technological upgrading (Palma, 2009, p.231).

De la Madrid’s lack of capacity to legitimise his party’s regime grew during his administration, accompanied by a dire and extended struggle following the 1982 debt and oil crises. Mexico’s national debt kept growing, its economic situation showed little life and, furthermore, the opposition to the once hegemonic PRI became unprecedented.

This failure eventually led to what seemed to be the PRI’s first Presidential loss against a leftist coalition in over 60 years. However, an eventual fraud in the 1988 election

kept the PRI in power. The ruling party's legitimacy was certainly in crisis, prompting the dubiously elected Carlos Salinas to respond with a "peculiar combination of political reformism, economic Neoliberalism, and populist welfarism" (Brachet-Márquez, 2007, p. 132-33).

From a political aspect, it was the entering administration of Carlos Salinas (1988-1994) that had the necessity of approving PRI losses at state level – such as the loss to a PAN gubernatorial candidate, Ernesto Ruffo, in Baja, California.

In economic matters, Salinas intensified his predecessor's neoliberalism. His privatisation schemes reached epic proportions in the banking and telecommunications industries, multiplying the already grave inequality gap amongst the population. In current times, for instance, the wealth of four Mexicans who benefitted from these privatisation measures in banking, telecommunications and mining represent almost a third of the total wealth generated by 20 million Mexicans (Esquivel, 2015, p.19).

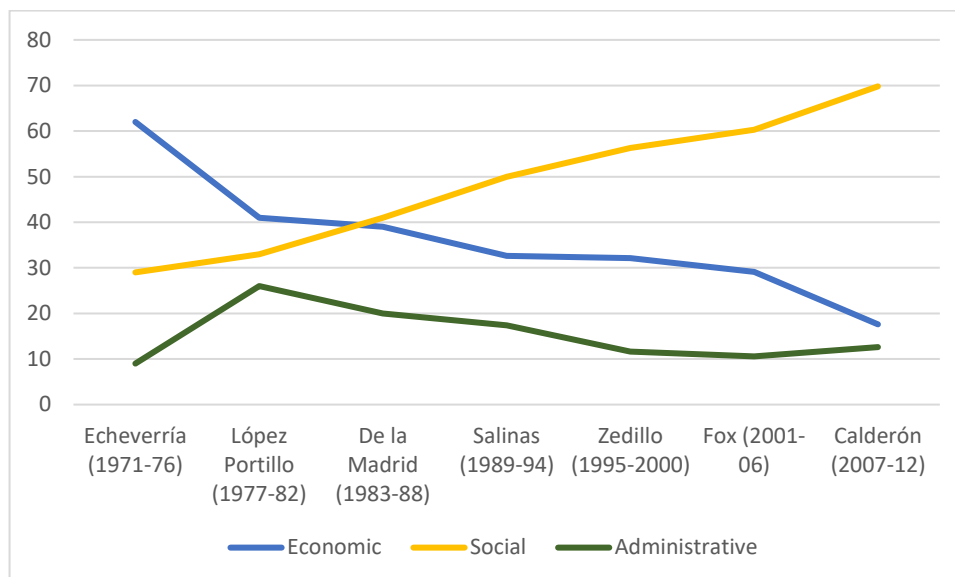
Furthermore, Salinas' pursuit of the North-American Free Trade Agreement (NAFTA) reinforced the already concentrated and unequal growth of the country. The northern states gained another competitive advantage over the more laggard states in the south (Dávila et al., 2002, p.206).

As a compensation for Mexico's marginalised sectors, Salinas formulated a "social liberalism" (Aitken, 1996, pp. 24-6; Knight, 1996, p.3), brought about through his social policy program, PRONASOL. The beginning of a trend for the next Presidential administration was created. From here onwards, the state's curtailment from its past dirigisme on economic development was consolidated. In this trend, economic development expenditures were replaced by social expenditures – aiming towards the appeasement of the poorest sector of society whose presence was heavily concentrated in the south. Through this measures, Mexico began to deploy its own version of what Haagh (2002, pp. 12-3) termed, for other Latin American countries, the "residual welfare model". In the words of Ward, likewise, this measures by Mexico's social development sector "reflect(ed) a residual approach to maintain the functions of the sector in order to provide a palliative to austerity measures and to restructuring" (1993, p. 620).

During Echeverría's term, for instance, when the Mexican Miracle started losing momentum, the federation's expenditures were 62% in economic areas whilst 29% in social areas (the missing 9% percentage being administrative). During Salinas' administration, the percentages shifted to 32.6% and 50% in economic and social areas, respectively. This trend eventually ended up with Calderón's administration (2006-12)

spending an extrapolated 17.6% and 69.8% on economic and social matters, respectively (Based on INEGI, 2014).

Figure 2. Trends in public expenditure distribution (1971-2012)



From 1982, the state largely abandoned its vertical industrial policy and its focus on the promotion of specific sectors (Moreno-Brid et al., 2005, p. 1099), undertaking instead more generalised programmes of efficiency and deregulation on exporting activities, although with insufficient resources (Op. cit. 2005, p. 1101). Among other consequences, the increasing curtailment of the state regarding economic development also aggravated the problem of polarisation within its regions and societies (Hiskey, 2005). Moreover, it did not take long, following the negotiations by NAFTA, for the private sector to become increasingly critical of Salinas’ NAFTA arrangements.

Already by 1994, the major business associations such as *Consejo Coordinador Empresarial*, COPARMEX and CANACINTRA had joined efforts in denouncing Salinas’ negotiations within NAFTA, along with his unconditional favouritism of the big banking groups and his lack of industrial policy to accompany the process (Johnson, 1998, p.137). Industrialists called for a resuscitation of industrial policy, both vertical and horizontal, as a way to foster the domestic industry’s competitiveness; but to these demands, the Minister of Commerce and Industry simply responded: “NAFTA is our industrial policy” (Ibid), to much disappointment in Mexico’s private sector.

From an overall perspective, the state's politics of survival – including political decentralisation, privatisation and “residual” welfarism (Haagh, 2002, p. 12-3; Ward, 1993, p. 620) – only allowed the reigning party to remain in power for one more Presidential term. And although in 1993 and 1994 Mexico saw an apparent economic recovery, the underlying fragmentation of the state –between multiple interests and societal need – again reappeared with the 1994 crisis. Consequently, the pacts that the PRI “Swiss cheese” state had arranged to cover its holes on every front – be it regional, corporatist or elitist – became fractured.

The following section will therefore demonstrate how the 1994 crisis served a fatal blow to the state's capability to re-assert any effective means aimed at national growth. The 1980s went down in Mexico's history as the “lost decade”. Along with the 1990s, both decades represented a period of economic stagnation and crises.

4.4 The end of a political hegemony: multiplying the opposition (1994-2000)

In 1994, just three months after entering his Presidential administration, Ernesto Zedillo, also from the PRI party, had to deal with Mexico's worst financial crisis in recent history. At the same time, the Zapatista movement was consolidating in the south as a response to the negative effects generated by NAFTA amongst southern peasants and indigenous populations. Moreover, the recent salience of IFI's power in influencing Mexico's policies added another layer of constraints. Indeed, the PRI seemed to have reached the dusk of their hegemonic grip on Presidential power.

The current sub-chapter will thus relate the PRI's last political survival strategies. As will be depicted, the fragmentation of the Mexican state was particularly harmful to its economic development, which was almost relegated to secondary status. This fragmentation again resembles the struggle of its Latin American counterpart, Brazil, in redirecting economic growth. In relation to Brazil over the past century, Kohli relates that “These tendencies of fragmented-multiclass states limited the capacity of the Brazilian state to mobilize domestic resources for economic development, often leaving the country dependent on foreign actors and resources for its development” (Kohli, 2004, p.125).

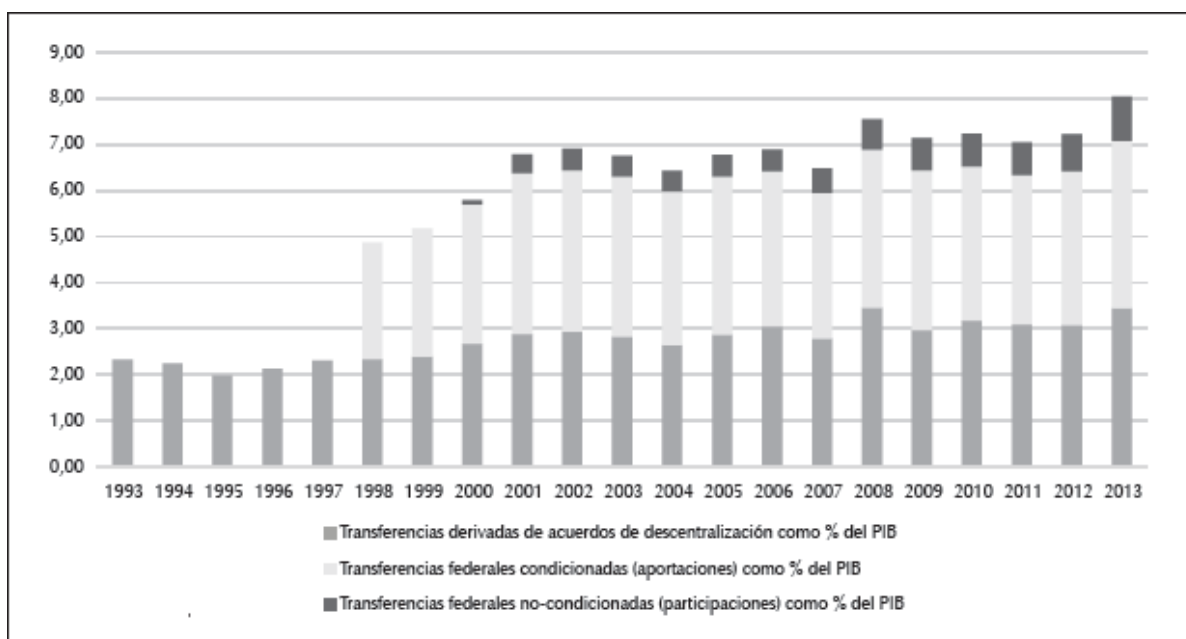
Indeed, when President Zedillo entered his administration, the legitimacy of the state had already been largely eroded. Zedillo had arrived at a time when the PRI state had been gradually cornered by discerning political and societal interests – be it economic, political, societal or international.

Thus, within this aggravated landscape, President Zedillo had to couple “virtue with necessity” (Levy, Bruhn & Zebadúa, 2001, p.132). He entered his Presidential administration with the promise to fulfil true decentralisation in Mexico while maintaining, in his own words, a “healthy distance” (*sana distancia*) from his political party. Along these lines, a furthering of political competition was in order.

He began this duty through focusing on what he called “new federalism”, which was undertaken through a strict non-intervention posture on political matters. This was in stark contrast with his predecessor, Salinas, who had demoted 16 governors for opposing his policies or leadership. In the words of Rodríguez and Ward (1999, p.159) “Under New Federalism these levels of government (were) to be given an opportunity to function, rather than being stultified by intensely hierarchical and asymmetric power relations and centralism”.

Following the 1994 crisis, subnational governments in Mexico faced dire conditions whilst attempting to trigger their economies or establish welfare conditions. Accordingly, Zedillo’s first important step in this new federalism lay in shifting social resources from the controversial PRONASOL program to a budget line that was to be managed mainly by states and municipalities: *Ramo 33* (Ward & Rodriguez, 1999, p.110). This initiative began a trend of true financial empowerment for subnational governments.

Figure 3. Evolution of federal transfers. Source: Olmeda, 2014, p. 153 (Earmarked federal transfers, decentralizing transfers and unconditioned transfers; as percentages of GDP)



As shown by the above graph, the creation of *Ramo 33* in 1998 during the administration of Zedillo represented a restructuring of social expenditure. Federal resources were now transferred – mainly through the conditioned or earmarked *aportaciones* – directly to the municipalities and states in a show of unprecedented financial empowerment. Now, subnational actors had many more financial funds, meaning they could better manoeuvre their own governmental programs. 1998 was thus marked as the year in which an authentic financial decentralisation began to take place due to a President who showed a “willingness to ‘let go’ of some of the meta-constitutional reins of power” (Ward & Rodríguez, 1999, p. 685).

Despite this, the opposition from political parties, other levels of government and groups in society kept growing. On the strictly electoral side of decentralisation, 1997 became the first year in which the PRI lost its absolute majority in the National Congress (that is, the majority needed to reform any constitutional matter) and lost the first ever public election to decide who held the executive power in the nation’s capital. Suddenly, political control had got out of hand for the hegemonic party.

Losing the majority in Congress sparked new dynamics between various branches of government. Soon, with the inclusion of municipalities in constitutional controversies,

the judiciary also received upgraded responsibilities in terms of balancing the playing field between all three levels of government. The two other branches of government, for the first time in history, seemed prepared to be effective counterbalances to the national executive.

Across society, the same opposition was mounted. On the one side, economic elites comprising bankers and industrialists, with their enterprises largely bankrupt, grew increasingly frustrated with the aftermath of the 1994 crisis. On the other side, the *Ejército Zapatista de Liberación Nacional* (EZLN) achieved national and international recognition by the press and society as a venture mobilising against the continuing marginalisation of the south.

Moreover, regional disparities kept increasing. As depicted by Hiskey (2005) the short period after the 1994 crisis clearly landscaped how disparate subnational capacities were to respond to the federal government's curtailment of economic development. The more industrialised states in the centre and north had substantially better capacities and infrastructures for retrenching their economic dominance over other states. This was even more so, when a better industrial infrastructure was key to landing what seemed like the only prevailing source of investment: foreign capital.

Even though the majority of the private industrial sector once again called for a resuscitation of industrial policy (Luna, 1995, p. 88; Johnson, 1998, p. 146), President Zedillo's initiatives in this field went by relatively unfelt (López, 2007, p. 74). Over the last two decades, trade liberalisation, as acknowledged by the Mexican government, had generated "an excessive de-linkage of some productive chains in the Mexican industry"; but still, the government excluded any possibility of trade protection measures or subsidies (Moreno-Brid et al. 2005, p. 1102). As a result, Zedillo's industrial policy had little impact on strengthening domestic industry, even garnering descriptions by analysts as mere rhetoric (Ibid.).

Then, in regards to the increasing social demands of the country's several sectors, Zedillo's administration began to employ disparaging alternatives. In the case of the bankers' alliance and its economic elite, their interests were thoroughly accommodated. The state devised a massive bailout of the private banks which, in turn, had contributed substantially to the financial crisis with the use of negligent loans. The FOBAPROA (generally known by its acronym) consisted of a fund with warranties for the debts of private bankers. In 1997, by the initiatives of Zedillo and the Finance Ministry, the total amount of FOBAPROA debts were transformed into public debt to rescue private bankers

and absolve them of any responsibility. The total amount of FOBAPROA bailout amounted to \$552 billion pesos (Solís Rosales, 1999, p. 5) and represented approximately 19% of Mexico's GDP (Peters, 2000, p. 54). Society grew increasingly irate in regards to this bailout.

On the other hand, the state's response to the social mobilisation of the Zapatistas was the complete opposite. In 1997, continuing the stance of state repression towards EZLN, mainly through paramilitary forces, a massacre of 45 persons took place in a community in the southern state of Chiapas. The outrage expressed by society was again apparent, further compromising the PRI's longevity in power.

Nearing the end of the 90s, the state was overwhelmed by a considerable number of actors in different arenas: subnational governments, IFIs, other branches of government, opposing parties and different groups in society.

Finally, the alternation of power took place in 2000. And although the expectations were quite high for the new government, its inability to forge effective coalitions with other political and social forces meant an extension of the state's fragmentation. The next section will thus relate how an alternation of power and a deepening of decentralisation heightened the fragmentation of the federal state's capacities.

4.5 The alternation of power (2000-2012)

The PRI's 70 years in power thus came to an end, and the alternation of power at the highest level was seen, by subnational executives, as a logical step towards the alternation of power bargains at the subnational level as well. Since its inception, however, the central allegiance that the new Presidential administration had consolidated was quite clear and it was not with other levels or branches of government. In his first administration year, President Fox stated during visits to Japan and Peru that his government was "of businessmen, by businessmen, and for businessmen" (Jornada, 2001).

This section's initial premise is that the growing capture of the state's multiple arenas by economic elites finally led to a compromised arrangement for the top national executive. Likewise, this sub-chapter will examine the negative effects that an alternation had on Mexico's fragmented circumstances. Although the PAN won the Presidential chair in 2000, many of the Mexican states were still governed by the PRI, thus leading to a constant impasse between these two parties and government levels.

During Lázaro Cárdenas' administration in the 1930s, business leaders had gradually consolidated the opposition party *Partido Acción Nacional* (PAN) due to a feeling of

displacement by socialist policies regarding employment, education and economic matters (Loeza, 1974, p. 357). But it was not until the 1980s that they began winning places at state and federal legislatures, eventually winning the 1989 Baja California gubernatorial election.

In 1988, Vicente Fox was a businessman who entered politics full-time and was elected into the national congress. In 1995, he successfully contended for the gubernatorial chair of his state of Guanajuato. In 1997, he built his Presidential candidacy through a network led and financed by businessmen from the central states of Guanajuato, Jalisco and Estado de Mexico called “Amigos de Fox” (Tejeda, 2005, pp. 68–9). The growing force of this network resulted in Fox’s candidacy being sponsored by his PAN party and, later, in the 2000 Presidential victory.

What seemed like a lack of representation at the presidential chair, led by the overpowering economic elite, did not spark any substantial controversy amongst the population. In contrast, Fox’s victory obtained some level of generalised excitement as it generated the dethronement of the hegemonic PRI. Even though the expectations, both from national and international spectators were high, the end of the PRI’s political hegemony meant little else than that. The state seemed as divided and fragmented as ever.

In regards to Fox’s industrial policy, it too was soon framed as mere rhetoric, as its initial commitments to trigger the development of strategic sectors were soon dismissed (Moreno-Brid et al. 2005, p.1103). The “missed opportunities” during the Fox administration, and the economic reforms it failed to undertake, was eventually seen as a contributing factor for Mexico’s loss of competitive advantages in comparison to emerging economies such as China (Whitehead, 2006, p. 152).

During both PAN administrations from 2000-2012, and following the party’s neoliberal stance, the ruling motto in the field was that “the best industrial policy was none at all” (Guajardo, 2014). Both PAN administrations instead put emphasis on landing FDI as the main motor towards economic development. This was a trend which according to López (2007, p.71) had been being assembled since 1982, and its basic premise was substituting the demands and needs of the domestic sector for those of FDI.

In terms of the federal-bargaining aspects, the state was further weakened by the growing empowerment and opposition of subnational officials. In the words of Hernández-Rodríguez (2006, p.2) “during the weakening of the central cohesion based on a strong presidentialism each actor in the political arena demanded a bigger role. (...)

once the Pandora's box was opened the local actors began to gain strength, augmenting their demands, trying to make sense and give real content to the federal pact”.

This was the case even more when considering that the vast majority of subnational platforms, either in municipalities or states, were still run by the PRI. The PAN was thus in an awkward and complicated position. It had to transition from its almost eternal oppositional stance to negotiating with the PRI's first ever role as the opposition – and a rather staunch one at that.

Now, what the Fox administration faced, and what the successive administration of Calderon, also a PAN member, faced, was overwhelming opposition by the PRI; an opposition launched both through the more autonomous subnational executives and through the legislature. Apparently, the PRI was firmly set on thwarting almost every Presidential initiative to obtain a second chance of being elected against apparent inefficiencies from the PAN administrations.

The newly acquired attributions of the subnational actors became an obstacle for the national executive's capacities for policy-making. The effects of decentralisation became what Stepan called “demos-constraining” in the wider literature, “characterized by significant obstacles to constitutional reforms, subnational veto authority, and other anti-majoritarian elements” (in Wibbels, 2006, p.173).

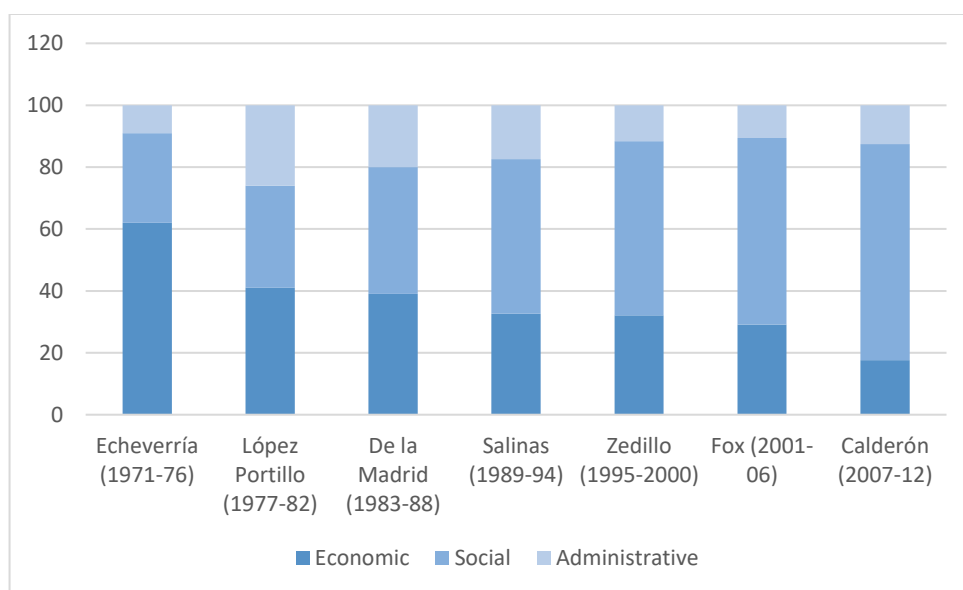
In an effort to counter this constraining opposition both by subnational actors and by the opposition in the legislature, Fox attempted a recentralisation, though with modest or null effects. He carried out this initiative through social policies or what Eaton and Dickovick (2013, p.1456) called the “recentralizing strategies of public policies”, supported by his ambitious social program *Oportunidades*.

Fox nonetheless failed in this recentralising scheme, giving in to subnational executives' demands for bigger fiscal transfers, including the first ever redistribution of oil related profits. The increase in fiscal resources to subnational states turned out to be exponential. As related by Gutiérrez (2013, p. 58), in 1996, subnational states expended 4 billion pesos on average; in 2010, this quantity had increased to an astounding 28 billion, owed in large part to oil-related transfers. Fox's successor, President Felipe Calderon, also failed through instigating similar recentralising public policies, though on security and health matters (Olmeda, 2014, p. 155).

Regarding the economy, the PAN administration, being true to their party's promotion of an open economy with minimum intervention, reinforced the market-orientation of its predecessors. During Calderon's administration, economic related

expenditures reached a substantially low 17.6% (INEGI, 2014), whilst pursuing FDI as a surrogate. Ironically, considering their promotion of a “lean-state”, social expenditures reached an historic high of 69.8% (Ibid. 2014).

Figure 4. Public expenditure distribution (1971-2012) based on INEGI’s historic statistics for Mexico



Thus, in the turn of the new century, Mexico began to deviate evermore from the development path taken by Brazil, its traditionally compared counterpart in Latin America. Whilst the Mexican state extended its liberalisation efforts, Brazil’s renewed emphasis on industrial policy and state activism sparked debates about a “new developmentalism” within the academy (Trubek, 2013, pp.16–7; Schapiro, 2013, p.114). Lula da Silva’s second term, in particular, was highlighted for its implementation of vertical programs aimed at industrialisation (Trubek et al. 2013, p.37).

Mexico’s path, in contrast, was more in tune with the Washington Consensus’ approach of the “minimal state” with a wider, more open, stance on the global economy. Its radical start to its export led growth however led to something quite different to the “Promised Land of the Washington Consensus” as “the sharp acceleration in the rate of growth of exports became associated with a sharp decline in rate of growth of GDP” (Palma, 2009, p.225). The growth rates of GDP in real terms plummeted from around 6.5% in Mexico’s Miracle Years to 1.5% from 1983 to 2009 (Tello, 2010b).

The exports were growing, FDI was growing, but growth itself was not there. According to the UNCTAD's World Investment Report (2002, p. 173), in the period from 1985 to 2000, FDI inflows increased sevenfold in Mexico, from nearly \$2 billion to \$15 billion USD. Mexico's exports had a similar expansion to its FDI inflows, with an almost six-fold increment in total exports from \$19 billion in 1985 to \$166 billion USD in 2000. As a result, the UNCTAD called Mexico a "winner" and a new member of the "major league of exporters" (UNCTAD, 2002, p. 173).

But the other admission that went uncelebrated, was what could be defined as Mexico's entry to the "major league of importers". From 1988 to 1996, Mexico's manufacturing sector alone accumulated a trade deficit of \$161 billion USD (Peters, 2003, p. 266).

Making matters worse, the state's commitment to FDI as a surrogate for public investment generated a "race to the bottom" amidst subnational entities. To land these investments, where foreign automotive enterprises were usually the main target, these subnational units offered and negotiated tax incentives, real estate donations and even construction subsidies for their greenfield projects in a "cannibalised" competition between Mexican states (Interview with top economic development officials, 2015).

In general, the failure of two successive PAN administrations to recentralise or at least steer their public policies through the different political arenas, made Mexico's political platform a "cacophony of regional voices" – as framed by Wibbels regarding the worst-case effects of decentralisation in the wider literature (2006, p. 173). Those recentralising policies of the two PAN administrations, amidst the continuing stagnation and polarisation of the Mexican economy, landed considerably short of being effective strategies for political survival. The continuing stalemate between federal government and other states or Congress finally contributed to a Presidential comeback in 2012 by the once hegemonic PRI.

4.6 Conclusion

Throughout the current chapter, a growing fragmentation of the Mexican state's capacities can be witnessed. The ability of economic elites to consolidate early advantages within the state's initial efforts toward transformation had long-lasting effects. With the power these elites amassed throughout the century, they were constantly able to shape economic and fiscal policies to their own advantage.

The state's reiterated efforts towards mobilising society as a whole consequently failed. After the 1968 student massacre and the slow-down of the growth Miracle, the state began to lose control of the country's numerous arenas of contestation. All of a sudden, these arenas, for example, economic development and political competition, had plenty of opposing force: other branches of government, political parties from the opposition, the working class, peasants, IFIs, TNCs, students, subnational governors and mayors and the overpowering economic elites, within their different organisations or regions.

Therefore, in Mexico, the state's attempts to attain political control through varying pacts and arrangements with either different state levels or social groups also led to a fragmentation of its economic development drive. This lack of authority eventually perpetrated a dependence on state-capital relations which, in turn, determined economic development according to economic elites' interests. Consequently, Mexico's economic development transformed into an "arena of accommodation", as coined by Migdal (1988, p.264) in the wider literature of the Third World states' related failures.

Along these lines, a comparison and contrast to Brazil proves helpful to further position Mexico in a comparative light. As related by Kohli (2004), regarding state-directed development in the Third World, the pursuit of numerous goals at a time has generally resulted in unfulfilled expectations. Mexico could very well fit Kohli's description of the limitations suffered by other Third World countries, such as the reiterative comparative case of Brazil:

(...) when it came to mobilizing capital in many fragmented-multiclass states, tax-collecting capacities were limited, public-spending priorities included numerous goals other than growth promotion, attempts to direct credit easily evolved into cronyism, and inflation as a tool of resource transfer could readily become a liability for political leaders concerned about their legitimacy (2004, p.14).

However, a key differentiation between Mexico and Brazil seems in order. As noted in the current and preceding chapter, Brazil had sufficient autonomy or authority to consolidate indigenous industrial projects in strategic sectors such as automotive, aeronautic and information technologies, whilst Mexico's state elites had to settle for the fancy US automotive TNCs. Likewise, since the 80s, Brazil differentiated itself from Mexico in its capacity to steer its economic opening to the more globalised market. As

related by Grugel and Riggiozzi, across Latin America, “Only in Brazil were state elites and local capital strong and confident enough to mix the new liberalism with a commitment to continuing to protect important sectors of domestic industry” (Grugel & Riggiozzi, 2009, p.6). Furthermore, at the turn of a new century, Brazil once again experimented with what academics have called “new developmentalism” (Trubek, 2013, p.14): implementing vertical programs for industrial policy, national development plans and even contesting the WTO’s inherent limits to Brazil’s “policy space”.

A stark contrast indeed vis-à-vis Mexico’s state elites, who blindly followed the “one-size-fits-all” recipes of economic liberalisation prescribed by IFIs. Eventually, the neoliberal shift first sought by Mexico’s economic elites garnered the exact opposite reactions, even by those economic elites. The increasing foreignization of Mexico’s industry since the mid-90s soon motivated the private sector to call for a resuscitation of industrial policy (Johnson, 1998, pp.137–9); and when their proposals went unanswered by the federal state, another motive for state-business frictions was consolidated. The growing presence of TNCs following the GATT and, later, the NAFTA agreements, was detrimental to the traditional lobbying and policy-making capacities of domestic economic elites.

Thus overall, this fragmentation of the state’s capabilities vis-à-vis economic elites seems to offer an explanatory element for understanding Mexico’s ongoing incapacity to consolidate an effective economic development centre. At the turn of the new century, it was the IFIs and the growing presence of TNCs which also constrained the federal state’s autonomy regarding economic development. This leads us, in turn, to the necessity of examining Mexico’s industrialisation beyond the centre in an effort to understand how effective industrial transformations did manage to crystallise. Through this perspective, the state’s fragmented capacities for economic development are an illustrative factor in Mexico’s current subnational variation. Furthermore, as will be argued in the case studies below, the limited capacities of the state’s centre not only led to subnational variation, but to subnational determination as well.

Chapter 5. Nuevo Leon as Early Industrialiser in Mexico

5.1 Introduction

As examined in the above chapters, the Mexican state's intended policies towards economic development were never quite under the full control of their centre. The prevalence, and fostering by the state, of economic elites since the 19th century transformed the economic development platforms in a much contested area between a number of diverging interests – regional elites, workers, local or national government and foreign economic agents. The result thus far has been a polymorphic landscape of regions and state-society relations; from states in the north and centre with remarkable productivity to southern states with more lagging capacities. Likewise, there has been a variation from accommodating practices to appeasement or even contested practices.

In a country whose developmental capabilities were substantially undermined by a growing national bourgeoisie in the past century, an even larger variation between the different subnational regions should be expected. A snapshot of this portrait was successfully taken by Susan Gauss (2010) regarding the state's interaction with different subnational elites during the 1950s. As stated by Migdal (1988, p.81), in relation to the Third World's experiences of state attempts to consolidate social control over vast territories, "the nature and impact of change differed from place to place. Microregional disparities could be tremendous".

The following case studies, however, will slightly depart from Gauss' approach. Their objective is not "to explore how mid-twentieth-century statist industrialism evolved as a fairly flexible, nationalistic project that encompassed the state's distinct relationships with regional industrialists based on accommodation, collaboration, and exclusion." (Gauss, 2010, p.2). The objective of the following case studies is, rather, to trace the evolution of the state's industrial practices within subnational spheres in order to evidence the mutual transformation between state and society at different levels of government. Eventually, these subnational transformations substantially impacted the national platform of industrialisation. The aim is therefore to examine the more multi-levelled characteristics of Mexico's industrialisation, which had considerable feedback from the periphery. This feedback was substantial, considering, as will be argued below, that each subnational states' development was led by local economic and political elites.

In contrast to the traditional portraying of governors as highly centre-dependent in the political sphere (Beer, 2003, p.103), in the fairly successful cases of states like Nuevo

Leon and Queretaro, governors were proactive policy-makers and power-brokers between local economic elites and federal government. In this sense, the following chapters will expand on how the governors endeavoured to fulfil the role which Hirschman (1958, p.10) considered as vital for the industrial transformation of underdeveloped countries: that of a “binding agent” for growth, not only establishing the developmental strategies but achieving cooperation among the needed agents.

This chapter will thus emphasise “synergist” (Evans, 1997a), “mutually empowering” (Migdal, 1988, p.24) or positive-sum relations between subnational political and economic elites, alongside their own interpretations of the state’s industrialising images or initiatives. Also key to understanding these subnational configurations of industrial policy is the process of “scaling up” as applied by Fox (1997, p.121) to social development in Mexico. In the case of Nuevo Leon, the governor was the key player or powerbroker who scaled up local initiatives of industrialisation from the domestic elites, until they were inserted within national priorities. As a result, a much more multi-level and encompassing approach seems ideal for enhancing the comprehension of Mexico’s economic industrialisation.

Given the timeframe of the present chapter, I supported my research on both primary sources and secondary sources. Regarding primary sources, I supported my research on historical documents that are kept in Nuevo Leon’s Archivo Histórico (Historical Archive). In this Archive, I was able to have a first hand look at the main decrees and laws expedited by Nuevo Leon’s governors at the end of the 19th century. Likewise, I had the opportunity to read personal diaries and letters of Governor Bernardo Reyes, which contributed in giving me a more embracing context of Nuevo Leon’s industrialisation process. In regards to secondary sources, works by Mario Cerutti (*Burguesía y capitalismo en Monterrey*), Alex Saragoza (*La élite de Monterrey y el estado mexicano, 1880-1940*) and Isidro Vizcaya (*Los orígenes de la industrialización de Monterrey*) were particularly useful in giving me the historical context and details in which Nuevo Leon’s industrial transformation took place. The added value that my research intends to contribute through this reorganisation and review of the aforementioned historical studies is to reappraise these testimonies in a more multilevel perspective, linking national industrialisation dynamics to subnational dynamics. Furthermore, I intend to review these studies through a developmental lens. Consequently, this chapter will frame Nuevo Leon’s case study within developmental theories, with frequent references to similar developmental processes that crystallised elsewhere across the globe.

Regarding the institutional aspect of this project, Chapters 5 and 6 will relate how the institutional layering of industrial policy began to be consolidated at a subnational level. In this sense, institutional change through this process will contemplate the addition of “layers” to a set of institutions, mostly through “amendments, additions, or revisions” (Streeck & Thelen, 2005, pp.23–4). As will be reviewed in the following chapters, the first industrial policy institutions to take shape in both Nuevo Leon and Queretaro were informal patterns of state-business collaboration, along with legal frameworks for industrialisation.

Likewise, the following chapters will also depict the “developmental sequence” (Hirschman, 1958, pp.83-8) that the case studies followed in regards to their consolidation of SOC—mainly infrastructure and legal order—and the productive activities that were first pursued. As chapter 5 and 6 will examine, governors and the economic elites from the case studies managed to consolidate their state’s first industrial sequence, characterised as a “development via shortage” in the wider literature (Op. cit., p. 88). In this sequence, the establishment of Directly Productive Activities (*Textilera La Fama* in the case of Nuevo Leon and *Carnation* in the case of Queretaro) pressured the consolidation of the state’s Social Overhead Capital. The examination of the case studies’ “developmental sequence” will thus be one of the thesis’ main extensions of Hirschman’s developmental theories.

The first case study of Nuevo Leon will go back to Mexico’s first solid attempt towards a Great Transformation. In the last decades of the 19th century, Nuevo Leon went from being one of many typical agrarian Mexican states with its own share of wealthy land-holders to being the nation’s industrial crown during the first decades of the following century. The argument throughout this chapter will thus be that the industrial drive was shaped by the local elites’ merits, rather than by the traditional overwhelming accounts of top-down or centre-periphery initiatives enacted during the *Porfiriato* (Moreno-Brid & Ros, 2009, pp.46–50). The aim is therefore to capture the mutual transformation, not only between state and its society, but between centre and periphery as well. In the case of industrialising Nuevo Leon, the “ball game was played” (Migdal, 1988, p.39) mainly in its capital city of Monterrey, quite far from the capital of the country.

Consequently, section 5.2 will be concerned with establishing the context of Nuevo Leon, a north-eastern state which frequently seems isolated from Mexico’s centre. The

re-drawing of Mexico's border (after losing half of its territory in 1848 to the United States) will also redefine the circumstances of the northern province.

After putting Nuevo Leon in context, section 5.3 will then be concerned with mapping the rise of its industrial elites – later called “Grupo Monterrey” (the Monterrey Group). At the start of the second half of the 19th century, the local elites learned how essential state-society relations were in gaining economic advantages in a still remarkably unstable country. Later on, as depicted in sub-chapter 5.4, the benefits and capital accumulation originating from previous governments were a key set of resources through which Monterrey's bourgeoisie could gain an early advantage during the *Porfiriato's* industrialisation. In this same section, the subnational consolidation of “microeconomic practices” toward industrial transformation will also be reviewed. Likewise, in this period of the *Porfiriato*, the first traces of the institutionalisation of industrial policy were generated in Nuevo Leon. This first attempts were achieved mainly through the formulation of a successive set of laws incentivising industries, and also informally, through the consolidation of state-society relations. It is in this section that the binding agent role of Governor Bernardo Reyes and the importance of his administration's continuity will be highlighted as essential factors for Nuevo Leon's industrial transformation.

Finally, section 5.5 will depict how the empowerment of the Monterrey Group evolved from mutually empowering relations with the state to outright confrontation against the more socialist initiatives of President Lázaro Cárdenas. From here on, the Monterrey Group proved a challenging social force to the federal government, generally getting its way in accommodating treatments regarding contracts, labour relations and fiscal policies. Specifically, in industrial and labour relations, the capacity of the Monterrey Group to embed their own paternalist practices in their enterprises reflected the social force that they had amassed throughout the Mexican state's first efforts at industrialisation.

5.2 The Context of Nuevo Leon

The state of Nuevo Leon is located in the northeast of Mexico. It constitutes 3.26% of Mexico's territory and shares a border to its north with Texas, United States. At the start of Mexico's independence, amidst the turmoil of political instability, it had its share of battles, with invasions from both the United States and France. Throughout that century, nevertheless, Nuevo Leon was fairly isolated from the political developments that were

constantly discussed or shaped within Mexico's capital. Along these lines, the secessionist practices of its governor, Santiago Vidaurri (1855-1864), further distanced Nuevo Leon from a more thorough integration with the rest of the country.

Even though Vidaurri's government lasted almost a decade, Nuevo Leon was as plagued by political turmoil as the rest of the country. It was not until the Porfirio Díaz regime that it experienced more meaningful stability. Given its vast territories and key commercial and geographical assets, Díaz secured Nuevo Leon from any other opposition with his military right-hand, Bernardo Reyes. Reyes eventually governed Nuevo Leon for little more than two decades: from 1885 to 1909, with some very brief interruptions.

During this stability of government due to the *Porfirian* regime, the state of Nuevo Leon, mainly through its capital of Monterrey, was forever reshaped. At the end of the 19th century, Monterrey became the industrial pioneer of the entire country – with a leading position in sectors such as metallurgy, cement, glass, beverages, heavy machinery and others.

Despite the interruption and turmoil of the Mexican Revolution (1910-27), early advances towards industrialisation allowed Nuevo Leon and its economic elites to re-assert themselves once again prior to Mexico's ISI process. Throughout Mexico's ISI, Monterrey shared its lead in industry with the political and geographical centre (Mexico City) and the also entrepreneurial Guadalajara in the western region. During this process, the Monterrey Group became the leading voice of the industrial and financial sector. Since *Porfirian* times, their financial and industrial capabilities had allowed them to influence the economic policies of the country. Much later, when the more socialist governments of Echeverría and López Portillo arrived, the Monterrey Group eventually became the main antagonistic force which led the cited capital flight throughout the 1970s and 80s.

Therefore, in the following section, the rise of this economic elite will be depicted in order to evidence how essential subnational state-society relations were in triggering Nuevo Leon's future industrial success. This section will examine how the first mutually empowering arrangement was put in place between local economic and political elites, whose fruits eventually enabled Monterrey's industrial transformation. Likewise, an emphasis will be put on Nuevo Leon's governor during the *Porfiriato*, Bernardo Reyes, as the state's first "binding agent" for its industrial transformation.

5.3 State-capital alliances to trigger the local economy before industrialisation: 1855-1864

Several decades after Mexico's independence (1810), the country found itself devastated by external and internal opposition. The heightened expectations arising from independence now seemed rather naive. Other countries, such as the United States and France, saw the fragile transition of Mexico into independence as an opportunity to extend their own resources or territories. The invasion of the United States proved especially costly for Mexico ended up losing half its territory through the Guadalupe-Hidalgo treaty of 1848.

Throughout the Third World, during the 19th century, the independence of its countries meant a once-in-a-lifetime opportunity to cement state control over its resources and territory. In words of Migdal (1988, p.10), "Anticipation of the capabilities states could develop and what they could achieve with those newfound capabilities ran high as Third World societies threw off the shackles of colonialism". But the struggles and opposing social forces were plentiful. The state found itself just as "one organization among many" (Op. cit. 1988, pp.28-9) – these other organisations being either communities, *caudillos* or regional strongmen, businessmen, foreign actors, ethnic groups or other political actors. Many of those forces or organisations tried to decimate the now independent state in an attempt to establish political control over the traditional means of survival.

It is in this context, therefore, that the first institutions of industrial policy began to be consolidated in Nuevo Leon. As will be reviewed in the following paragraphs, the subnational state had to engage certain social forces for mutual benefit. Due to a rather precarious set of economic, political and institutional resources, a mutually empowering relationship was construed between the governor and the economic elites. This state-society arrangement, made at a critical time, eventually generated a positive-sum result. From the state's perspective, it meant the achievement of almost a decade of political stability within a country that was still in political turmoil. On the businessmen's side, this relationship catapulted their capital accumulation, key for their eventual transition from commerce to more rewarding industry.

Coincidentally, the United States' different armed struggles became key to the state of Nuevo Leon's industrial drive. As reviewed in the wider literature, military concerns have often played a protagonist role in triggering countries' wider industrialisation efforts. In Britain, for instance, the "blue water" strategy, regarding the priorities of a strong navy,

created substantial backward and forward linkages (Weiss & Hobson, 1995, pp.120–27). Another case was similarly approached by Japan during the Meiji restoration (Op. cit. 1995, p.84). But more importantly in the present research, military concerns and struggles were often seen to facilitate not only a country's *own* industry, but also the industrialisation of other countries.

In the case of Japan, for instance, the success of MITI was largely enhanced by the United States' coalitions and struggles during the Cold War (Chang, 2006, p.223; Jessop, 2016, p. 39); something parallel to Germany's industrial restoration as well (Ibid. 2006; Landes, 2003, pp.489–94). In Mexico's case, and more acutely so in Nuevo Leon, the armed struggles of the United States were exploited as opportunities for commercial and industrial progress, as will be related in the paragraphs below.

Therefore, on Mexico's domestic front after independence, the frictions between conservatives and liberals, plus the invasions of other countries, amounted to an extended political instability joined by economic crisis. In the particular case of the northern states, the hardships were even greater, as northern states had to "live in a constant war with indigenous groups" (Cavazos & Ridaura, 2011, p. 137), such as *comanches* and *apaches*, throughout the first half of the 19th century. The state of Nuevo Leon, or rather its society, that had been established as a commercial meeting point between other northern state's mining activities and the centre thus faced economic strain.

Nevertheless, the conjuncture of both internal and external factors eventually enhanced the province's commercial outbreak. The re-drawing of Mexico's border with the United States put Nuevo Leon in a strategic position, serving as a commercial port or customs centre. Moreover, the arrival of conservative governor, Santiago Vidaurri (1855-64), also represented the first opportunity, since independence, for prolonged political stability. From here on, the governor and the economic elites first arranged a mutually enhancing arrangement, though of dubious legality.

As related by Migdal writing on Mexico's land tenure (1988, pp.62–3), a 1857 law regarding land distribution augmented the capacities of rich landowners (*hacendados*) in terms of displacing peasants and *indios*' communities. In Nuevo Leon, the *indios* did not give in easily to these new land-grabbing arrangements. They resorted, finally, to the use of violence: kidnapping, looting and devastating haciendas, among other measures.

Due to the constant struggle with these displaced indigenous tribes, the federal government allowed Vidaurri to appropriate federal taxes and customs duties to resolve the ongoing issue in his state (Cavazos & Ridaura, 2011, p. 156). But this eventually off-

shot against the federal government, with Vidaurri's actions becoming increasingly separatist and radical. In 1956, he annexed the neighbouring state of Coahuila to Nuevo Leon in an attempt to consolidate wider control of customs in the north. Later on, when the customs income proved insufficient to subdue indigenous invasions, Vidaurri negotiated terms with merchant families in order to consolidate the Army of the North (*Ejército del Norte*).

Regarding the subnational state's potential for industry, Nuevo Leon's wealthy merchants considered triggering the state's industrialisation but its Social Overhead Capital (SOC), "comprising those basic services without which primary, secondary, and tertiary activities cannot function" (Hirschman, 1958, p.83), was still deficient, namely in the aspects of law and order, as the economic elites kept suffering the retaliations of indigenous populations. The establishment of the emblematic textile enterprise *La Fama* in 1854 represented the first case of a Directly Productive Activity (DPA) (Op. cit. 1958, p.84) aimed at the industrial transformation of the state. Thus, entrepreneurs now pressured Governor Vidaurri to consolidate the state's SOC for future industrial establishments.

The leader of a rich merchant family, Evaristo Madero, wrote to the governor, with whom he held a close relationship: "In here we are being devastated by *indios*, who are killing and stealing our horses of which now remain just a few" (in Cerutti, 2006, p.26). In the same letter, the rich merchant even recommends forming an alliance with the army of Texas to get rid of these indigenous groups. Instead, Governor Vidaurri negotiated terms with the richest landowners of the region: lower import taxes on their products of interest in exchange for monetary donations destined to strengthen the Army of the North. Governor Vidaurri even protected these families' recurrent contraband practices from federal government inspections and, with his Army, from indigenous attacks.

The outbreak of the United States' civil war (1861-65) meant a substantial increase in trade between these families and the northern country. During the war, the ports of Texas and New Orleans cornered the Confederate Army into finding other trade routes. Governor Vidaurri thus secured a trade route through the annexed state of Coahuila. A later governor of Nuevo Leon wrote: "In the years from 1861 to 1865, during the civil war of the United State, the blockage of the ports of Brownsville, New Orleans and others made the Confederate States use our border for the export of their cotton. (...) many and enormous capitals were formed." (Op. cit. 2006, p.20)

Indeed, during Vidaurri's tenure, the wealthiest families of the region benefitted from "the political and economic monopoly" that Vidaurri established over the northern states of Nuevo Leon, Coahuila and Tamaulipas (Saragoza, 2008, p.35). As Cerutti (2006, p.10) stated, Governor Vidaurri and two of the wealthiest *hacendatarios* (Patricio Milmo and Evaristo Madero) seemed to have formed "an effective commercial team during the Secession War" of the United States. Again, the support Governor Vidaurri provided to the wealthiest merchants seemed to have been unconditional. Backed by Vidaurri's power, Patricio Milmo –an Irish immigrant who married Governor Vidaurri's daughter– went as far as threatening American secessionists to embargo their cotton shipments when they delayed payment (Op. cit. 2006, p.10).

The northeast, especially Nuevo Leon and Coahuila, was among the first regions in the country to subdue indigenous forces regarding land distribution; and, in the meantime, the Monterrey bourgeoisie made fortunes over these indigenous "liberated zones" (Cerutti, 2006, pp.25–8).

Nevertheless, in 1864, this mutually empowering arrangement between state and economic elites came to an end. Vidaurri was executed for treason and supporting the French empire in their efforts to invade Mexico. The substantially richer *hacendados*, nonetheless, kept accumulating their fortunes. Their newly acquired lands were utilised for mineral extraction, textile industries or agricultural activities. Their monetary fortunes also allowed them to enter financial activities: being usurers to minor scale producers or even to the government.

Regarding industry, Governor Vidaurri and the economic elites had managed to consolidate Nuevo Leon's first industrial sequence, characterised as a "development via shortage" in the wider literature (Hirschman, 1958, p.88). In this sequence, the establishment of Nuevo Leon's first Directly Productive Activity (*Textilera La Fama*) pressured the consolidation of the state's Social Overhead Capital, namely by attending to its law and order deficiencies.

The lesson on state-society relations was to become, from here on out, an intrinsic part of Nuevo Leon's entrepreneurial blueprint. A few decades later, when Mexico's first thorough industrialisation began during the *Porfiriato*, this experience of state-society arrangements and a substantial amount of capital proved essential for securing an early advantage. Section 3.4 will consequently examine Mexico's first attempts towards industrial transformation. As will be seen, amidst this first introduction to a national transformation, the protagonist and proactive role of Nuevo Leon's elites (economic and

political) was essential in scaling up Nuevo Leon's entrepreneurial efforts until it became an industrial pioneer. To achieve this, Nuevo Leon's elites converted the national state's laissez-faire image into a more impacting arrangement of "microeconomic practices" through the leading role of Governor Bernardo Reyes.

5.4 Scaling up industrial efforts during the *Porfirian* regime: 1876-1911

As depicted in previous chapters, the national stability and peace (*pax porfiriana*) achieved by Porfirio Díaz represented an opportunity for dealing with Mexico's economic backwardness. Consequently, during the *Porfiriato* (1876-1911), the state's first attempt towards a Great Transformation or an expansion of capitalist production was made. Land tenure laws, taxing rearrangements and railway expansion, as in other parts of the Third World, were implemented by the state as means to achieving this industrial and social transformation (Migdal, 1988, p.81).

Due to the continuous lack of economic resources at that time, the federal state willingly adopted a laissez-faire approach. Foreign capital was warmly welcomed to aid the *Porfiriato's* vision of modernisation. But, as will be reviewed in this section, the nascent bourgeoisie of Monterrey had other plans in mind. As evidenced throughout this critical era in the Third World, "previously existing social differences within the native societies influenced who could provide capital, use contacts, and marshall other resources to exploit the new opportunities created by the rapidly spreading market" (Op. cit. 1988, p.98).

This section will portray Governor Reyes' consolidation of what this thesis has termed "microeconomic practices" for the case studies – the subnational government's industrial policies or efforts to foster industrialisation in their respective states. These microeconomic practices and Governor Reyes' formulation of state-society synergies also proved to be among the first institutionalising efforts for industrial policy in Nuevo Leon. Likewise, the multi-level approach of the project will exhibit the parallel industrial policies that were deployed at the federal level; termed "crony practices" due to the recurrent cronyism at both Mexico's central offices. It is in this chapter then that the thesis' extension of the state-in-society framework will be first pursued, in regards to the divergence of practices that took shape between the federal level and the subnational level.

When the *pax porfiriana* was consolidated throughout Mexico, Nuevo Leon already had a bourgeoisie experienced in commercial, financial, and, to a lesser extent, minor

industrial activities. Nevertheless, ironically, the first railway expansion to the north meant the reduced prominence of Monterrey in preceding commercial practices.

Since 1820, with an opening of a port in the neighbouring state of Coahuila, Monterrey became “the only natural passage from the Sierra Madre to the country’s centre”, and the main supplier of states like Coahuila, Zacatecas, Durango, Chihuahua, among others (Cavazos & Ridaura, 2011, p. 178). But with the railway expansion, Monterrey’s exclusive path was lost, contributing to “the decay of local commerce, because the cities that Monterrey had provided for had now their own railways and supplied themselves” (Ibid. 2011). After losing its exclusive role as intermediary for most of the northern states, Monterrey saw the need to create its own products in order to subsist (Saragoza, 2008, p. 48). Thus an upgrading of entrepreneurial activities seemed in order.

Again, after a decade of political instabilities in the gubernatorial chair, the Monterrey bourgeoisie finally found another long-tenured governor who was willing to work alongside them. Bernardo Reyes, the military right arm of Porfirio Díaz, first entered Nuevo Leon’s government in 1885 in order to eradicate any potential opposition from the traditionally isolated northern state. In 1887, still under the credence of “no re-election”, Reyes stepped down from the gubernatorial chair for a couple of years. However, after being re-elected in 1889, he governed Nuevo Leon until 1909, nearing the end of the *Porfiriato*.

Just at the point Bernardo Reyes entered this long-lasting second term, the main emphasis was on contributing to Porfirio Díaz’ drive toward modernisation. Reyes expanded incentives toward industrialisation, superseding his predecessor’s benefits of tax exemptions for newly created enterprises over one thousand pesos –from a 7-year exemption to 20 years, depending on the size of the investments. In this sense, Governor Reyes deployed an ambitious array of microeconomic practices aimed at consolidating his state’s industrial transformation. Nuevo Leon’s legal institutionalisation of industrial policy thus began to be consolidated during the Reyes’ tenure.

The industrial law of the 21st of December, 1888, by Governor Lázaro Garza Ayala stated: “Exempt of any tax for seven years will be: I. Any industry that establishes within two years from this date, whose capital exceeds thousand pesos.” A year later, Governor Reyes published a second decree which read: “The Executive of the State is authorised to concede tax exemptions of up to 20 years for works of public utility started within the present constitutional term.”

The difference, nevertheless, between other Mexican states and Nuevo Leon was the willingness of local merchants to enter into industrial investments and the higher accumulation of capital that Vidaurri's government had enabled. As in other underdeveloped countries or regions (Hirschman, 1958, p.88), Nuevo Leon's pending challenge was not the scarcity of resources, but, rather, the "ability to bring them into play" for its industrial transformation. It was during this order of things that Governor Reyes rose as the state's binding agent for industrialisation, with the corresponding "ability" to trigger Nuevo Leon's industrial transformation.

Thus, in spite of a traditional dependence on the United States' products and foreign capital, the rising Monterrey Group saw the need to upgrade their activities. With their once intermediary commercial role now lost, this Group saw industry as the next opportunity. Due to the laissez-fair approach of the Díaz regime, foreign capital was making its presence strongly felt. In Monterrey particularly, the growing industries of foreigners triggered a local response. On the 19th of May, 1900, even the main newspaper (*La Voz de Nuevo León*) declared that "there was no need for foreign capital to establish industries of over ten million pesos, when local groups had the capacity of gathering higher amounts of capital to kick-start industries with good perspectives" (in Vizcaya, 2006, p. 79).

These "good perspectives" were effectively provided by the state through highly favourable microeconomic practices. These practices, in turn, represented the state function of "maximising induced decision making" in industrial investments, as termed by Hirschman (1958, p. 10) regarding an essential part of his strategy for economic development.

With Governor's Reyes' 1890 decree as the point of departure, the nascent Monterrey Group commenced their wholesale transition from commerce to industry. Concessions to the cited tax exemptions were promptly requested by Monterrey's entrepreneurs in industries such as cigars, mining, banking, beverages, soap, smelting, bricks, beer and ice. "Since the start of 1892, fourteen new factories began working, with an investment of more than \$1,500,000 and an occupational capacity of approximately 800 workers" (Vizcaya, 2006, p. 174). Besides these tax exemptions of up to twenty years, factories in key productive industries (such as smelting) were also generally favoured with donations of industrial estates.

Monterrey's industrial revolution had thus started. But its industrial crown was yet to be attained. Indeed, it was not until its *Fundidora* (steel plant) was established that the

Monterrey Group leaped forwards against other industrial elites and cities. In this sense, the proximity to the United States again played a fundamental role.

In 1890, the implementation of highly protective tariffs (the McKinley tariff) in the US regarding minerals, pressured Mexico into developing its own smelting capabilities, either through foreign or domestic capital. The minister of Mexico in the US, Matías Romero, wrote years later: “The McKinley tariff implemented prohibitive rights to our silver lead that came to the US, rights that resulted in the transmigration of United States’ smelting activities into Mexico” (Op. cit. 2006, p.76).

Given this new turn of events, the Monterrey bourgeoisie raised their efforts in attempting to get a share of steel-related profits – even more when foreign capital quickly aimed at appropriating much of the related industrial sectors. Along these lines, the crucial factor that authors have attributed to the Monterrey elite’s eventual success surfaced: interconnectedness (Saragoza, 2008, p. 53). Since 1857, the Monterrey bourgeoisie had repeatedly joined in their efforts and capital, allowing them to initiate industrial enterprises, though of more moderate scope. In the year of 1857, the wealthier merchant families (Rivero, Zambrano, Hernández, Calderón, de Llano, among others) joined their capital in founding Nuevo Leon’s first textile factory –*Textilería La Fama*. In 1872, a second textile factory (*Textilería El Porvenir*) was founded in Nuevo León through the same cooperative methods.

Nevertheless, to establish a pioneering steel plant with its own blast furnace and with much higher technological and industrial capacity was a different story considering its national impact. By then, at the beginning of 1890, the crony practices of the *Porfirian* regime were well consolidated. Porfirio Díaz and his *científico* technocrats in the Finance Ministry had control of Mexico’s economy. Access to the federal state’s strategic industrial activities, along with preferential treatments, required approval of the centre’s *científicos*.

Consequently, by 1899 and amidst the higher demands of steel manufacturing in Mexico, the surging Monterrey Group had already joined efforts and capital to establish its own steel plant. The only pending element was the federal government’s approval. In this sense, the gubernatorial administration of Bernardo Reyes continually proved to be key. Now, Reyes’ proactive law- and policy-making were not sufficient, rather, an effective role for him as power-broker between the Monterrey elite and Díaz technocrats (*científicos*) was also required.

One of the members of the Monterrey Group, its attorney Vicente Ferrara, thus looked to exploit the pride of Governor Reyes in establishing Latin America's first indigenous steelworks (Saragoza, 2008, p. 81). Nevertheless, after being easily convinced, it was Reyes' turn in doing the same with Mexico's Finance Minister, Limantour, the leader of the crony bankers' alliance.

As depicted in the above chapters, the laissez-faire approach of the Díaz regime had become increasingly cautious in investments relating to railway construction. The expansion of the railways was among the top list of priorities for the modernisation sought by the regime, but the initial predation that it had suffered from American capital posed substantial obstacles to the government's intended policies. Thus, the construction of Mexico's own blast furnace and steel plants meant a potential reduction of any more of American interventions in building the huge amount of railway infrastructure still pending. It was, indeed, a key and jealously guarded industrial sector.

To further complicate matters, Minister Limantour, amidst the typical bureaucratic power struggles, was especially jealous of favouring another Porfirio Díaz' protégé besides himself. Moreover, he had just led a bureaucratic power struggle to position his Ministry over the once central Army and Navy Ministry, led previously by Reyes. So when he first received Governor Reyes' request to establish a steel plant in Monterrey, Minister Limantour stalled the approval, questioning attorney Ferrara's capacity to amass the necessary capital (around ten million pesos).

The level of political embeddedness or cronyism seemed insufficient until the powerful French business group led by León Signoret was recruited by Ferrara. And, indeed, the level of cronyism of León Signoret finally amounted to significant pressure on all sides: Signoret and Limantour's brother were good friends and shared business associates; Signoret's brother, in turn, was a member of the board of one of Mexico's more important banks (*Banco de Londres y México*).

Reyes thus played León Signoret's investment participation as a leverage card with Limantour. Furthermore, he concealed the investment participation of the United States' investor, Eugene Kelly, considering Limantour's and Díaz' aversion to American capital after the railway frictions they had previously caused. With these pressures Limantour finally acceded to the plan and put a favourable recommendation to Díaz.

The last word, from Porfirio Díaz himself, however, was still pending. Hence, the Monterrey Group increased their efforts and organised a feast for Díaz in Mexico City as part of his campaign for the 1900 re-election. A month later, after Reyes' persistent

requests and the favourable impression the Monterrey Group had garnered, Díaz finally gave in to establishing what turned out to be Latin America's first blast furnace (for the above negotiations, see Saragoza, 2008, pp. 81–3).

The initial capital of ten million pesos was achieved both from foreign and local investors. On the foreign side, Signoret led a group of investors settled in Mexico City, with 40%, whilst Eugene Kelly, from New York, owned 18%. On the domestic side, the main business families of Monterrey (or the Monterrey Group) were again present: Zambrano, Garza Sada, Milmo, Ferrara, and Madero. Moreover, through the marriage of Eugene Kelly and Sara Milmo, the Monterrey group secured 20% of the shares of Kelly in the *Fundidora*. At the end, Monterrey Group's shares, including Kelly's, represented 46% to Mexico City's 40% (Op. cit. 2008, pp. 85–6).

This continued to be the modus operandi of the Monterrey Group. They generally attained control of their enterprises through shared assets amongst the Monterrey families. In these elite's land-marking industrial investments, and in contrast to other regional practices in Mexico, they allied with foreign investors though always prioritising control over their enterprises.

By 1902, Monterrey's industrial output of 13.4% had surpassed even Mexico City (11.7%), the *científico* niche and its neighbour state of Estado de México (11.2%), consolidating itself as national leader (Cerutti, 2006, p. 93). *Fundidora Monterrey* was particularly important as a communicating link between the Monterrey Group and the federal government. In spite of Porfirio Díaz' laissez-faire state-image, the remarkable productivity of *Fundidora* enabled the Monterrey Group to successfully lobby for high import tariffs on steel, public contracts on railways and even the leverage for the impending start-up of other competing factories (Saragoza, 2008, pp. 88–9). As stated by Saragoza (Ibid.), “the success of this plant depended on a high degree of the owners' capacities of getting political favours.”

Later, the industrial successes of the Monterrey Group exceeded its steel-plant. In 1909, the Monterrey Group also had to deal with lagging productivity and efficiency from its pioneering brewery *Cervecería Cuauhtémoc Moctezuma*. Hence, they travelled to the United States in order to get a licensing agreement with the Owen patent-holders regarding automatic bottling. After a couple of months, at the end of the year, the Group founded *Vidriera Monterrey*, with an initial capital of \$1,200,000, supported by a seven-year tax exemption from the Reyes' Government (Vizcaya, 2006, p. 87). *Vidriera Monterrey* promptly catapulted the Monterrey Group's earnings from its beer and

beverage products, consolidating Monterrey's industrial crown along with *Fundidora Monterrey* and *Cervecería Cuauhtémoc Moctezuma*.

Table 5. States with higher industrial production in Mexico during the Porfiriato (Cosío, 1965, p. 392)

State	Percentage of Mexico
Nuevo Leon	13.5
Federal District	11.7
Estado de Mexico	11.2
Veracruz	10.6
Puebla	7.7

By the first decade of the 20th century, Monterrey was consolidated as *the* industrial pioneer of Mexico. Its economic elite, the Monterrey Group, had its grip on Mexico's leading industrial activities: steel, cement, smelting, glass, construction, beverages and others. Due to this mutually empowering relationship with both Nuevo Leon's and Díaz' government, they went out of their way to support the Díaz regime even amidst the outbreak of the Mexican Revolution (1910-24). Supporting the Díaz regime eventually put them in a dire position with the triumphing revolutionary forces of Carranza. *Fundidora*, *Vidriera* and *Cervecería* were confiscated by Carranza's *constitucionalistas* and as a result of these frictions, many members of the Monterrey Group had to leave for the United States as exiles.

Again, another period of political turmoil began in Mexico. Fourteen years had to go by before the Monterrey Group could gather their forces to take command, of Mexico's industrialisation. Nevertheless, the arrival of Cárdenas to the presidency and his socialist project, as shown in the following section, again threatened the Group's interests. As a response, the actual social force that this Group gradually amassed would now be exhibited.

5.5 From positive-sum relations to frontal opposition: 1920-1940

In the previous section, the state-society arrangements that triggered unprecedented industrial growth in the state of Nuevo Leon have been depicted. As reviewed in the wider literature, both among developed and developing countries (Weiss & Hobson, 1995, pp.

230–44), the initial empowerment of an economic elites is an essential feature of industrialisation across the world. In the case of Nuevo Leon, the same transpired between Governor Reyes and the Monterrey Group of businessmen.

Nevertheless, an empowerment of economic elites had also its perils. As shown by Evans (1995, p.229) in the case of Korea, the empowering of its chaebol during the state's industrial drive eventually led to stark confrontations between chaebols and the state. Similarly, the Monterrey Group was fostered until it had amassed a substantial social force in the region. A social force that this Group later used to oppose Mexico's centre when these economic elites' interests were undermined. This opposition can thus be highlighted by the arrival of President Cárdenas' "socialism".

As will be shown throughout this section, the nascent Monterrey Group began to develop its survival strategies in order to strengthen its prominence as a social force. Key to the Group's survival were the abilities to mould the state's laissez-faire image to their own benefit and associate themselves with foreign capital. This survival strategy has been, indeed, one of the more recurrent tools used by domestic groups within the Third World, from Mexico to the Ottoman Empire (Migdal, 1988, p. 99).

Even though the *Porfirian* regime initially had intentions of construing a laissez-faire image along the lines of little state intervention to land foreign capital – though with a high intake of cronyism – it did not take the Monterrey Group much time to shape protectionist schemes alongside subnational and national governments. In this sense, the "scaling up" process enabled by Bernardo Reyes' exclusive ties with Porfirio Díaz became essential. It was mostly because of this process that Monterrey's industrial drive was able to gain access regarding strategic sectors, protective tariffs, public contracts and other preferential treatments.

These protective tariffs were soon generally used as incentives, mixed with prevailing crony practices, for nascent industries in the country that the Díaz government considered key to its growth, iron and steel among them. Not coincidentally, *Fundidora de Monterrey* was amongst the bigger benefiter with, for example, *ad valorem* tariffs for competing imported products rising from 8% in 1902 to 44% in 1909 (Beatty, 2002, p. 230).

The eventual interruption of the Revolution (1910-24) was finally overcome by Monterrey's economic elites when Finance Minister, Alberto Pani, reconfigured pre-revolutionary economic arrangements post-1923. Thus, "an alliance of revolutionary victors with the surviving *Porfirian* business aristocracy dominated this new

revolutionary capitalism” (Gauss, 2010, p. 25). In it, crony practices were again reinstated as the usual way of conducting business: “Tariffs and tax breaks remained in place, many secured loans, and in some sectors, the government tolerated monopolistic practices. Consequently, companies with *Porfirian* origins continued to dominate many industrial sectors in the 1920s, including cement, textiles, steel, beer, dynamite, soap, paper, glass, and cigarettes” (Gauss, 2010, pp.35–6).

Hence, Monterrey’s industrialists once again found themselves holding a commanding lead in the national government’s drive toward “national reconstruction” (Snodgrass, 2003, p. 83). Nonetheless, after the harsh experiences meted out by the Revolution, the economic elites of Monterrey were now on guard against potential threatening interventions from the federal government. One of these threats was indeed supported by the new 1917 Revolutionary Constitution which substantially upgraded workers’ rights.

Given these events, the thriving brewery, Cuauhtémoc Moctezuma, deployed its own survival strategies to prevent further state-led risks to their profits. In the words of Michael Snodgrass (2003, p. 62):

Cuauhtémoc’s owners exemplified the northern Mexicans’ begrudging contempt for central government authority. Their antistatism dated to the earliest years of revolutionary violence. (...) In the 1920s, the continued threat of state intervention –in the form of tax levees, forced loans, and temperance reform– further sharpened their business conservatism. The government’s fluctuating support of organized labor sharpened their indignity as well.

Thus, inspired by the paternalist practices carried out by United States’ businesses, the Brewery was set on surpassing the social provisions of the new Constitution’s article 123 on labour. In order to prevent unionism and labour discontent, *Cervecería Cuauhtémoc* founded the *Sociedad Cuauhtémoc y Famosa* in 1918. With an initial emphasis on providing a financial cooperative to provide workers with loans, the Society evolved into an ambitious and innovative welfare program covering education, life insurance, pensions, health, finances, housing and cultural benefits (Op. cit. 2003, p. 59).

Due to the remarkable success of the Brewery’s society in furthering workers’ benefits in return for their loyalty and wider integration with the company, other leading factories followed suit. *Fundidora*, in particular, was vital in Mexico’s construction of its

railway infrastructure, which was accomplished largely by replicating the aforementioned paternalist approach of securing workers' loyalty through nonwage benefits. However, in contrast to *Cervecería*, the higher dependence of *Fundidora* on the government's highly preferential and lucrative contracts and their reliance on Directors from Mexico City excluded any anti-government feelings.

Both factories, nevertheless, thrived on these paternalist activities and in nurturing "white unions" that were largely acquiescent and dependent on the factories' owners. Likewise, these two enterprises were particularly successful in shaping their workers' moral, social and industrial ideas. From the 1920s onwards, the weekly publications directed at their workers shaped the discourse of a strong and industrious society. Either through revolution, the Great Depression, communism outbreaks, or controversial labour policies (Snodgrass, 2003, p. 155), the Monterrey industrialists managed to shape what could very well be considered a developmental discourse. In this sense, the Monterrey Group's efforts to create an ideological backbone for their industrial drive underscores Gerschenkron's (1962, p. 26) emphasis on strong "ideologies for industrialization", when he singled out on the cases of Russia, Germany and France.

The Monterrey Group owned newspapers or the factories' in-bred publications were key to these strategies. Through these platforms, they launched campaigns to "Buy Mexican", in order to enhance savings habits, repel communism and expand a sense of *regiomontano* identity and integration, enabling Monterrey, according to these publications, to overcome national or international crises (see Snodgrass, 2003, pp. 54–155).

The arrival of Lázaro Cárdenas to Mexico's presidency however endangered the peace and stability in Monterrey's labour context. On the other hand, it also exposed, for the first time, the actual power that the Monterrey Group had consolidated as a social force after decades of accommodations and industrial achievements.

The two preceding Presidents before Cárdenas had been emphatic in repressing labour strikes as a way to secure economic growth. In stark contrast, Cárdenas took a firm position in supporting organised labour at the beginning of his administration. All across Mexico, the consequences were soon felt and as related in previous chapters, labour strikes catapulted during Cárdenas' administration (end of 1934 to 1940):

Table 6. Number of labour strikes during the Cárdenas administration.

Source: Tello 2012, p. 173

Year	Number of strikes	Number of workers involved
1934	202	14,685
1935	642	145,212
1936	674	113,885
1937	576	61,732
1938	319	13,435
1939	303	14,486
1940	357	19,784

The Monterrey Group, despite its skilful display of labour control through the use of paternalist practices, also began suffering the consequences. Cárdenas’ “public pronouncements in support of striking workers seemed to galvanize the labor insurgency. Monterrey exemplified the trend. Workers had stricken no less than forty-six plants between August and December 1934 alone, a number that surpassed the previous three years combined” (Snodgrass, 2003, p. 177).

The eventual loss of *Fundidora* to a “red” or “communist” union was the first alarm for these Monterrey industrialists. Their long-time stronghold on labour relations thus became fragile amidst a national trend of unionism that was sparked by Cárdenas’ support of workers and peasants. Nonetheless, the Monterrey Group had proven experience of labour relations and a growing mass of economic and social resources to deploy against the federal government’s intended labour and redistribution policies.

Vidriera Monterrey thus became the nodal platform for the battle between Monterrey’s industrialists and Cárdenas. Once full of submissive and loyal workers within the “white union” scheme, Cárdenas’ arrival and the growing exposure of *Fundidora*’s “red” union triggered *Vidriera* workers’ discontent. Furthermore, a nascent Mexican Confederation of Workers, led by a self-proclaimed communist, Lombardo Toledano, put considerable effort into infiltrating and unsettling the industrialists’ tight grip on labour-relations across Monterrey.

Workers in the glass plant thus became compelled to gradually escalate their demands along the lines of *Fundidora*’s union: higher wages, pay on the seventh (rest)

day, higher security standards to prevent accidents, a shop-floor democracy and permanent contracts instead of the recurring practice of hiring part-time workers (*trabajadores eventuales*) without any stability or working guarantees. Eventually, at the beginning of 1936, the white union of *Vidriera* lost ground to the incursion of unionists willing to side with the national Mexican Confederation of Workers (CTM). Or, more generally, with workers just longing for a true shop-floor democracy within the factory.

The Monterrey Group, however, was not giving in easily to the demands of organised labour. First, it readily deployed its extensive ownership of radio and printed media to frame communism and organised labour as a danger to workers' "homeland" (Snodgrass, 2003, p. 209). Then it also relied on extensive firing of dissenting workers, the use of company spies or informers, and even on an association with paramilitary groups, leading to violent confrontations with workers. Eventually, this led to a strike by glassworkers who claimed to have outnumbered the "white union" affiliates. The owners, in turn, called for an industrial shut-down and a public protest on the 5th of February of 1936, the day commemorating the proclamation of Mexico's constitution. The turnout for the protest was enormous: 50,000 people showed up in the city centre, led by industrialists in the frontline.

The labour-industrialists conflict and the shutdown of most of Monterrey's industry garnered national attention. Cárdenas was consequently compelled to visit Monterrey to support labour rights once again and to reassure industrialists they were safe of any communist threat. He, however, delivered his famous "Fourteen Points" speech, concluding with the marked comment that if industrialists got tired of their social and industrial struggles, they should hand over their factories to workers and the state (Tello 2010b, p. 174). Cárdenas was also emphatic on stating that the federal government was the only "regulator and mediator" of social relations" (Snodgrass, 2003, p. 208) alluding to the Monterrey Group's pervasive practices of paternalism.

The following day, Cárdenas certified the new union's majority in *Vidriera* and declared a seventh day pay as a national right for workers. But what seemed like a lasting triumph from Cárdenas and organised labour turned out to be quite short-lived. The Monterrey Group portrayed themselves as the benefactors of the seventh day pay measure, as they had already negotiated it with *Vidriera*'s new union before Cárdenas' arrival. Then, they reorganised the glass plant to isolate the new union in one subsidiary while amassing loyal workers in other more protagonist branches. Likewise, they created the National Civic Action (CAN, which eventually became the National Action Party)

organisation with support from other states in the north and centre to resist Cárdenas' "radical socialism". Finally, they resorted to the use of paramilitaries (a group called the "Gold Shirts") in order to subjugate organised labour's agitations (see Saragoza, 2008, pp. 242–55).

By 1937, the Monterrey Group's continuing projection of organised labour as a form of communism fraught with peril was the generalised discourse within society. Eventually, even party officials started disregarding organised labour's demands and "a relatively rightward drift in Cardenista policy after 1937 'owed a good deal' to the efforts of Monterrey's industrialists" (Snodgrass, 2003, pp. 242–3). In an effort to secure at least some of his socio-economic reforms, despite the rightward drift, Cárdenas selected pro-business Ávila Camacho as his successor.

With Ávila Camacho, the Mexican Miracle took off. Instead of economic redistribution, the federal government now made development and national production its driving force, supported once again by protective tariffs and tax concessions which managed to quintuple industrial investment and increase manufacturing by 60% during this presidency (Op. cit. 2003, p. 288). Just as important as industrial growth, driven in large part by Monterrey's pioneering factories, was the Monterrey Group's recapture of industrial relations through paternalist practices. Indeed, "By the late 1940s, Monterrey's business leaders could rightly boast that the majority of their industrial workers were 'controlled' by white unions" (Op. cit. 2003, p. 294).

5.6 Conclusion

As stated by Weiss and Hobson (1995, p.244) in their account of states and economic development, "the growth of state capacity depends on how links between state and society are forged in the period of industrialization, prior to the strengthening of economically dominant groups."

In the case of Nuevo Leon, the Monterrey Group was considerably strengthened throughout the country by the first drive towards industrialisation. The lack of autonomy and effective constraints from the state eventually enhanced the unchecked growth of these industrialists. Soon after, the power of the Monterrey Group as a social force surpassed ulterior attempts from the state in consolidating its dominance over territories or policy platforms.

The initial positive-sum relationship which triggered Mexico's "modernisation" during the *Porfiriato* ended up backfiring against the national state. Further down the

road, when Cárdenas attempted to check their industrial and social power, he found out that the capacities of penetration and mobilisation by the Monterrey Group had vastly outpaced the capacities of the state. Or, framed in Huntington's words, it could very well be said that "the development of the state lagged behind the evolution of society" (Huntington, 2006, p. 11). In this particular case, the state lagged behind the Monterrey Group's evolution as an industrial and social force. Throughout the first half of the past century, after having their industrialisation efforts scaled up during the *Porfiriato*, the Monterrey Group began to outmanoeuvre the state, both subnationally and nationally, in determining the overarching practices of its society.

Regarding Nuevo Leon's industrial transformation, however, it was evident that Governor Bernardo Reyes played the key role of "binding agent". His incentives for industrialisation, his achievements in enhancing cooperative mechanisms in his state, and his ability to scale up his state's industrial drive forever reshaped Mexico's industrial outlook. Although state-society synergies were vital in triggering Nuevo Leon's industrialisation, the lack of institutional organisations regarding its economic development (of a related bureaucracy, for example) complicate notions or approximations of an "embedded autonomy" (Evans, 1995, pp. 12–3). As seen throughout the chapter, it was not a bureaucratic unit, like Japanese MITI or Korean EPB, that led Nuevo Leon's microeconomic practices but, rather, Governor Reyes himself. Thus, the reappraisal that this chapter made of secondary sources contributed in linking not only the subnational (microeconomic) practices with the national (crony) practices, but also enabled to compare Nuevo Leon's industrial transformation dynamics with seminal developmental theories and cases.

Regarding broader aspects of institutionalisation, however, Governor Reyes' administration generated the first consolidated efforts at institutionalising industrial policy in Nuevo Leon. It was following this period that an institutional system of industrial policy began to set its roots, both formally and informally. In the first aspect, Governor Reyes consolidated his predecessor's legal framework for industry with subsequent, more ambitious laws. In the second aspect, regarding informal institutions, Governor Reyes and Nuevo Leon's economic elites strengthened state-society ties as a tool or path to enable rapid industrialisation. Therefore, it is worthwhile stressing the importance that a continuous and coherent set of industrial policies had on Nuevo Leon's industrial transformation –characteristics that were achieved through what Leftwich (2005, p. 695) called "non-democratic authoritarian rule" in the wider literature.

The empowered economic elites of Nuevo Leon nevertheless posed an eventual challenge and opposition to the state, as has been seen in other Third World cases, such as Korea's empowerment of its chaebol (Evans, 1995, pp. 229–31). Thus, Cárdenas' later efforts to redistribute wealth and balance labour-capital relations in accordance with the state's new revolutionary image were eventually trumped by this group of industrialists. Cárdenas' innovative machinations of corporatism and organised labour landed short of overtaking the Monterrey Group's command of northern industrial and social relations.

The Monterrey Group thus proved much more efficient in both penetrating and mobilising society. Their paternalist practices and white unions fashioned during those years, represent, in the words of Snodgrass (2003, p. 311), the “system of labor relations (that) now stands as the revolution's most enduring local legacy” in Nuevo Leon. And their use of company spies, intimidation, media discourse, and black-listing of dissenting workers were also far more efficient tools to the ones deployed by the state in their dispute over labour relations.

As with other Third World “strongmen” (Migdal, 1988, pp. 256–7), the Monterrey Group of industrialists eventually managed to capture parts of the state and dictate their own set of behaviours within their territory and over essential policy platforms. Many of the practices deployed by the Monterrey Group during the first decades of the 20th century consequently left a considerable imprint on Nuevo Leon's ongoing institutionalisation of its industrial policy.

Eventually, Cárdenas' successor catered to the interests of the Monterrey Group. The following four Presidential administrations, as depicted in previous chapters, did the same. As a result, the Monterrey Group was able to become an essential pillar of Mexico's ISI drive right up until the end of Mexico's industrial Miracle.

Chapter 6. Queretaro as a “Catching-up” State

6.1 Introduction

Throughout the 1980s, the rise of the East Asian Miracle made an indelible mark on the economic development and political economy literature. From Chalmers Johnson’s (1982) study of Japan, the paradigms of industrialisation changed forever. Little by little, curiosity around East Asia’s success began to expand. Its central puzzle questioned how it was that East Asian countries succeeded in growing or catching-up so fast (Haggard, 2015, p.40). Researchers had to retrace their steps until they were resuscitating seminal works by Liszt, Gerschenkron and Hirschman. Then, using this theoretical backbone, authors like Robert Wade (1990) and Alice Amsden (1992) managed to revisit industrialising experiences with quite enlightening results.

Developmental studies thus began to lay out two cornerstones for re-framing industrialising efforts around the globe: the state’s role in promoting growth and the state-society arrangements that provided for the said growth (Haggard, 2015, p.46).

Within Mexico, similar catching-up processes also took place among its subnational states. The present chapter’s puzzle is consequently in trend with the traditional developmental puzzle, although at a subnational level. How did Queretaro, a marginalised and poor state entering the 1950s, manage to catch-up with the industrial capacities of the more industrialised states, such as Nuevo Leon? Likewise, this chapter questions how it was that state-society relations played a central part in this process. Along the lines of previous chapters, the present chapter will thus argue that the state-society arrangements that enabled Queretaro’s successful catch-up were formed at the subnational, not the national level. A similar case, in fact, to Nuevo Leon’s industrialisation and its “scaling-up” factor being a key contribution to the process.

Given Mexico’s regionalisation and the pervasiveness of cronyism at its centre, as reviewed in Chapters 3 and 4, the state-society alliances essential for developmental drives had to be built at a subnational level. Therefore, the present chapter will examine how subnational industrialisation efforts seem to be an enlightening factor previously missing in the study of Mexico’s *desarrollismo*. It is only when the traditional top-down and centralised approach is disregarded that one begins to see the true driving forces of Mexico’s industrialisation. Once again, the industrialisation “ball-game” was being played on numerous platforms, many of them far away from the state’s centre. As in the case of Nuevo Leon’s Governor Bernardo Reyes, Queretaro had a succession of

governors who committed themselves to playing the role of “binding agent” (Hirschman, 1958, p.10) in Queretaro’s industrial transformation.

The present account therefore, will seek to trace Queretaro’s industrialisation and the actual state parts involved in it. Accordingly, this chapter will review the industrial drive that was constructed between Mexico’s President and its central offices (mainly the Ministry of Hydraulic Resources, Ministry of Industry and Commerce, and Ministry of Economy’s General Direction of Electricity) and the governors of Queretaro. In contrast to the more centralised accounts of Mexico’s *desarrollismo*, it will be particularly insightful to evidence the protagonist role that Queretaro’s governors played in shaping their state’s microeconomic practices and in building progressive state-society synergies into a notable approximation of an embedded autonomy.

Central to this chapter, as in the case of Nuevo Leon, will thus be the contrasting state practices between the national level (crony practices) and Queretaro’s own formulation of microeconomic practices. It will be shown then how Queretaro had to devise and strengthen its own microeconomic practices (consisting of incentives and state-society synergies) in order to surpass the crony practices devised at Mexico’s centre. Crony practices which, moreover, were largely aimed at reinforcing the profits of early winners regarding industrialisation. Thus, this chapter will continue to contribute to a more multilevel extension to the state-in-society framework regarding not only the contrast between a state’s intended image and its actual practices, but also between the different set of practices that can crystallize across the state’s different levels.

Similar to the preceding chapter, I supported my research on Querétaro’s industrial transformation with both primary and secondary sources. The main primary sources were provided by Queretaro’s Archivo Estatal, which provided me with the historical documents needed to have a better perspective of Queretaro’s context before and during its industrial transformation. These historical documents were governmental decrees, legislations, and other historical testimonies of Queretaro at that time, such as its newspaper *La Sombra de Arteaga*. In regards to the secondary sources used, works by Eduardo Miranda (*Del Queretaro rural al Queretaro industrial*), Digna Neri (*Industrialización y transformaciones urbanas de Querétaro. Cambios y continuidades en la Colonia Obrera, 1943-1979.*) and Gustavo Ávila (*Historia socioeconómica de Queretaro*) contributed in giving the historical circumstances that were present during Queretaro’s industrial transformation and the main actors that participated in this process.

To further develop this tracing of a subnational drive toward industrialisation sought in the present project, the case of Queretaro will be presented as the catching-up state that it eventually became. Section 6.2 will revise the context of Queretaro throughout the 19th century. In this section, it will be heightened how their constant protagonist role in Mexico's independence and revolutionary struggles left its socioeconomic fabric far more devastated than in other states which were able to gain an early advantage.

Next, section 6.3 deals with Queretaro's first attempts toward industrialisation amidst a climate of prevailing stagnation. As it will be seen, however, the lack of an adequate infrastructure limited initial attempts to industrialise. In industrial terms, it was Queretaro's grave lack of Social Overhead Capital (SOC) (Hirschman, 1958, p.83), mainly regarding hydroelectric and water resources, that posed the biggest obstacle to its economic development. State-society synergies had to be built in order to upgrade Queretaro's lagging infrastructure. Accordingly, the progressive construction of state-society synergies was consolidated by Queretaro as a way to overcome its infrastructural constraints.

Finally, as will be depicted in sub-chapter 6.4, this tradition of state-society synergies was institutionalised in Queretaro as a step to scale-up its industrial drive and insert it in the national state's priorities during the ISI period. The alliance between a governor (González de Cosío) and an economic elite (*Grupo ICA*) significantly supported Queretaro in becoming an industrialised state. Also central to this chapter is the governors' proactive role in adapting the state's image of national industrialisation into more impacting microeconomic practices and the achievement of a continuous set of industrial policies, both of which contributed to advance Queretaro's industrialisation. As it will be examined throughout this chapter, the presence of a "dominant-party democracy" in Mexico allowed Queretaro's PRI governors to pursue a coherent framework of industrial policies.

At the end, Queretaro's state-society arrangements were far more embracing than in Nuevo Leon. As a result, there seemed to be a more integrated development, including both big business and small entrepreneurs and merchants, eventually contributing to what could be seen as a developmental consensus.

6.2 Context of Queretaro

In the 1940s and 1950s, the state of Queretaro was hallmarked by economic stagnation, along with alarming rates of poverty and marginalisation in a highly rural context. Even

at the mid-1970s, Queretaro was amongst the six Mexican states with higher rates of poverty (Aguilar, 1989, p. 214). Nevertheless, from 2010-15, Queretaro was the national leader on industrial activities (based on INEGI, 2015; Márquez, 2015) and by 2014 it was amongst the six states of Mexico with the least poverty. Thus the questions asked by the present case study are, how was such a drastic transformation made possible? And how did state-society arrangements contribute to it?

Queretaro is a state from the central-west region –a region named as the Bajío. It is the 27th smallest state in Mexico, out of 32 states. Its privileged geographic position, as a communicating region between Mexico’s capital and the northern states, eventually carried its own advantages and disadvantages. Its proximity to Mexico’s capital, for instance, put it constantly at the centre of the country’s early political struggles.

During the New Spain, its geographic position enhanced Queretaro’s growth as it communicated between the big mining regions of the north and the capital of consumption that was Mexico City. The state became an industrial promise. Starting in the 19th century, “Queretaro maintained its prosperity thanks to the industry of cigars, agriculture and farming, artistry and textile fabrics and the intense commerce that they generated” (Septién, 2008, p. 181). But the accelerated growth of the Spanish Crown’s Bourbon Reforms only augmented socio-economic inequalities. Moreover, its heavier taxing levees generated substantial discontent among its population.

Soon after, in 1810, Queretaro became the cradle of Mexico’s independence insurgency amidst social unrest. By being at the centre of this struggle, Queretaro was among the states that suffered the greatest devastations to its socio-economic circumstances. What was once a flourishing state regarding commerce and industry during the New Spain era was, shortly after, left in ruins.

From 1790 to 1867, the population of Queretaro had been reduced by 50 percent resulting in economic stagnation and a degradation of its agriculture (García, 2011, p. 169). In addition, throughout the 19th century, Queretaro suffered economic and political instability by being at the centre of political battles between liberals and conservatives.

With the arrival of the *Pax Porfiriana*, however, Queretaro was able to remember its commercial and industrious past. Within this timeframe (1876-1910), Governor González de Cosío intended to once again trigger Queretaro’s growth with tax exemptions on imports and production. But the devastations left by the extended military and political struggles had almost completely “dismantled” Queretaro’s regional economy; consequently, Governor González’ intended modernisation had only a moderate impact

(Op. cit. 2011, pp. 186–94). Moreover, drastic growth in the North, led by Nuevo Leon, displaced the traditional commercial and industrial role that the Bajío Region had held for the past century (Gutiérrez, 2005, p. 8).

Governor González' promotion of industry therefore went by relatively unfelt. Even though later there was rising unrest in Mexico's society with Porfirio Díaz, Queretaro's social groups were cautious of once again getting involved in insurgencies. The Official Newspaper of Queretaro thus stated in 1889 (in García, 2011, p. 195):

Revolutions have been (...) enemies of Queretaro's prosperity. In 1855 commercial estates were looted, public archives burnt, the people persecuted as a beast by the government's agents and overwhelmed by forced recruitment to the Army (...) The famous siege of 1867 inflicted the lethal wound to the city's progress.

Besides the cited fears and precautions, Queretaro found itself at the centre of turmoil once again. During Carranza's insurgency, Queretaro was made the capital of the country, with its corresponding strife. Military governors sank Queretaro's economic and social life even deeper into the ground. In the time of Carranza, around 1916, Governor Siurob Ramírez constantly imposed hardship on the population. Even later, when Mexico was attaining political stability in the 1930s with President Elías Calles, Queretaro was once again devastated, this time by Governor Saturnino Osornio.

During the rise of the *Guerra Cristera* (led by the Church and its followers against the secular intentions of Mexico's revolutionary governments), Osornio imposed significant hardships on Queretaro as a result of its conservative and ecclesiastic traditions. During this Governor's tenure, "urban estates devaluated, the meagre industry and commerce were ruined, (and) the youth's education stagnated" (Septién, 2008, p. 220).

Thus, by the time Mexico started its nation-wide drive toward industrialisation with its ISI initiative, Queretaro was among the more lagging and marginalised states. With a devastated economy and a substantially disabled infrastructure, Queretaro's chances of catching-up with other industrialised states seemed like a fantasy. Nonetheless, as will be depicted in the following section, the gradual construction of state-society synergies began to position Queretaro within a brighter outlook.

6.3 State-society synergies as stepping-stones for Queretaro's industrialisation

In the mid-1940s, Mexico continued its drive toward indigenous industrialisation. With the Law for the Development of the Manufacturing Industry of President Alemán in 1946, many tax exemptions on imports and fiscal related incentives were given to establish new industries or factories. But Queretaro was not Monterrey with substantial amounts of capital and sufficient water and electrical resources. Nor was it Mexico City or its neighbouring Estado de Mexico which also concentrated, along with Monterrey, much of the country's capital and infrastructure. It is no surprise then that during the first half of the ISI period, new industries were concentrated around Monterrey and Mexico City, with 24% of NAFINSA credits, for example, going to Monterrey and its surrounding cities (Op. cit. 2005, p. 125).

In 1955, for instance, an Act of New and Necessary Industries was created to promote the creation or improvement of manufacturing activities; 90% of the enterprises benefitted by the fiscal incentives of this Act ended up establishing in Mexico City, its neighbour State of Mexico, and Nuevo Leon through the 1970s (CEPAL, 1979).

A large part of this concentration was enhanced by the economic elite's gradual capture of the state's central offices (Finance Ministry). Through this capture, as related in Chapter 3, the Finance Ministry began formulating Mexico's economic development through catering to the big economic groups formed around Monterrey, Guadalajara, Mexico City and Estado de Mexico; hence, the crony practices' domain on the national platform of economic development. Infrastructure, the main constraint for the country's development, was negotiated directly between the central offices and these economic elites (Alemán, 2006, p. 21), while public subsidies were an "all-out government support" for the same "private investors" (Erfani, 1995, pp. 89–90).

Up to this day, Mexico's economic development remains caught up in a vicious circle regarding infrastructure. Economic officials (Interview with top economic development officials, 2015) at the state level constantly decry how investments do not arrive to particular regions because of a lack of infrastructure. Also, they relate how infrastructures are not constructed by the federal government because of a lack of economic investments or productive activities in the same region; circumstances reminiscent of Hirschman's (1958, p. 36) accounts of "vicious circles" in industrialising efforts from underdeveloped countries.

Accordingly, during Mexico's ISI period (1940-1982), public investment became the "most dynamic factor of economic growth" because it was "the main instrument to create

the basic infrastructure” (Miranda, 2005, p. 188). Queretaro’s annual budget, however, was amongst the lowest of Mexico’s states and 90% of federal and subnational economic resources were controlled centrally by federal government. The vicious circle in Queretaro seemed to go round and round following Mexico’s independence: no infrastructure due to a lack of investment resources and no investment resources (either foreign or local) due to a lack of infrastructure.

How then did Queretaro manage to insert itself in such a path-reinforcing process of industrialisation? To tackle this interrogation, the present section will demonstrate how subnational state-society synergies and initiatives were imperative in positioning Queretaro within Mexico’s ISI. It will be argued that there was a construction or layering of state-society interactions which eventually enabled Queretaro to scale-up its industrial efforts into Mexico’s national industrialisation. Thus, the pending issue that Queretaro’s state-society synergies had to initially address was not industrialisation itself but, rather, its lacking infrastructure or Social Overhead Capital.

Not coincidentally, Evan’s study on state-society synergies (1997a) across developing countries contains two case-studies which revolve around infrastructure capabilities –irrigation and water-sewage systems. In Fung’s case-study (1997, pp. 24–33), reiterative cooperation and interaction between local farmers and local officials can be seen as enhancing the capacities of Taiwan’s irrigation system. Likewise, in the study of Ostrom (1997, pp. 87–91), synergistic interactions between state and society are visible and essential tools in upgrading Brazil’s water and sanitation works.

In Queretaro, the absence of basic infrastructure led society to cooperate with the subnational state in an effort to resolve these obstacles and thus achieve economic growth. At the beginning of the 1940s, when the nationwide ISI project was initially consolidated, Queretaro’s economy was in stagnation; indeed, 80% of Queretaro’s population lived in rural areas, 74.2% worked on primary activities such as agriculture, farming and fishing, 76.9% was analphabetic and the majority of its houses lacked water-sewage systems or the minimum level for it to be drinkable (Miranda, 2005, p. 47).

At the national level, 1940 became a landmark year for the Mexican state’s redirection towards national industrialisation. Lázaro Cárdenas’ state intended image of redistribution had already been dismissed for the more pro-business intentions of his successor, President Ávila Camacho. As in other successful developmental stories (Weiss & Hobson, 1995, pp. 120–27), and as related in the previous chapter, the presence of war among nations turned out to be a rather positive spur to growth in Mexico. The Second

World War came to offer, as stated by Miranda regarding Mexico's case (2005, p. 114), a "natural protection" which obliged its economy to produce its own manufactures and outputs, considering their otherwise traditional purveyor, the United States, was occupied with its own war-time affairs.

When the war was over, however, a more active form of protectionism was put in place by President Miguel Alemán (1946-1952) using macroeconomic policies. In the first year of his administration, President Alemán decreed the Law for the Development of the Manufacturing Industry, which increased incentives for manufacturing industries with tax exemptions, protective tariffs and licences, plus the elimination of import duties for heavy machinery (Moreno-Brid, 2013, pp. 96–7). But how could Queretaro insert itself in this national drive toward industrialisation amidst a stagnant economy and infrastructure?

Even at the mid-1940s, Queretaro's central water-sewage infrastructure was still relying on a sewage canal dating all the way back to the Colony (Neri, 2013, p. 56). Its water resources were dismal, insufficient for its agrarian activities, let alone for an expansion of industry. This rather primitive sewage system was not only an economic problem, but a health problem as well. During the first half of the 20th century, its lagging capabilities constantly generated pandemics among the population and cattle stocks (García, 2011, p. 246).

Around that time, Queretaro's electrical capacities ran along similar lines, receiving only 8,600 kilowatts in total for its entire economic and urban activities. This meagre availability led to constant power outages, black-outs and government-imposed rationalisations of electricity which sometimes lasted for 24 hours (Miranda, 2005, pp. 204–7).

Given these circumstances, Queretaro's possibility of inserting itself in Mexico's industrialisation were highly complicated. The arrival of what seemed like permanent political stability, nonetheless, garnered positive expectations both from social, economic and political actors in Queretaro. At the beginning of the 1940s, the economy of the state was divided between agrarian and industrial activities of medium scale. Aware of the national priorities of industrialisation, Governor Noradino Rubio (1939-1943) sought to insert Queretaro within the national drive for economic growth. He established a Department of Industry, Commerce, and Cooperative Foment convinced that the industrial activities, rather than the agrarian ones, held better prospects for Queretaro's growth (Miranda, 2005, p. 126).

In this manner, Queretaro faced the conjuncture or dilemma that many “backward” countries faced in 19th century Europe, according to Gerschenkron (1962, p. 8):

The typical situation in a backward country prior to the initiation of considerable industrialization processes may be described as characterized by the tension between the actual state of economic activities in the country and the existing obstacles to industrial development, on the one hand, and the great promise inherent in such a development, on the other.

Governor Rubio thus intended to promote the industrialisation of large scale enterprises. Accordingly, an iron and steel plant about to be established by the government of Cárdenas seemed like the breakthrough he was looking for. President Cárdenas heard the request of Governor Rubio, but when he sent an economic commission to review if Queretaro was fit to foster the iron and steel plant the meagre infrastructure of Queretaro was evidenced. The commission eventually found out that Queretaro lacked the two main requirements to host the new iron and steel plant: enough water for the cooling of the blast furnaces, of approximately two cubic meters per second, and a sufficient amount of electricity for the plant’s activities (Miranda, 2005, p. 127). Regarding both requirements, Queretaro came up terribly short, missing out on the opportunity to land the coveted iron and steel plant.

Later on, however, with the arrival of Governor Agapito Pozo (1943-49), a renovated and more meaningful drive towards industrialisation was made. More in tune with the federal state’s ISI drive, Governor Pozo adapted the national, macroeconomic policies of industrialisation into a more engaging array of microeconomic practices.

In 1944, he decreed Law number 33 which, without any local precedent, declared of “public utility and convenience” the establishment of new industries and the construction of factories, hotels, cinemas and commercial centres. Among the benefits to the said industries were the exemptions from any state and municipal tax for up to ten years and another ten years with 50% and 75% of reductions, respectively (Congreso de Querétaro, 1944; Neri, 2013, p. 41).

Queretaro’s industrialists, merchants and foreign capital responded favourably to these incentives, influenced as well by Queretaro’s long established tradition as a commercial and industrious state. As a first industrial push, the positive effects were reflected in a considerable increase of industries.

The microeconomic practices of fiscal incentives provided by the administration of Governor Pozo successfully expanded or established small and medium enterprises, whose instalment reflected positively on the engaged middle sectors of society. But local incentives failed to attract most of the bigger scale industries, with more productive linkages, due to Queretaro's on-going insufficiency of infrastructure – mainly in water and electricity resources.

Most of the bigger factories which had committed in establishing in Queretaro, later reconsidered due to this lack of infrastructural capacity. Some of the bigger factories that did establish in Queretaro – such as the Carnation subsidiary, *La Concordia* or, later, Kellogg's – had to build their own wells to extract water and their own diesel plants (Miranda, 2005, p. 210); an expense that was generally beyond the considerations of other factories or investors.

In this manner, nonetheless, Queretaro triggered its first industrial sequence of “development via shortage”, as framed by Hirschman (1958, p. 88) in the wider literature. In this sequence, the initial step was taken by Directly Productive Activities (DPA) which, eventually, pressured the state and its society to supply its territory with adequate infrastructure or Social Overhead Capital.

Due to the lack of industrial infrastructure and linkages with a wider industrial community, local factories and enterprises began falling into bankruptcy at the end of the 1940s (Arvizu, 2005, p. 202). Therefore, this lack of infrastructure quickly became the central concern of both society and government in Queretaro, but neither of the two had the sufficient economic resources to cover its expense. In 1949, for instance, Queretaro's annual budget amounted to just 1.6 million pesos, “the most meagre and exiguous” budget of all the Mexican states (Miranda, 2005, p. 162).

By the end of the 1940s, the dire circumstances of Queretaro's infrastructure proved to be an overwhelming obstacle to its industrialisation goals. The two prevailing deficiencies, which will be reviewed here-after, were as follows: electricity and water resources along with an adequate sewage system. During the following decade, the gradual construction of state-society synergies revolving around this infrastructure problem began to unlock Queretaro's full potential for industrialisation.

6.3.1 Bringing electricity to Queretaro

Nearing the end of the 1940s, during President Miguel Alemán's administration (1946-1952), the lack of the country's electrical infrastructure gradually became a priority for

the federal government's agenda. Letters and telegrams arrived from all around the country decrying the continuing constraints that a lack of electricity generated for societies and industries alike. In the particular case of Queretaro and its Bajío region, electrical deficiencies seemed to be particularly acute.

As evidenced in the first Presidential State of the Union in 1947, the Bajío region's dire circumstances resulted in quite unorthodox solutions from the federal government. "To resolve the issue of lack of (electrical) fluid in the Bajío region," President Alemán related (2006, p. 20), "a train which generates ten thousand kilowatts (...) of the American Navy was rented". The on-going struggles of the Second World War nonetheless interrupted this arrangement and the Bajío region was once again left amidst electricity scarcity.

Later, in the mid-1950s, Queretaro's way of life – in its economic or urban context – kept worsening because of insufficient electricity. Blackouts and power-shortages increased, while government measures to rationalise electrical consumption represented substantial hardships – with the government imposing power-shortages of up to 24 hours (Miranda, 2005, p. 211). Queretaro was among many states in Mexico with insufficient electricity. Around this time therefore, President Ruiz Cortines (1952-58) acknowledged that "more than half of Mexico's population lacked access to electrical services" (Ruiz, 2006, p. 22).

The electric industry had not yet been nationalised, but the state-owned enterprise *Comisión Federal de Electricidad* (CFE; Federal Commission of Electricity) was already consolidating as the government's agent in providing, regulating and incentivising Mexico's electrification programme. Along with CFE, two other enterprises – which were foreign-owned – "practically held control of the industry": the American and Foreign Power Light and the Mexican Light and Power Company (López, 2006, p. 83). Thus, in the words of President Ruiz Cortines (2006, p. 22), "Government, as a way to impulse *Comisión Federal de Electricidad*, (gave) an equitable treatment to private enterprises, so that without trumping any consumer interests, it (might) be an incentive for them to expand and upgrade their installations."

But this "equitable" treatment basically represented a 50/50 investment participation in joint programs of electrification – investments which were far beyond the local capacities of Queretaro. Since the preceding administration of Miguel Alemán, when public investment in infrastructure gradually became the piston for economic development, projects were generally negotiated between federal government and

involved industrialists, well in tune with the crony practices devised by the Finance Ministry. In the latter arrangement, the Ministry of Economy held negotiations directly with industrialists “who required consumption levels above 400 kilowatts, with the objective of providing them with the facilities for them to acquire their own plants of electrical fluid” (Alemán, 2006, p. 21).

Around this time, moreover, the Finance Ministry was gradually consolidating at the centre of the Mexican economy, from which crony practices were formulated to secure the interests and gains of economic elites. In order to address recurring financial strains on Mexico’s economy and following the Finance Ministry’s counsel, the federal government became increasingly accommodating to economic elites’ interests. “In consonance with private investors’ preferences, the Treasury’s ‘planning’ or parastatal activities was dedicated to decapitalising the parastatal sector in order to subsidise the private sector” (Erfani, 1995, p. 61); a private sector that was, furthermore, largely monopolised by the big industrial/financial conglomerates of *Porfirian* origin.

In contrast, small industrialists from Queretaro were not among those members of Mexico’s select industrial and financial conglomerates. Moreover, they did not have the necessary capital to acquire their *own* plants, or provide half of the investments required for these infrastructural projects. To further aggravate matters, the foreign-owned electrical *Compañía Hidroeléctrica de Querétaro*, which seemed like the only enterprise capable of upgrading the state’s infrastructure, constantly proved to be a difficult partner to both the federal and subnational state. This company insisted that their participation and investment be conditioned by substantial increases to electrical tariffs, in what later was characterised by the President as “greedy petitions” (Miranda, 2005, p. 220).

The Government of Queretaro was then left almost by itself. Their resources were well under the required minimum, considering federal government had already taken command of 90% of the nation’s fiscal resources (Meyer, 1981, pp. 244–48). Consequently, there was a small chance for Queretaro to upgrade its infrastructure capacities, either with public or private resources; hence, the vicious cycle of lack of infrastructure due to lack of investment and lack of investment due to lack of infrastructure. Or, in other words, a lack of Directly Productive Activities due to a lack of Social Overhead Capital and vice versa.

During the mid-1940s and 1950s, therefore, both state and society in Queretaro were well aware that Mexico’s Presidents and its central offices held the keys to tending to Queretaro’s infrastructural needs. With this in mind, they organised themselves to try to

land federal programs of infrastructure in Queretaro. On the society's account, the actors were plenty: the Chamber of National Commerce of Queretaro, the Chamber of National Commerce in Small-scale of Queretaro, the National Chamber of the Transformative Industry in Queretaro, the Patronal Centre of Queretaro, the Federation of Workers from Queretaro, the Local Agricultural Association of the Centre, the Local Cattle Breeders Association of the Centre, *El Hércules Textiles* and *La Queretana Textiles*. Representing Queretaro's entrepreneurial society, they signed a petition and sent it to President Miguel Alemán, stating the "grave damages and constraints" that were being inflicted on Queretaro's economy due to the absence of electrical capacities (Miranda, 2005, p. 205).

Governor Pozito, in turn, wrote frequently to the Ministry of Economy regarding the pertinence of infrastructural developments in his state. Finally, President Miguel Alemán gave in. He agreed to expand Queretaro's hydro-electrical capacities, although on one condition: that Queretaro's government and/or private investors contributed 50% of the costs, which were around \$3 million pesos in total (Op. cit. 2005, p. 207). But with a meagre subnational budget almost surpassed by the required investment, the electrification project was eventually dismissed.

It was thus evident that a more beneficial scheme was needed to trigger Queretaro's infrastructure or SOC upgrading. As a response to this unattended predicament, Queretaro society mobilised until the *Comité ProDefensa Social de Querétaro* (Committee for the Social Defense of Queretaro) was established in February of 1955 (for Committee's activities, see Miranda, 2008, pp. 212–4). It was created by the same groups who had earlier sent a letter to the preceding President on the same matter: chambers of commerce and industry, commercial and non-commercial associations, workers' unions, lawyers, among other small-scaled economic actors. Its first action as a Committee was to send a telegram to President Ruiz Cortines and, a month later, a letter reinstating the dire conditions of Queretaro's electricity resources.

This Committee, furthermore, was also active in framing the lack of electrical capacities as one of the central problems of its state. It constantly lobbied the President, the Ministry of Economy, and CFE, made technical studies and proposals of new electrical plants and suggested CFE acquire the foreign-owned *Compañía Hidroeléctrica de Querétaro*, as this company had become already an obstacle to negotiating electrical projects between the state and the private sector.

After several back and forth communications and studies, the federal government and CFE's solution was to connect Queretaro with a new electrical plant, *El Cóbano*. This

connection was relatively successful: it fulfilled Queretaro's needs at the time, up to 75%, substantially diminishing the rationalisation measures and power-shortages (Ruiz, 2006, p. 118; Miranda, 2005, p. 214). But the needs of the time or, rather, 75% percent of the needs, were well below the electrical resources necessary for more integral industrialisation.

Consequently, as these electrical capabilities were still pending, the *Comité Pro Defensa*, along with Governor Mondragón, extended a technical study to the federal government that consisted of connecting Queretaro to the electrical plants that provided Mexico City with their electricity. Nevertheless, the electrical plant feeding Mexico City was owned by one of the electrical industry's giants: the Mexican Light and Power Company.

By the first decades of the 20th century, the Mexican Light and Power Company, founded during the *Porfirian* regime and financed by Canadian capital, was the electrical TNC with the most economic power in Mexico's electrical sector. Just as its economic power had grown during the first decades of the past century, so too had "its resistance" against the state's initiative or the "necessity to regulate and have a better control of its national resources" (Terán, 2015, p. 115). By 1937, it provided Mexico City, Puebla, Hidalgo, Estado de Mexico, and Michoacan with electricity and controlled 50% of the electrical resources in the country (Ibid.).

At first, given Queretaro's still rural outlook, the Canadian enterprise proved rather reluctant in providing these services as the return investment seemed rather shaky. Joint negotiations consequently ensued between these different actors: the *Comité de ProDefensa*, Queretaro's Governor, Federal Government through its General Direction of Electricity and the Canadian TNC. Finally, after these intermeshed negotiations in which both federal and state government had to accept Mexican Light and Power's conditions of raising electrical tariffs in Queretaro, the state was finally provided with an additional 25,000 kilowatts through the connection of its Michoacan plant (Miranda, 2005, pp. 215–6). With this number of kilowatts, Queretaro finally had the electricity sufficient for potential industrialisation.

After this electrification project, Queretaro's industrial future seemed evermore promising. According to historian Eduardo Miranda (ibid.), "in 1956, with the energy transmitted both by the *El Cóbano* plant and the Tuxtepec line, the state of Queretaro, especially its capital city, was in better conditions to respond to the demand of (electrical) fluid of enterprises of complex manufacturing that looked to establish in there."

Some years later, in 1960, the constant frictions in negotiations between foreign-owned enterprises and the Mexican state led President López Mateos to nationalise the electrical industry, as it was already central to the federal government's agenda. In the President's expressed views, this action meant the "culmination of a vindication process, inspired in the purest patriotism" (López, 2006a, p. 85).

Shortly afterwards, in 1969, a national system of electricity was consolidated with Queretaro as one of its corollaries within the Centre and Bajío region. The general director of CFE mentioned this step, to provide Queretaro with its own electrical sub-station, as a fundamental tool for Mexico's industrial decentralisation and a clear sign of support from the President to Queretaro for its traditions of "work, social peace and growth of industrial wealth" (Miranda, 2005, p. 224).

Thus, in less than three decades, Queretaro had worked against all the odds until it had positioned itself in the centre of Mexico's electrical distribution system. Just as fundamental as the state-society lessons taken from electrifying Queretaro, were the efforts to provide the state with sufficient water resources and an efficient sewage system – a process which will be reviewed in the following section. Moreover, the previous experience of electrification allowed Queretaro to increase the level of embeddedness between state and society, in terms of providing the aforementioned water-works. The following section will thus review these mutually empowering relationships that continued to be built in the state from the Bajío.

6.3.2 Upgrading Queretaro's waterworks

At the end of the 1940s, Queretaro's water-sewage system was just as dismally inefficient as its electrical counterpart. Its central water-sewage infrastructure was still relying on a sewage canal dating all the way back to the Colony (Neri, 2013, p. 56) and there was a grave lack of water which constantly troubled economic activities – at that time, mainly agrarian. In contrast to the lack of electrical infrastructure, however, the absence of adequate water-works in Queretaro represented a tangible threat to the health of its population. During the first half of the 20th century, its lagging capabilities generated pandemics among the population and cattle stocks, resulting in numerous deaths and food scarcity (García, 2011, p. 246).

During the 40s and 50s, several experiments were carried out within Queretaro in efforts to upgrade its water resources (García, 2011, pp. 246–8; Miranda, 2005, pp. 227–40): *Juntas* (councils) were established with the participation of local political and

economic actors as members and there were also federal subsidies, public support to upgrade irrigation practices and machinery, water donations – such as wells – made from governors to support some of Queretaro’s factories. Additionally, several projects financed by the federation’s *Banco Nacional Hipotecario Urbano y de Obras Públicas* were likewise contemplated, although eventually dismissed because of financial incapability or legal formalities.

Around that time, similar to electrical resources, waterworks and its resources began to be increasingly centralised by the federal government. Its General Direction of Potable Water and Sewage had been created in 1948 to coordinate water projects and construct the majority of Mexico’s hydraulic systems (Pineda, 2002, pp. 45–6).

Either inspired by Queretaro’s previous deployment of *Juntas* (Councils), consisting of joint participation in waterworks, or merely by coincidence, the General Direction of Potable Water and Sewage established a starkly similar mechanism to construct waterworks across Mexico: *Juntas Federales de Agua Potable* (Federal Councils of Potable Water). These *Juntas* were constituted by five members or representatives: one from federal government, state government, and municipal government and two from the private sector – generally chambers of commerce or industry (Pineda & Salazar, 2008, pp. 58–9).

The objective of these new mechanisms and the law in which they were supported (Law of Cooperation for Providing Potable Water to Municipalities) was to promote the federal government’s participation in “the culmination of potable water works, through non-refundable investments equalling”, either 50% or 33% depending on the size of the municipality (Ibid).

Thus, when Governor Mondragón took office in 1949, building an adequate hydraulic infrastructure was amongst the top priorities at every level of government – federal, state and municipal. Correspondingly, one of the governor’s first actions after entering his administration was devising, in association with the Federal Ministry of Hydraulic Resources, a General Plan of Works of Potable Water and Sewage (PGAD). This general plan contemplated the following (Neri, 2013, p. 56): upgrading Queretaro’s already historic and outdated water-duct, constructing a new water tank, installing 60 kilometres of water pipes to substitute water canals also dating from the colony and, finally, constructing water recollection facilities surrounding the state capital to prevent floods.

Federal government, after revising the infrastructure project, agreed to carry out the work. However, it stated one condition in accordance with its ongoing infrastructure practices: the same mechanisms of 50/50 investment – which was around 3.5 million, for each part, when Queretaro’s total budget was just under 4 million pesos (Miranda, 2005, p. 244). As a result, the General Plan came crumbling down.

For the next two gubernatorial administrations in Queretaro, the same vicious cycle of lack of investment and lack of infrastructure prevailed. Some small waterworks were undertaken though underperforming in the overall necessities of the state. Luckily for Queretaro, the new post-world war scenario around the globe moved the United States to consider some of Latin America’s pending needs relating to social and economic development.

During the first years of the 1960s, the administration of John F. Kennedy changed the United States’ posture regarding its relations with Latin America. The recent Cuban Revolution meant a shift of the raspy geopolitical landscape of the Cold War. Thus, as part of its initiative to secure support from the Latin American region, in 1961, President Kennedy inaugurated the Alliance for Progress in Punta del Este, Uruguay.

According to Kennedy’s declarations, “the sixties were to be a Decade of Development in which the developed countries of the world must provide the capital necessary to develop the underdeveloped countries and prove that ‘economic growth and political democracy can develop hand in hand’” (Horowitz, 1964, p. 130).

Mexico became then one of the Latin American countries targeted by this Alliance for Progress. In the first two years of the program, Mexico destined a total of 700 million dollars, 266 of which were to be employed on development projects – such as housing, health, water systems and roads (Op. cit. 1964, p. 142). Therefore, when notice of this new source of finance got to Queretaro, its state-society synergies were quick to react.

In the words of Miranda Correa (2005, p. 260):

(...) with the implementation of the program Alliance for Progress, which translated into a sudden external financial support for projects of social improvement, social and economic actors interested in Queretaro’s development and, with a special statute, TNCs with business interests in Queretaro and *Grupo ICA*, along with a wide number of local investors, promoted the realisation of a credit to begin the works of the often talked about PGAD.

After these consistent lobbying efforts, a representative of the Inter-American Development Bank visited Queretaro in 1962. When given a tour of the state by local political and economic actors, the IADB's representative expressed that it was indeed possible to undertake the construction of the General Plan for Potable Water and Sewage (PGAD) with the financial support of the IADB. With this confirmation, Governor González de Cosío "became the main agent of concerting the credit with the IADB; and the inspection visits of officials of this international financial organisation to observe the socioeconomic conditions of the city, and its industrial push, became a constant" (Ibid).

Another joint-effort between state and society was however pending. Even though the Alliance for Progress was seemingly emphatic on overcoming underdevelopment in Latin America, its terms were not as benevolent as, say, the Marshall Plan for Europe. To illuminate this contrast, "approximately ninety percent of the total funds invested in the Marshall Plan was in the form of outright grants, the ten per cent remaining consisting of loans"; whereas in the Alliance for Progress, only 30 per cent were outright grants while the resting 70 per cent were to be loans (Horowitz, 1964, p. 138).

An arrangement was made throughout the following months between the federal Ministry of Hydraulic Resources, Queretaro's Government, local industrialists and population and the IADB. In order to secure the loan payment, the IADB conditioned Queretaro's government to charge 2.11 pesos per cubic meter to owners of benefited estates and to require the population to pay service-fees as well as install the corresponding water facilities – conditions which were promptly fulfilled by Queretaro's population (Miranda, 2005, pp. 261–2).

Finally, the PGAD investment was divided as follows: 24 million pesos by the IADB, 13.3 by the federal Ministry of Hydraulic Resources, and 2.75 by state and municipal funds. To recapitulate the entire venture, the *Junta Federal* of Queretaro –with federal officials and local economic and political actors– was put in charge of administrating and paying back the loan to the IADB (Ibid). By 1966, the PGAD was finished, putting an end to the already historic deficiencies of Queretaro's water resources.

In the words of Miranda Correa (2005, p. 269), "the materialisation of the General Plan of Potable Water and Sewage, during the middle of the sixties, was, without a doubt, the work of social service which better reflected the interplay of interests between public sector and private to redirect the economy of the city of Queretaro to the national project of industrialisation."

In the 1960s, therefore, it was clear that Queretaro had all the pieces necessary to play a central role in Mexico's ISI or, in more developmental terms, to catch-up with the more industrialised states of Mexico. The "political construction" of social capital, as termed by Fox regarding other Mexican cases (1997, p. 121), or the institutional layering of state-society synergies proved to be just as important, in the industrial push, as the existence of a proper infrastructure.

As will be portrayed in the following section, these reiterated practices and synergies were essential for building a developmental consensus that proved fundamental for Queretaro's economic development. From here on out, central to Queretaro's catching up was their state-society's construction of microeconomic practices as opposed to the prevalent crony practices dominating economic development on a national scale.

6.4 Institutionalising embedded autonomy toward growth

Parallel to Queretaro's "social construction" (Miranda, 2005, p. 150) of its infrastructure, its interpretation of the Mexican state's image of industrialisation was also being constructed. Since Law number 33 decreed by Agapito Pozo in 1944, Queretaro's state-society interactions had begun to construct their own path toward economic growth firmly convinced of the potential rewards of industrialisation.

Nevertheless, due to the devastations that the Mexican Revolution had left behind, particularly in Queretaro, this state found it almost impossible to insert itself into the nation's ISI at the beginning. In this sense, both Queretaro's state and society were remarkably weak compared to other states and societies in the centre and north, which already had a much wider array of resources to benefit from Mexico's industrialisation. Along these lines, the Mexican states and economic elites who had already gained an industrial advantage previous to ISI reinforced their position. The Monterrey Group in Nuevo Leon, for instance, became one of the bigger benefactors of the Mexican Miracle.

In the case of Queretaro, its meagre economic capabilities made it impossible for it to insert its industrialists during ISI take-off. They could benefit little from macroeconomic policies – such as protective tariffs, licenses or tariff exemptions on heavy machinery imports – when they did not even have the physical infrastructure for industry or substantial industrial activities. Furthermore, the federal macroeconomic policies were being increasingly predated by crony practices.

Thus, as depicted in the case of Nuevo Leon, the role of Queretaro's governors ended up being much more important than expected from the traditional and more centralised

accounts of Mexico's development (Schneider, 1999; Moreno-Brid & Ros, 2009). Throughout Mexico's ISI, Queretaro's governors indeed committed themselves to undertaking the "binding agent" role, as framed by Hirschman (1958, p. 10) in the wider literature. A role that consisted not only in setting the incentives and strategies for economic development, but on achieving cooperation among Queretaro's economic agents as well.

Likewise, largely unreported in previous accounts of Mexico's development is the considerable feedback that originated in the periphery or provinces. As of now, Queretaro has been among the industrial leaders of Mexico over the last decade. But it is impossible to comprehend its current success with examinations based only on a top-down approach departing from the federal level.

The present section will accordingly depict the protagonist role that several of Queretaro's governors had in shaping their state's practices (microeconomic practices) of industrialisation. To achieve this, they were particularly efficient at engaging in mutually empowering relations with different social groups in their society. The result of these empowering relations was a notable approximation of an embedded autonomy, which was eventually institutionalised into Queretaro's Economic Council and, later, into its Committee for Industrial Development. Through these organisations, they were then equally efficient in scaling up their local industry into Mexico's ISI drive.

In this last matter, governors pursued Queretaro's industrialisation as they pursued the social construction of its infrastructure. To gain access to the national arena of ISI, Queretaro's governors constructed triangular relations with Mexico's President and the state's central offices (NAFINSA, Finance Ministry, Ministry of Industry and Commerce, among others). But first, they had to construct a developmental consensus within Queretaro that was capable of mobilising the majority of its population toward industrialisation.

This developmental consensus began to consolidate following Governor Pozo's decree of the Law number 33 for industrialisation. This was Queretaro's first attempt at interpreting Mexico's industrialising image into microeconomic practices that could better engage the local population. Quite similar to the legislation that triggered industrial growth in Nuevo Leon at the end of the last century, this Law was devised to trigger Queretaro's industrial and construction activities. Or, in industrial terms, to "maximise induced decision making" (Hirschman, 1958, p.28) regarding productive investments. The installation of enterprises and urban constructions, such as houses, were to be exempt

from any state and municipal tax for the first ten years; and, in the following ten years, for the case of industrial and commercial factories, reductions of 50% and 75% of the respective taxes were also made available (Congreso de Querétaro, 1944).

As related in preceding sections, Queretaro's industrialists, merchants and foreign capital responded favourably to these incentives, influenced as well by Queretaro's long established tradition as a commercially active state. The relative success of this first industrial commitment was reflected on the installation or expansion of numerous factories.

Table 7. New industries in Queretaro during the 1940s (adapted from Neri, 2013, p. 45)

Factory	Year	Activity
Fábrica de Vidrio y obtención de Silicato	1944	Clothing and textile produce
Productos Queretanos, S. de R.L.	1944	Industrialisation of food products
Fundición Vulcano, S.A. de C.V.	1944	Production of sewing machines and related tools
Jabonera Lourdes (expansion)	1944	Production of soaps and related products
Fundidora Vasco-Queretana	1945	Steel and iron works
El Tepeyac	1946	Production of candy
Industria AGA de México, S.A.	1946	Production of comestible oil
La Concordia, S.A.	1947	Fabrication of textile products
Embotelladora La Victoria, S. de R.L.	1948	Bottling and distributing Coca Cola products; production of own patented products
Productos Lácteos, S.A.	1948	Production of evaporated milk;

		subsidiary of the TNC Carnation
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The dire circumstances of Queretaro’s infrastructure, however, proved to be too much of an obstacle for the majority of new enterprises. By the start of the 1950s, these obstacles led to bankruptcy for these factories and the cancellation of economic projects that were about to establish in Queretaro (Arvizu, 2005, p. 202). The priority of industrialising Queretaro, nevertheless, began to be seen as a shared goal across society. Furthermore, due to the lack of sufficient domestic capital to catapult Queretaro from its agro-industrial and medium-scale industrial capacities, a particular “division of labour” (Miranda, 2005, p. 32) began to be favoured among all strata of society.

Within this economic division, foreign capital and domestic capital were given separate expectations due to their diverging capabilities. In an effort to include all the potential economic actors and avoid social frictions between them, a somewhat tacit arrangement was established: “to foreign investment (of states other than Queretaro and/or international) corresponded the installation of important manufacturing enterprises, while the dominion in the sectors of commerce, services and small and medium enterprises was reserved to local urban groups” (Ibid).

Nevertheless, in 1950, the entering governor, Mondragón, annulled Law number 33 for industrial incentives and tax exemptions in an effort to increase the state’s revenues. But the TNCs already established in Queretaro and the entrepreneurial sectors of society were quick to oppose this measure. Finally, the TNC, Kellog’s, who had already committed to invest in Queretaro, entered negotiations with the governor alleging that if the incentives were removed their investment went elsewhere. As a result of this negotiation, the preceding microeconomic practices were extended on a more selective basis, with Mondragón’s publication of Law number 93 of Foment and Fiscal Protection to Industry (Ávila, 2008, p. 116).

The new Law reduced its exemptions to a range between 25% and 50%, instead of the previous 50-75%. Its duration was also reduced to a lapse of between 5 to 10 years. Moreover, this decree established the requirement of providing information on commercial denomination, location, number of employees, capital invested, machinery used, manufacturing products and procedures, as well as the market in which these enterprises participated or wished to access (Neri, 2013, p. 55).

The industries included ranged from urban, housing and tourism constructions, to industrial enterprises willing to participate in ISI. This law was also emphatic in stating that all concessions would be recalled if any of these requirements went unfulfilled – for which the government deployed inspectors in charge of verifying every establishment and the information they provided (Ibid).

Throughout the 1950s, the growth spur was slow as it was still highly constrained by Queretaro's lagging infrastructure. During the first half of this decade, Kellogg's was the only large-scale enterprise established. It was not until 1958, with the construction of the Queretaro-Mexico highway and the electrical plant of *El Cóbano*, that some bigger factories turned its eyes to Queretaro. In this year, TNCs such as Ralston Purina (agro-industrial) and Singer (electro-domestic) were established in Queretaro's de facto industrial zone – *Hacienda La Era*.

With the ensuing upgrade of water facilities, Queretaro finally began to be seen as having potential within the world of Mexico's industrialisation. The resounding industrial take-off of Queretaro thus took place in the 1960s, when a more thorough state-business alliance was built between the governor, Francisco González de Cosío (1961-1967), and Bernardo Quintana, Director of *Grupo ICA* – a leading group of industrialists in engineering and construction activities from Mexico's capital. Finally, through this allegiance and the preceding social construction of Queretaro's infrastructure, Governor González was able to scale-up the state's industrial activities into Mexico's national ISI drive. In this sense, he further consolidated the role of Queretaro's governor as a binding agent. More specifically, within this timeframe, Governor González became a “maximised inducer” (Hirschman, 1958, p.28) regarding investment. Or, in Evans' terms, he undertook the “midwifery” role (Evans, 1995, pp. 13–4), with an emphasis on attracting industrialists into Queretaro or upgrading existing industrial groups towards more challenging activities.

Accordingly, the principal joint project between the governor and engineer Quintana was about building a more attractive industrial zone in Queretaro to trigger its industrialisation. After negotiating favourable prices and tax exemptions with the governor, *Grupo ICA* acquired over 8.26 million square metres of industrial estate property in order to refurbish them and transform them in what became Queretaro's emblematic *Parques Industriales* (Industrial Parks) (Miranda, 2005, p. 369). These Industrial Parks, also named “Satellite City”, “were financed by the same group (*Grupo*

ICA)” and included every urban service, gas infrastructure, residential area for employers and employees and even a commercial plaza (Arvizu, 2005, p. 223).

Queretaro’s government, in turn, expropriated large estates to build a public industrial zone with the corresponding approval from the President – as was demanded by expropriating matters. Then, instead of competing with offers of industrial estates to national and foreign investors, *Grupo ICA* and Queretaro’s government worked as a pair in attracting different niches of industrialists: Industrial Parks with much higher prices due to top-end facilities while the public estates offered lower prices and lower-end facilities (Ibid). These joint bids for landing investments were highly successful as they were supported by the incentives of Law 93.

In the meantime, and just as important as this alliance, Governor González’s institutionalised Queretaro’s state-society synergies within the *Consejo Económico de Querétaro* (Queretaro’s Economic Council). As a result, a more formalised approximation of an embedded autonomy began to be consolidated. Governor González’s initiative proved to be an efficient way of incorporating Queretaro’s growing social forces into a joint project of transformation. In its constitutional decree, it was stated that the Council was created “as an organ of the State’s Government with the objective of studying the problems inherent to agricultural and industrial production of the entity” (Congreso de Querétaro, 1961, p. 240). The Council was integrated by a President and a Secretary General named directly by the governor, along with councillors who represented the “most significant sectors of the Entity’s economy” (Ibid).

In the first reunion of this Council, for instance, its members included two ex-governors, the Chancellor of the Autonomous University of Queretaro, a renowned industrialist of the capital, the President of Queretaro’s Chamber of Commerce, along with the state government’s representatives (Miranda, 2005, p. 296).

Among the main functions of this Council were the following: planning Queretaro’s economic development, defining which industries should be incentivised and protected, defining Queretaro’s infrastructure priorities and guiding private capital’s cooperation toward the realisation of public works and the general services needed for Queretaro’s economic development.

One of the Council’s first actions was, accordingly, to map out Queretaro’s industrial prospects by contracting the services of Arthur D. Little, a firm from the United States. This firm eventually mapped out Queretaro’s industrial advantages (mainly its geographic

location) and the three industrial sectors that could be readily nourished: processed foods, metallic products and the *maquila* industry (Arvizu, 2005, p. 223).

Around this time, at the national level, the second stage of ISI in Mexico began to take shape as an overarching goal of the federal government. Its aim was to develop Mexico's capacities in producing its own intermediary and capital goods. In this process, the Ministry of Industry and Commerce (MIC), much to the displeasure of the covetous Finance Ministry, was put in charge of implementing the corresponding measures. The main tools that this MIC deployed were the "previous permits" or import licenses, through which the federal government supported the import of the goods and machinery needed for industrialisation and prohibit those considered to obstruct it (Miranda, 2005, p. 287).

Therefore, with the coordination of Queretaro's Economic Council and its enhanced sharing of information, Governor González scaled-up the industrialising needs of local industrialists, or potential local industrialists, into the platform regulated by the MIC. Accordingly, Queretaro's government became the main agent or facilitator in getting the "previous permits" requested by Queretaro's industrial community, and, likewise, in acceding to public subsidies which could be targeted for the state's industrial activities (Op. cit. 2005, p. 306).

It was during the existence of this Economic Council and its synergistic interactions that the industrial take-off of Queretaro crystallised. Queretaro was suddenly able to contribute to Mexico's ISI. In their Industrial Parks, in 1963, *Grupo ICA* established its conglomerate *Industria de Hierro* with an initial investment of 48.4 million pesos, which was then multiplied by federal credits from *Nafinsa* and the Inter-American Development Bank (Miranda, 2005, pp. 374–6; Ávila, 2008, p. 123). Soon after, *Industria de Hierro* became one of the main constructors of Mexico's infrastructure, with projects such as dams, machinery, bridges and Mexico City's airport and subway. It created substantial linkages with Queretaro's smaller industrialists and diversified its production through the creation of other related enterprises – such as Speed Belt, Huber and Fimsa, all mainly involved in the manufacturing of heavy machinery.

Two years later, *Grupo ICA* made an alliance with the North American consortium, Clark Equipment, to establish the automotive sector enterprise *Transmisiones y Equipos Mecánicos* (Tremec) with an initial investment of 190 million pesos (Miranda, 2005, pp. 379–80). Tremec, however, was established in the government's industrial zone, rather than in the ICA's Industrial Parks, in order to support Governor González' "interest (...) in promoting the industrial zone of the State" (Ibid).

Parallel to *Industria de Hierro*'s leadership in the construction sector, Tremec rapidly consolidated itself as a national leader in the automotive sector. Before the end of the 1960s, Tremec was the national leader in the fabrication of automotive transmissions and one of the main exporters to the USA after it managed to partner itself with Ford Motors as a supplier (Op. cit. 2005, pp. 380–1). In this sense, Tremec also became one of the principal agents of Mexico's ISI in a sector as vital as the automotive (García, 2011, p. 250).

Governor González's agency for Queretaro's development was, nonetheless, far from over. It had to extend the same enthusiasm to TNCs which seemed to offer an industrial-upgrading opportunity for Queretaro's industry – according to the Economic Council's prioritised sectors and activities. Clear evidence of the governor's promotion of industry was portrayed in his negotiations with MIC in order to establish the British company, Massey Ferguson, in Queretaro. When Governor González first gave notice to MIC of Massey Ferguson's intention to establish in Queretaro as a promising opportunity for resolving Mexico's scarcity in tractors and agricultural machinery, the project was rejected. The arguments made by the MIC were that there was already “too much industry for such a minimal demand of tractors”, stating that another enterprise in the sector, besides the established Ford and *Internacional Harvester*, oversaturated the market (Miranda, 2005, pp. 391–2).

In the words of Governor Cosío (Ibid.), an effort at negotiating was necessary:

I had to make an in-depth study to demonstrate that the tractors of Massey Ferguson constituted 42 percent of the machines used in Mexico's agriculture. I told them that if this brand was not produced, it would impoverish 42 percent of the users, meaning, the agriculture producers who used the brand, given that none of its replacement parts would be produced, nor a system of maintenance would be facilitated (...). This served as a departing point enabling that Great Britain's ambassador and I could dialogue with the President of the Republic, and that this need was corresponded and thus, by advice of Raúl Salinas Lozano (Head of the MIC), we succeeded in establishing in Queretaro the factory Massey Ferguson producing four or five thousand tractors and 7,500 rear axes.

By the end of Governor González de Cosío's administration, the industrial outlook of Queretaro had been cast amidst the country's second stage of ISI through the

participation of both foreign and Mexican capital. After the end of this administration, the new administration of Juventino Castro (1967-1973) reshaped Queretaro's Economic Council into the Committee for the Industrial Development of the State of Queretaro (CODIQUE). This Committee worked in a similar way to its predecessor, though it was now headed by *Grupo ICA's* Director, Bernardo Quintana. Its efforts in attracting industrial investments were described by the President, at that time, of Queretaro's National Chamber of the Transforming Industry (Miranda, 2005, p. 302):

Engineer Quintana Arriola, using the relations he had in the city of Mexico, took to the duty of convincing several national entrepreneurs to invest in Queretaro. (...) engineer Quintana would tell me which were the industrialists and I would visit them to chat, in detail, of the advantages that our state had due both to its geographic location and its social peace.

The main advantages offered in these negotiations, along with those cited above, were still the fiscal and economic incentives offered by Queretaro's government. Soon, the amount of industrial progress was evident. Throughout the 1960s, this included: industrial investment growing by 668.2%, industrial outputs increasing by 760%, employment by 448.8% and the number of industrial establishments being duplicated (Op. cit. 2005, p. 364).

In the meantime, these same actors were emphatic at upgrading Queretaro's human capital, instead of importing it from leading industrial poles such as Monterrey, Guadalajara and Mexico City. They coordinated initiatives with the Autonomous University of Queretaro and created – with federal funds which were lobbied for, and public and private donations – several technical institutions, such as *Tecnológico Regional de Querétaro*, *Escuela Técnica Industrial número 59* and *Centro de Capacitación para el Trabajo Industrial número 17* (Cecati) (Miranda, 2005, pp. 331–7; Ávila, 2008, pp. 123–4).

Likewise, as these state-society synergies made efforts to upgrade Queretaro's labour-force and insert it in the nascent arena of industrialisation, they made sure to also insert local merchants and small industrialists into the productive chains of the big TNCs. This was, in fact, a key element in achieving Queretaro's social or developmental consensus. Not only were small and medium entrepreneurs receiving the same microeconomic incentives as TNCs, but Queretaro's government, its Economic Council

and, later, CODIQUE, was making emphatic efforts in linking them as suppliers into the said TNCs' production processes.

As a Minister of Government of Queretaro related during the 1960s (in Miranda, 2005, p. 350), when the big factories and TNCs first arrived in Queretaro, they first asked what kind of suppliers and services could be found there. This Minister, in a practice that was also paralleled by Queretaro's chambers of commerce and industry, promptly established the linkages between local suppliers and arriving factories. In this manner, for instance, Jesús Oviedo's ironmongery went from being a small, local supply store to one of the principal ironmongeries in the country (Ibid.).

Along these lines, commerce and services also saw a substantial increase in growth rates throughout the 1960s. Investment capital in commercial activities grew fivefold, total sales fourfold and employment in commerce and the number of commercial establishments were duplicated. In service activities, the growth was also evidenced: total income and employment grew threefold, while invested capital and the number of establishments grew to 150% (Op. cit. 2005, p. 354).

By the beginning of the 1970s, Queretaro had garnered a reputation as a state with advanced levels of industrialisation. Furthermore, President Echeverría's attempts at dismembering the persistent crony practices dominant at the national level had an everlasting impact on Queretaro. During his first year in the administration, 1970, President Echeverría was emphatic on the true possibility of making national growth and a more equal distribution of wealth compatible. This was because not only was growth being concentrated in three metropolitan areas (Mexico City and its neighbouring Estado de México, Monterrey and Guadalajara), but its profits were also being concentrated in the hands of a few economic elites (Bennett & Sharpe, 1982, p. 169).

In a complimentary response by a federal legislator to one of Echeverría's Presidential addresses, this initiative was summarised as follows (in Echeverría, 2006, p. 172): "In a word, Mexico, with its Government, has chosen the democratic path toward a shared development, not a development for the fortunate, not a development for the rich, not a development for the powerful".

Along these "shared development" lines, President Echeverría launched his decrees on industrial decentralisation (1971-72) and his Programme for the Promotion of Industrial Parks and Commercial Centres. In this initiative, incentives for new industries and the construction of new Industrial Parks were favoured with tax incentives when established in regions outside the three metropolises of Mexico City (and Estado de

México), Monterrey and Guadalajara, which in 1970 combined to make up 25% of the population and 60% of the country's manufacturing outputs (Tello, 2010b).

The results of these initiatives were nonetheless ambiguous. Even though the aforementioned cities evidenced a *desaceleración* (Guadarrama & Olivera, 2001) or loss of industrial momentum, the industrial activities continued to concentrate around those pioneering nucleuses of growth. In 1970, for example, the three cited metropolises had a participation of 49.4% of the country's total of industrial outputs; in 1996, those percentages dropped to 37.1%, with the reduced 12% migrating to neighbouring states (based on statistics from Guadarrama & Olivera, 2001, p. 34).

Table 8. Rates of Annual Growth in Mexico's centre and its neighbouring states
(Guadarrama & Olvera, 2008, based on INEGI)

	1970-1980	1980-1988	1970-1988
Centre			
Federal District	5.3%	-2.5%	1.4%
Estado de México	7.1%	0.6%	3.85%
Neighbouring states			
Querétaro	11.3%	6.7%	9%
Tlaxcala	9.1%	6.5%	7.8%
Morelos	9%	5.3%	7.15%
Hidalgo	10.5%	-0.8%	4.85%
Puebla	8.2%	-1.4%	3.4%

Nevertheless, with these initiatives, Queretaro clearly benefitted from the migration of industrial activities from the said cities and with the installation of the ambitious Industrial Park, *Ciudad Industrial Benito Juárez*. The remaining 12% of industrial activities thus migrated mainly to neighbouring states in the Bajío and Centre regions, such as Queretaro, Puebla and Aguascalientes.

Many of those industries installed themselves, using the same microeconomic practices, in Queretaro's *Ciudad Industrial Benito Juárez* – including Monterrey Group's Vitro, the agro-industrial TNC Clemente Jacques, large textile factories such as Polinova

and Celanese and small and medium enterprises in the automotive sector, such as Fluval, Miscar, and Tecnoman (Miranda, 2008, p. 431). The success of *Ciudad Industrial Benito Juárez* thus marked Queretaro's definite consolidation as one of Mexico's industrial leaders. And Queretaro barely managed to do this, for the decade of the 1970s marked an irreversible slow-down, and eventual shut-down, of Mexico's interventionist model of industrialisation.

6.5 Conclusion

As argued throughout the present chapter, Queretaro's industrialist catching-up was mainly driven from a subnational platform. In the process, state-society synergies and the shared consolidation of microeconomic practices (incentives, attraction of national and foreign investment, infrastructure construction and lobbying efforts) were vital. It is through these subnational processes that the periphery feedback and multi-level aspects of Mexico's *desarrollismo* can be better witnessed. It is also through these perspectives that the hindering effects of crony practices at the national level can be better assessed.

The compromised support of Mexico's central offices (mainly the Finance Ministry) of an exclusive group of economic elites, kept propagating the vicious circle of lack of investment-lack of infrastructure, through ISI. In the meantime, these crony practices expanded the economic elites' hold on the country's economy.

In this sense, Queretaro's state and society had to row up-stream to gain access to the national platform of industrialisation. In these efforts, state-society alliances were, without a doubt, an essential factor in Queretaro's scaling up success – both in terms of infrastructure and industrialisation per se. Throughout the 1960s, the institutionalisation of these state-society synergies into Queretaro's Economic Council and, later, Committee for the Industrial Development of the State of Queretaro, marked the epitome of a state-society's joint project of transformation. Furthermore, the legal frameworks formulated by Queretaro's governors to incentivise industry also contributed to the institutionalisation of Queretaro's industrial policy.

Through these institutions, Queretaro's governors were able to incorporate economic agents and convince them to develop what Evans called the "dual character" of business: pursuing profits and, at the same time, being a source of "productive-enhancing" investments (Evans, 1997, p. 63). In this sense, Queretaro achieved a better approximation to an embedded autonomy which, in contrast, failed to crystallise at the national level. During the process, Queretaro's governors correspondingly became the

binding agents of their state's industrial transformation from the 1940s until the end of the 1970s. And although the state's governors changed every six years –in presence of a “dominant-party democracy” (Leftwich, 2005, p. 695) –, the fact that they all were from the PRI party allowed them to pursue a continuous framework of industrial policies.

Given Mexico's inefficient and partially captured *desarrollista* centre, Queretaro's case is rather useful in illuminating the multi-level aspect of its catching-up. In other words, the present chapter seems a more rewarding attempt at linking micro- to macro-level change by showing where the actual transformations of the state were happening. Also, this multi-level approximation provides a better testimony of which of the state's actors or ministries were more involved in these mutual transformations with its society.

During Queretaro's industrial transformation, Mexico's central offices (i.e. the Finance Ministry and Ministry of Industry and Commerce) played more of a regulator role in Mexico's ISI. In the words of Evans (1995, pp. 13–4), they could very well be described as playing the “custodian” role the majority of the time: regulating ISI through licenses, import duties, tax incentives and other related measures.

Likewise, in the later decades of ISI, the federal state combined its regulatory functions with a “demiurge” role, as termed by Evans (1995, pp. 13–4) in the wider literature. In this “demiurge” role, its SOEs were put in charge of a large part of the country's infrastructural production, though with considerable problems regarding efficiency.

In contrast, Queretaro's governors played the more integral role of “binding agents” for their state's industrial transformation. As a result, these governors had a leading role in attracting investment, fostering new industries and, also, in setting the adequate infrastructure and cooperative mechanisms to consolidate Queretaro's industrialisation.

Chapter 7. Nuevo Leon after State Withdrawal

7.1 Introduction

During the 1980s, the drastic end of Mexico's ISI model, which had prevailed over the previous four decades, had equally drastic effects on its political system. The PRI party's *presidencialismo* began to lose legitimacy after continuing political and economic crises; moreover, the structural adjustments that the Mexican government had now chosen to follow were also accompanied by decentralisation. The gate that had long been shut to Mexico's political system through the long-lasting hegemony of the PRI was gradually opening.

As argued by Ward and Rodríguez (1999, p.1), the PRI's response to the political and economic crisis that occurred around the 1980s not only empowered political actors below Mexico's federal level, but also actors from the opposition. The main results generated after the 1980s were two-fold: a more embracing democratisation and an intensified devolution of power and attributions.

Furthermore, the PRI's legitimacy was also decimated across its constituents. Its disappointing results at the end of the past century put an end to the PRI's "alliance for profits" (Elizondo, 2010, p. 136) that they held with economic elites. Through ISI, this alliance had been built on all-out support for economic elites from the federal government, in exchange for economic elites' non-intrusion in political affairs.

At the end of the last century, however, the latter PRI government now had the task of attending and controlling the private sector elites who were losing their previous accommodations – subsidies, public contracts and bids, protective tariffs – within a more open and internationalised model. Many of the economic pockets of efficiency that had long been attributed to these economic elites began to be predated by TNCs with their higher economic and technical capacities. As a sign of discontent, these economic elites began to mobilise politically in pursuit of a bigger say or influence across the political system.

After many of these "arenas for accommodation" (Migdal, 1994, p. 94) were eroded, conflict between the state and economic elites ensued. Nevertheless, in the long run, as will be argued in the current chapter, rather than seeing a complete state curtailment or an "eclipse of the state" (Evans, 1997b) in terms of economic development, the developmental roles again expanded amidst the newly empowered subnational actors.

In an effort to trace this resuscitation of developmental capacities across subnational platforms following the neoliberal shift, the cases of Nuevo Leon and Queretaro will once again illustrate the “ecological variation” (Migdal, 1988, p. 81) across Mexican states with an industrial drive that this process entailed. At the turn of the century, it soon became clear to the state governors across the country that the federal state had abandoned once-and-for-all the *dirigiste* stance which it had exhibited in the past century. As the next two empirical chapters will examine, the industrial practices pursued at the federal level and at the subnational level experienced once more a growing divergence—the federal level, increasingly neoliberal, whilst the subnational level played a more proactive or state-activist role.

Consequently, the fieldwork that I undertook in Mexico regarding semi-structured interviews will be key in examining this more proactive role that the governments of Nuevo Leon and Queretaro have played since the turn of the century. The new evidence I will provide through this research is mainly the semi-structured interviews made to both federal and subnational economic development actors –such as federal delegates of the Secretariat of Economy, subnational ministers and under-ministers, and private sector actors involved in the states’ economic development. Furthermore, other important primary sources on which I supported my research were the subnational State Development Plans that I had the opportunity to examine in the LLILAS Centre of the University of Texas.

Although specifically in terms of economic development, throughout the last century, the governors were much more than expected intermediaries (Hernández-Rodríguez, 2003, p. 103) or modern viceroys (Ward & Rodriguez, 1999, p. 675), the neoliberal shift that had occurred in the 1980s and 90s proved to be a further challenge to these regional officers. Thus, the roles and initiatives that each state government enacted to trigger each state’s economic development in this new scenario would be of paramount importance.

Table 9. Top 5 Mexican states regarding annual rate of growth from 2005-2014
(Márquez, 2015)

State	Annual rate of growth
Queretaro	5.0%
Aguascalientes	4.7%
Quintana Roo	4.4%

Zacatecas	4.1%
Nuevo Leon	4.0%

This chapter will therefore make an effort to portray the evolution experienced through state-society relations in Nuevo Leon after the neoliberal shift. At first, as will be depicted in section 7.2, the extended crisis that raged throughout the 80s, with its following closure of “alliance for profits”, proved to be a grave challenge for the PRI-led state. In a newly internationalised context, the PRI state thus made an effort in Nuevo Leon to contain economic elites’ political mobilisation by incorporating them into the federal and subnational government and into the political party. The failure, however, of accommodating such an empowered social force led the PRI to lose control of Nuevo Leon in the 1997 election, where it was ousted by the business-led PAN.

Then in section 7.3, after a disappointing PAN administration which was due to inexperience, the PRI’s return to Nuevo Leon’s government will be documented. This section will depict Nuevo Leon’s decline as an industrial pioneer due to NAFTA and the foot-loose TNCs, circumstances which were promptly countered by initiatives from the PRI governor, González Parás. Reminiscent of Nuevo Leon’s industrial origins, Governor González Parás (2003-2009) again implemented an ambitious array of microeconomic practices which diverged substantially from the federal state’s neoliberal image.

In this order of things, the figure of Nuevo Leon’s governor again became the “binding agent” (Hirschman, 1958, p. 10) necessary for industrial transformation; the organiser of “factors, resources, and abilities needed for successful development” (Ibid.), along with the cooperation between its economic actors. Among these microeconomic practices were a Law for the Foment of Industry and Work, an industrial and tech-innovation park, the “clusterisation” of the economy, and an Agreement to Confront the Consequences of the Economic Crisis. All of which were constituted through an embedded autonomy scope or a mutually empowering arrangement described by the government as a “triple helix” collaboration amongst state, business and academic sectors.

These state-society arrangements soon harvested substantial progress. Nevertheless, the increasing empowerment of the subnational platform also jeopardised Nuevo Leon’s progress. With the substantial decentralisation of fiscal resources from the first decade of the new century, the once leading stance or “demiurge” role (Evans, 1995, pp. 13–4) of the federal government regarding infrastructure was also passed onto subnational

government; and with it, the perils of cronyism that had hallmarked Mexico's *desarrollismo* at the federal level.

Thus, section 7.4 will describe how fiscal empowerment devolved not only fiscal resources to governors but also provided them with the capacity of expanding their own crony practices through rigged public bids, contracts or works. As a result, the administration of Governor Medina (2009-2015) fractured the growing embedded autonomy that his predecessor had put in place. In response to this fracture, a business-supported politician took over the following administration, exploiting the newly enacted access that federal legislators gave to independent candidates contending for public office. Conflicts of interest and a quite controversial cabinet ensued for Nuevo Leon. In this particular context, the Monterrey Group again exhibited its power as a social force.

7.2 Nuevo Leon's context after state-withdrawal

Throughout the extended economic crisis of the 1980s, due to internal and external factors, the PRI began to lose its legitimacy as an "effective agent of economic growth" (Aguilar, 1989, p. 264). The interventionist stance of the PRI government during ISI had always favoured the interests of the Monterrey Group. The same economic power of the Monterrey Group made their position even more unique. Despite the national "alliance for profits", Nuevo Leon's economic elites had always managed to negotiate political affairs with the national executive, e.g. the gubernatorial chair. From the 1940s onwards, the steel-factory *Fundidora* with its Mexico City headquarters had served as a vehicle to negotiate the gubernatorial chair and other political matters with the national executive (Zapata, 2007, p. 11).

Regarding the preceding crony practices, even during the conflictive tenure of President López Portillo (1976-1982), the Monterrey Group had benefited from public subsidies, bids and contracts. In 1980, for instance, the public subsidies that the federal government extended to the Monterrey Group represented 40% of all government subsidies (Sánchez, 2007, p. 199). In that year, Nuevo Leon was among the top performing three Mexican states in eight of the country's industrial sectors – steel, glass, machinery, chemistry, electrical devices, cement, tobacco and paper (Palacios, 2007, p. 216).

At the end of the 70s, with the expanded financial support of López Portillo after the oil boom, the Monterrey Group's enterprises ambitiously expanded and diversified. For example, from 1978 to 1980, *Grupo Alfa* grew from owning 14 to 157 enterprises through

beneficial bids and privatisations (Sánchez, 2007, p. 199). Furthermore, triggered by the growing expenditures of the oil boom, speculative investments soon became the growing trend among leading Monterrey entrepreneurs. From 1978 to 1981, the external debts of Monterrey's bigger enterprises rocketed: *Femsa's* external debt grew 562%; *Vitro's*, 865%; and *Alfa's* 468%. When the 1982 crisis eventually landed, the Monterrey Group enterprises' external debt amounted to around 6 billion dollars (Pozas, 2007, p. 91).

Around that time, international crises and a more "interventionist" and "populist" stance of the administrations of both Echeverría and López Portillo still managed to irate the Monterrey Group (Meyer & Aguilar, 1989, p. 223). This group soon became the most radical opposition to those administrations, resulting in a fracture to its crony relations with the federal government. The nationalisation of the banking industry in 1982 ensued, through which the state expropriated the substantial banking assets held by the Monterrey Group.

Consequently, when President de la Madrid entered his administration (1982-1988), the Monterrey Group lobbied for the implementation of neoliberal policies in the wake of the 1982 crisis in an effort to limit the government's interventions (Palacios, 2007, p. 234). However, the neoliberal shift and subsequent structural adjustments that President de la Madrid implemented in tune with the above demands also represented a departure in the state's role as public subsidiser of the private sector. The economy was opened up and a large part of its state owned enterprises privatised.

As a result of the above, the clientelist "alliance for profits" with economic elites definitely ended. Only a few elites, who held the biggest economic power or political relations, were compensated through privatisation (Ward & Rodríguez, 1999, p. 21) or financial rescue (Palacios, 2007, p. 230).

A large part of the private sector was abandoned in comparison to earlier decades, ultimately contributing to a more meaningful consolidation of the business-led PAN as an opposition party. In Nuevo Leon, where the PAN could identify its first origins since Cárdenas' times, the same process was taking place. The biggest enterprises and their leaders, such as *Cemex* or *Alfa*, were financially rescued or able to benefit through de la Madrid's FICORCA scheme (Pozas, 2007, pp. 95-6); but a larger part of the private sector's enterprises gradually succumbed within the more open context.

The private sector's response was to mobilise politically. The more radical side of the Monterrey Group pledged allegiance to the PAN's growing ranks. As a counter-response, the PRI started to make a conscious effort to disregard the past division between

politicians and entrepreneurs, and began to incorporate Nuevo Leon's more moderate and leading entrepreneurs into its ranks (Gutiérrez, 2007, pp. 37–8; Sánchez, 2007, pp. 192–4). The federal government too made a similar effort by deploying its decentralised COPLADES (State Committees for Development Planning) to incorporate economic elites onto their development platforms (Ward & Rodríguez, 1999, pp. 32–3; Campbell, 2003, p. 43).

Later, however, when President Salinas (1988-1994) entered his administration, the reinforced liberalism and eventual signing of NAFTA initially aggravated the circumstances of Nuevo Leon's entrepreneurs. The trade deficit aggravated, smaller and medium enterprises largely went bankrupt and neighbour states from the north, along with *Bajío* states as Aguascalientes and Queretaro, surpassed Nuevo Leon's industrial prowess (López, 2007, p. 81). As a generalised result, local enterprises lost their competitiveness within NAFTA amidst a higher presence of foreign capital, generating as well a higher dependence on TNCs and their capital (Fouquet, 2007, p. 135). Due to the predation of TNCs, the generalised demand that Mexican entrepreneurs made to Zedillo at the beginning of his administration (1994-200) was adopting once more an overarching industrial policy for the country's economic development (Luna, 1995, p. 88).

Furthermore, the re-privatisation of the banking sector led to a "foreignisation" of the sector in which the local industrial-financial conglomerates who had thrived during Mexico's ISI also lost their traditional linkage with the main banks (López, 2007, p. 78). These economic elites' past economic power was thus undermined, and their voice through the "bankers' alliance" (Maxfield 1990, p. 33) seemed to be threatened more than ever. The political mobilisation of entrepreneurs, through the PAN party, was accordingly reinforced throughout the 1990s.

The 1994 crisis thus proved to be the fatal blow to the PRI's legitimacy across the private sector in Nuevo Leon. Exploiting the remnants of the crisis and the diminishing role of the Monterrey Group vis-à-vis TNCs and Mexico centred entrepreneurs, in 1997, businessman Fernando Canales contended a second time for the gubernatorial chair of Nuevo Leon. This time around, his victory was symptomatic of the growing force that the PAN party was amassing across the country.

Well in tune with the PAN's national crusade versus corruption and state intervention, Governor Fernando Canales (1997-2002), belonging to the entrepreneurial family which owned *Cydsa*, was prompted to incorporate business actors with business-centred initiatives. But his administration followed a generalised disenchantment that

citizens had with the PAN across the country due, in large part, to their lack of political experience (Ward & Rodríguez, 1999, p. 28). As stated by Hernández-Rodríguez (2003, p.210) “PAN governors, former entrepreneurs with few links to the party, have filled their cabinets mainly with business executives, these officials apply an administrative rationale aimed to achieve efficiency and eliminate or reduce corruption.” Their efficiency drive resulted however in a generalised discontent or, even, in citizens’ assimilation to the PRI’s later technocracy (Op. cit. 2003, p.111).

The fiscal decentralisation that was expanded with President Zedillo’s New Federalism (Ward & Rodríguez, 1999, p. 58) generated ambiguous results in Nuevo Leon. Instead of financing the subnational government’s increased administrative expenditures and public works, it ended up over-expending in public projects and bureaucratisation, resulting in substantial public debt (Gutiérrez, 2007, p. 51). Therefore, Governor Canales’ administration, staying true to the PAN motto of business-like efficiency, dedicated a large part of his effort to sanitising the state’s public finances (Ibid.) without the possibility of more meaningful or tangible changes.

Before Governor Canales could even finish his administration, the leader of the PAN party in Nuevo Leon requested a “caída para arriba” (an upward fall or removal of the governor) to the party’s national committee due to unfulfilled expectations (Gutiérrez, 2007, p.53). Governor Canales accordingly resigned during his final year to join President Fox’s cabinet as the Minister of Economy. The disenchantment of the PAN in Nuevo Leon nevertheless paved the way for the return of the PRI to its gubernatorial chair. The following section will thus examine the new strategies that the PRI governor implemented in an effort to once again change Nuevo Leon’s industrial drive.

7.3 State society synergies working towards an embedded autonomy: the administration of Governor González Parás (2003-2009)

Across Latin America, the “lost decade” represented by the 1980s – with a heavy reliance on IFIs’ structural adjustments and open market reforms – gave way to an “enhanced role for transnational capital” amongst the governments of those developing countries (Grugel & Riggirozzi, 2009, p. 5). In the particular case of Mexico, however, a large part of this “enhanced role” meant the displacement of indigenous capital and even a “race to the bottom” between competing subnational states.

In Nuevo Leon, to make matters worse, the 1980s had offered a bitter international experience to its enterprises. The oil boom at the end of the 1970s and beginning of the

80s had propagated an irresponsible and ambitious expansion of the Monterrey Group's enterprises. In an effort to stabilise the country and gain these economic elites' confidence once more, President Miguel de la Madrid expended 788.246 billion pesos to rescue 44 enterprises of the said group through the FICORCA project (Palacios, 2007, p. 231).

Furthermore, globalisation invigorated through the NAFTA treaty also hindered Nuevo Leon's traditional industrial advantage. Following the generalised result that globalisation had on countries such as Mexico, Brazil and the US (Ferreira et al., 2008, p.178), within Mexico, Nuevo Leon began to be superseded by other up-and-coming manufacturing areas in the neighbouring north and the Bajío (López, 2007, p.81).

Indeed, one of the first effects that globalisation and NAFTA had on Nuevo Leon was to cause the loss of its traditional industrial competitiveness. As related by Fouquet (2007, p. 135), the NAFTA treaty generated a loss of competitiveness for local enterprises; only those enterprises in the less advanced sectors such as beverages, textiles and minerals managed to survive. From 1995 to 2002, out of a classification of 40 of the bigger local enterprises, only a select group can be seen to have transitioned successfully in the world market (López, 2007, p. 77).

But the federal response on the matter was almost non-existent. In contrast to East Asian countries, whose governments kept guiding the transition towards open markets (López, 2007, p.73), or even Brazil, whose government mixed liberalism with the protectionism of essential industries (Grugel & Riggirozzi, 2009, p.6; Whitehead, 2002, p. 189), the Mexican government had almost abandoned its role on industrial policy from the 1980s up until the turn of the century (López, 2007, p. 70; Ferreira et al., 2008, p. 191).

In the mid-1990s, the private sector's call for the resuscitation of industrial policy went unheard by Zedillo's administration (Luna, 1995, p. 88). Later, during Vicente Fox's administration (2000-2006), industrial policy mostly followed the lines of *laissez faire* and efficient regulations. Therefore, in the new context of more decentralised political competition with greater local responsiveness (Beer, 2003, p. 135), this federal omission seemed like a reinvigorated call to action for subnational governments.

This was precisely the context within which Governor González Parás (2003-2009) arrived to take on the gubernatorial chair of Nuevo Leon. Luckily for him, the lack of political experience by President Fox had recently contributed to unbinding the fiscal constraints that had marked federalism throughout the past century. Also, Fox's tenure

contributed to unbinding the traditional subordination of governors in relation to the federal government (Gutiérrez, 2013, p. 56).

As depicted by Hernández-Rodríguez (2006, pp. 115–6), when President Fox entered his administration, the governors from the opposition parties – PRI and PRD – organised promptly through the CONAGO (National Commission of Governors) in an effort to acquire a bigger share of the country's revenue. The governors, in turn, expanded their negotiations with the national Congress, resulting in unprecedented fiscal decentralisation: finally, in 2003, federal transfers rocketed, with the states set to receive 50% of the country's total income for oil sales (Ibid.).

Just to provide an idea of the vast increase that the states had on their treasuries, in 1996, the Mexican states' average expenditure amounted to a total of 4 billion pesos (Gutiérrez, 2013, p. 58). In 2007, the state of Nuevo Leon alone registered a total income of 40.93 billion pesos (González, 2008, p. 175). According to Governor González Parás, the main factors contributing to this exponential increase in the state's resources were the incorporation of revenues from oil sales and the recent Tax Reform which also increased the federal government's transfer of resources (Ibid.).

Thus, the main duty which Governor González took upon entering his administration was reinstating Nuevo Leon's past competitiveness and industrial edge. In this order of things, Nuevo Leon soon joined other subnational governments such as Sao Paulo and California (Ferreira et al., 2008, p.178), which had proved particularly effective in exploiting their industrial tradition and their higher human capital resources towards enhanced competitiveness.

In this sense, Governor González undertook the role of “binding agent” (Hirschman, 1958, p. 10) for Nuevo Leon's economic development; not only did he pose the “knowledge economy” as a possible path toward redefining Nuevo Leon's competitiveness, but he also emphasised the coordination and cooperation of all of state-society resources. He thus began a long path of industrial restructuring, much of which was realised through Evan's “midwifery role” (1995, pp.13–4) or Hirschman's “maximized induced decision-making” (1958, pp.25–8), which focused on inducing entrepreneurial groups into undertaking investments and projects in more industrially-challenging sectors.

A large proportion of it was in fact made possible through the recent increase in economic resources and revenues. According to Ferreira Santos et al. (2008, p. 178):

As the critical information and high-technology sectors grow in all three countries, investment priorities shift to the quality of the labor force and scientific and technological infrastructure, thus providing subnational governments with new instruments for establishing competitiveness. (...) Funded in large part by state resources, these state government investments have had an extraordinary impact on economic growth.

Indeed, as it will be depicted in the following sub-section, Governor González dedicated a large part of his administration (2003-2009) to restoring Nuevo Leon's leadership among Mexican states, that is, regarding industrial and technological competitiveness. To achieve this, he resorted to two familiar mechanisms which, as described in chapter 5, had already made Nuevo Leon the industrial pioneer of Mexico: an ad hoc array of microeconomic practices, consisting of incentives for local and foreign entrepreneurs, and the reconsolidation of state-society synergies. As a result, Governor González's leadership in the realm of industrial policy likewise represented yet another subnational deviation from the Mexican state's intended neoliberal image.

7.3.1 Monterrey, International City of Knowledge: putting microeconomic practices and state-society synergies in place for the new century

When the administration of Governor Natividad González Parás (2003-2009) began, neither the government of Nuevo Leon, nor the state's entrepreneurs were convinced of the federal government's response to the new global context of economic competition. Furthermore, as stated by Governor González (2004b, p.19; p. 68), the new context of Mexico as an open economy required the transformation of Nuevo Leon's industry. This subsection will thus examine the actions that Governor González Parás took to refurbish Nuevo Leon's outlook as an industrial leader.

In his administration's State Plan for Development (*Plan Estatal de Desarrollo*) Governor González (2004b, p. 34) declared, as one of his main goals, the repositioning of Nuevo Leon as a modern Mexican state with industrial and educational advantages within the new international context. To pursue this "repositioning" Governor González relied on the two main mechanisms which had first given Nuevo Leon its industrial edge a century ago.

First, came the re-weaving of state-society synergies through the institutionalisation of coordinated efforts toward economic growth. This process was undertaken through a

“triple helix” model – with the participation of state, academic and business sectors. This institutionalisation of public-private cooperation thus recalls the definition provided by Hausman, Rodrik and Sabel (2008, p.4) for “good” industrial policy in the new century: “institutional arrangements and practices that organize this (public-private) collaboration effectively”. Secondly, there was the implementation of an ambitious set of microeconomic practices consisting of fiscal and entrepreneurial incentives for businesses – tax exemptions, real estate donations, business and legal consultancy, economic donations, infrastructural enhancements, among others. Through these mechanisms, Governor González deployed an extensive array of incentives with the objective of, in the words of Hirschman (1958, p.10), “maximising induced decision-making” for local and foreign investors.

Throughout his State Plan for Development, Governor González made a clear emphasis on the state’s initiative to forge state-society synergies toward economic growth (González, 2004b, p. 73). Among these initiatives were, for instance, the promotion of joint efforts between public and private sectors in expanding Nuevo Leon’s industrial and commercial activities (Ibid.). Therefore, the state government started to promote the association with the subnational state’s universities and its business sector using a more inclusive and governance-oriented approach. The main project to achieve this, also decreed in the State Plan, was to consolidate the state’s capital, Monterrey, as an “International City of Knowledge”.

Despite some enlightening arguments against the widely reiterated advantages of the “knowledge economy” and the Information Technology sector (Chang, 2012; Petras, 2003, pp. 10-1), at the turn of the century, the “knowledge economy” was being perceived as the next competitive advantage for economic development. Thus, the administration of González Parás decided to establish this as its central pillar for economic development. “Without a doubt,” he argued in his State Plan, “the development and economic growth of societies and nations in the globalised context is based, more and more, in the generation of value through knowledge” (González, 2004b, p. 156).

Accordingly, “MTYCIC”, as the project was later known by its initials, thus began, initially as a rather open-ended project with four objectives: promoting technological development and the establishment of “knowledge” enterprises; projecting Nuevo Leon’s high-quality education at an international level; developing the necessary urban infrastructure; and, as an axis for the state’s economic development, assuring high competitiveness of both the private and public state sector (González, 2004b, p. 157).

MTYCIC was then supported through the Governor's publication of the *Law for the Foment of Knowledge-Based Development in Nuevo Leon* in March of 2004. Besides its core objective of generating knowledge-based development, its article 1 highlighted the "coordination between public, private and academic sectors" as the core principle in generating technological and scientific development.

Through this law, the Council of Science and Technology for the State of Nuevo Leon was established, with a Council of Citizen Participation as its promoting and consultant body (González, 2004a, p. 5). This second Council was constituted by the participation of 14 councillors – including Nuevo Leon's Secretary of Economic Development, the Secretary of Education, the Head of Nuevo Leon's Corporation for Strategic Projects, and 11 councillors representing the academic, scientific, social, cultural and entrepreneurial sectors (Op. cit. 2004a, p. 7).

This institutionalised framework of state-society relations promptly surpassed the expected progress for Governor González's initiatives. With additional support from the federal National Council of Science and Technology (CONACYT), just months after being published, the cited law and its synergistic mechanisms enabled the elaboration of a fund of 70 million pesos destined for productive and infrastructural investments regarding MTYCIC (Armendáriz, 2004, p. 393). Around that time, the governor acknowledged that the project had been strengthened and enriched by CONACYT, the Monterrey Tech, the Autonomous University of Nuevo Leon and the entrepreneurs of his state (Ibid.).

Soon after, the government's pending task was defining "the strategic areas of knowledge susceptible of achieving higher growth in the region" according to the State Development Plan (González, 2004b, p. 158). Consequently, the strategic sectors to be promoted within this project were then defined through the government of Nuevo Leon and the three top universities from the region – Monterrey Tech, UANL and the University of Monterrey (UdeM).

Indeed, as the engineer, Carlos Cruz Limón, Head of the MTYCIC project at Monterrey Tech, put it, collaboration was the new *modus operandi* for economic, governmental and academic actors in Nuevo Leon's effort toward economic growth. According to his testimony, the universities of Nuevo Leon were the first to set this example. "For the first time ever in history," he declared, "the UANL, UDEM and Monterrey Tech have taken a seat on the same table to define the strategies and work in

the same direction, in support of the strategic areas of the City of Knowledge” (Cruz, 2005).

The strategic areas were as follows: biotechnology, health, information technologies and telecommunications, advanced materials and mechatronics (Ibid.). But this first task was far from fulfilling the role required by the subnational government and the academic and business sectors. The 70 million pesos recollecting now seemed to be merely an initial down-payment for the all-encompassing project of restoring Nuevo Leon’s competitiveness by securing a competitive advantage in the knowledge economy.

Governor González thus established the goal of reaching a R&D investment of at least 1% of Nuevo Leon’s GDP before the end of his administration (Tec de Monterrey, 2009, p. 11). Furthermore, both state and society formulated the plan of making the City of Knowledge an actual and tangible place in the region, specifically endeavoured towards industrial and technological innovation. They intended to construct an industrial park to host the project.

The country’s scenario regarding productive investments and investments into research and development, however, did not give much hope. Professor Limón continued highlighting this Mexican paradigm, where, on average, the country annually invested only .34% of GDP in R&D compared, for instance, to Israel’s 4%; of this marginal amount, the government contributed 70% while the private sector contributed 30%, although in developed countries the numbers were generally inversely proportional (Cruz, 2005).

The industrial and technological park conceived by Nuevo Leon’s Council of Science and Technology – the Park of Technological Innovation and Research (PIIT) – was to be located near Monterrey’s International Airport, and consist of 70 hectares, 30 of which were first to be refurbished and habilitated. The first centres to commit investment expenditure to the industrial park were research centres from the UANL and CONACYT, set to be inaugurated in the first trimester of 2007 (Milenio, 2006). Likewise, research centres from Monterrey Tech, UdeM and the state’s Association of Information Technology Enterprises, consisting of 42 enterprises, soon committed substantial investments to the PIIT; with regard to IT enterprises, the government donated 15,000 square metres of the park’s real estate in return for an investment of around 100 million pesos (Ibid.)

Still, the total investment in order to habilitate the first 30 hectares of the PIIT seemed far away, as it rounded up at an estimated billion pesos (Op. cit. 2006). Governor

González, after seeing a positive response from the private and academic sector, became thus convinced that the government's commitment had to be strengthened. In this line of things, Governor González relied on a similar mechanism to that which had first triggered Monterrey's industrial prowess more than a century ago: a *Law for Fomenting Industry and Employment*. In other words, a legal set of microeconomic practices fairly similar to the ones established by Governor Bernardo Reyes, or following administrations during the 1920s and, lastly, the 1960s.

These microeconomic practices containing industrial incentives seemed pertinent as not only was Nuevo Leon losing its industrial edge over its northern and Bajío counterparts, but President Fox was heavily in favour of developing an industrial pole in the Bajío region, which encompassed its native state of Guanajuato.

This extra helping hand for the Bajío region constantly came up in several testimonies by top officials when referring to economic development (Interviews with top officials in economic development ministries both at national and subnational level, 2014). Due to "political inertias", as a former subnational Secretary in Nuevo Leon put it, President Fox was perceived as highly in favour of promoting the establishment of big automotive TNCs within the Bajío region. A perception that was soon countered through the joint efforts of the subnational secretaries of economic development in their Association of Economic Development Secretaries (AMSDE).

By the end of President Fox's administration (2006), the Bajío region, led mainly by Guanajuato and Aguascalientes, had already been consolidated as the new industrial pole of the country. This pole was built with a substantial presence of assembling automotive plants headed by firms such as Honda, Mazda, Toyota and Volkswagen.

Therefore, to consolidate his array of microeconomic practices, vastly diverging from the neoliberal image of the PAN-led government and its crony practices favouring the Bajío region, Governor González formulated the *Law for Fomenting Investment and Employment in the State of Nuevo Leon*. Its main objective was to incentivise national and foreign investment in sectors with higher productivity, employment with high added value and also consolidate the state's competitiveness toward economic development and social welfare (González, 2007b, p. 3).

This law, in its article 3, defined an "incentive" as the "direct or indirect stimulus provided by the Executive Power of the State of Nuevo Leon to an investor, with the objective of facilitating the culmination of a direct investment" (González, 2007b, p. 6).

In regard to its articles, the Secretariat of Economic Development was put in charge of implementing the provisions of this law.

Among its core objectives of incentivising investments and competitiveness, the cited law likewise emphasised the promotion of associativity and collaboration of enterprises and research centres, “especially in the sectors defined as strategic, with the objective of consolidating the economic development of knowledge” (González, 2007b, p. 8).

The sectors contemplated amidst these provisions were the same sectors recently highlighted by the joint efforts of Nuevo Leon’s government and its academic sector, along with some others with priority both at the national and subnational level - automotive, TI, electronics and household electronics, biotechnology, aeronautic, health services, agro-industrial and food industries. Within these strategic sectors, Governor González and the participating agents of this Council thus began promoting “clusters” or “entrepreneurial groupings” (*agrupamientos empresariales*).

To decide on the promotion and approval of incentives, a State Council of Investment Promotion was also established, presided over by the governor and directed by the Secretary of Economic Development, both of whom were joined by six other councillors (of related Secretaries or public bodies), along with two representatives of the private, civil, labour and academic sectors (González, 2007b, pp. 10–11).

Among the microeconomic practices in which this Council was to be decisive were the following: proposing to the governor an annual program of investment and employment incentives; promoting the participation of the strategic economic sectors in the proposition and design of economic development policies and, specifically, the private sector in the development of the state’s infrastructure; and supervising the fulfilment of commitments and investment projects authorised to enterprises, among other activities.

Equally important were the microeconomic practices implemented by the administration of Governor González regarding investment incentives: a discount of up to 95% in state taxes; economic donations to be destined for scholarships or the training of workers; construction of up to 100% of the infrastructure works promoting greenfield or brownfield investments or the donation of the economic resources required for its execution; donation of resources for the creation or improvement of public services; donation, sale, lease or trust of real estate for industrial projects; economic donations for the acquisition of real estate up to a maximum of 50%; economic donations of up to 100%

of leasing contracts for a period of up to 10 years; support in establishing linkages with local purveyors; and, finally, undertaking the related paperwork with municipal, state and federal authorities (Op. cit. 2007b, pp. 15–16).

Through this framework of incentives, investment from local, national and international economic agents soon increased exponentially. Moreover, many of those new investments were accordingly established in the PIIT. Leading local and national enterprises such as *Cemex*, *Alfa*, *Cydsa* and *Gamesa* entered into negotiations with the SEDEC, PIIT and MTYCIC authorities as they looked to define incentives for themselves and establish within the PIIT. TNCs also enter promptly into negotiations with the referred authorities, for example, Pepsi, Motorola, Schneider and AMD Technologies.

Furthermore, to reinforce the support that the private sector of Nuevo Leon showed for these array of microeconomic practices, the Monterrey Group, now mostly called the *Grupo de los Diez* (a group of the ten bigger enterprises in Nuevo Leon), launched a capital private equity fund to promote and support innovation projects within the productive industries. At the beginning, the Monterrey Group contributed 15 million dollars while Nuevo Leon's government contributed 2 million dollars (Ramírez, 2007).

Even on an international platform, the project attracted the attention of other more unexpected actors. Seeing the gradual evolution and progress of the MTYCIC project, the Korean Fund for Technology and Innovation of the Inter-American Development Bank also decided to support the initiative, donating 272,400 USD, with the intention of consolidating the second phase of the project and replicating the program elsewhere (Terra, 2007).

Governor González's efforts regarding industrial policy thus continued to consolidate as a deviation from the more neoliberal image emphasised by the PAN's federal government. In a comparative light, Governor González's measures seemed more in tune with Brazil's "new developmentalism" or "new state activism" that had gained momentum during Lula da Silva's administration (Trubek, 2013, pp.16–7; Schapiro, 2013, p.114). Among the policy orientations, Brazil's new developmentalism (Trubek, 2010, pp.11–2) shared with Governor González's practices the following: extensive public-private collaboration, a more active industrial policy which included the definition of strategic sectors, promotion of productive FDI, strong promotion of exports, emphasis on domestic innovation and competitiveness, among other orientations. Furthermore, Governor González's success in institutionalising business-state councils and associations represented a clear testimony of how subnational business-state councils

often found better opportunities at the subnational level in Latin America (Schneider, 2013, pp.21–2).

The success of this new developmentalism in Nuevo Leon began to crystallise during the second half of Governor Gonzalez’s administration. In that year (2007), the state of Nuevo Leon was the Mexican state with the highest percentage of productive investment within its programmable budget (González, 2007a, p. 51; INEGI, 2016). The exports of two of the state’s strategic sectors, automotive and household electronics, increased at 24% and 11.45 respectively (Op. cit. 2007a, p. 38). Exports in general increased by 8 billion dollars, 6.5% more than in the same period of the past year; additionally, in 2007, FDI was 1.924 billion dollars, contributing to an increase of 36% in comparison to 2006 (Op. cit. 2007a, p. 39).

For 2008, Governor González made a clear statement reinforcing his administration’s commitment to productive investments and industrial innovation by determining 350 million pesos of the public budget towards the second PIIT phase (Vélez, 2008b). The historic *Grupo Alfa* promptly followed this public commitment by investing 5 million dollars in the PIIT through their enterprise, *Sigma Alimentos*. The momentum of Nuevo Leon’s industrial development, however, was soon threatened by the global crisis of 2008. But again, Governor González referred to his recently reinstated framework of state-society synergies and thus avoid graver damage to his state’s economy.

7.3.2 A subnational “concertación” to confront the 2008 crisis

Two thirds of the way into the administration of Governor González Parás in Nuevo Leon, it seemed as though he had taken all the required initiatives to reposition his state as one of the industrial leaders in Mexico. As shown in the past sub-section, Nuevo Leon’s government had been able to trigger investments from the private sector, both due to its array of microeconomic practices and also by leading by example, with considerable programmable and non-programmable investments in the state.

Likewise, Governor González seemed to respond positively to the new challenges at the intersection of economic growth and democracy. As in the global context, the more democratic context augmented the groups within each of the government’s political platforms. Thus, achieving an approximation to an embedded autonomy in this context posed more encompassing challenges (Evans, 1995, p. 228); a challenge or obstacle that has been characterised by Leftwich (2005, p. 695) as an “institutional incompatibility” between democracy and development particularly in developing countries. For the

particular case of Latin America, Landman (1999, p. 624) has already evidenced the lack of correlation or “positive relation” between economic development and democracy.

However, Governor González’s’ state-society synergies, through what the government called “triple helix model” of public, private and academic sectors collaboration, seemed ever closer to achieving a sustainable embedded autonomy. Both private and academic sectors participated in the state’s economic development and investment councils were used to define the relevant public policies and/or approve related investments. In a successful way, these microeconomic practices seemed to englobe the necessary actions for incorporating a more proactive civil society within democratic governance.

But the economic and industrial momentum in Monterrey was soon threatened by the global crisis of 2008. Accordingly, the administration of Governor González returned once again to his framework of state-society synergies to avoid inflicting further damage on his state’s economy. In this sense, the concertation mechanisms with entrepreneurs that President de la Madrid had implemented at the end of the 1980s to prevent higher inflation rates (Schneider, 1997, p. 202) would once again prove to be a reliable mechanism for subnational states.

In the case of Nuevo Leon, Governor González managed to recreate this concertation politics with the same level of success – although including other sectors of the state as well, such as the academic sector and the union sector. Indeed, against the contagion of dire consequences that United States’ economic crises usually exert on Mexico, Governor González relied upon one of the economic councils he had created: the Council of Labour Relations and Productivity.

Governor González had in fact created this Council as one of his first governmental initiatives. Through his law in December, 2003, the Law of the Council of Labour Relations and Productivity, he lay out the same mechanisms of state-society collaboration toward the consolidation of Nuevo Leon’s labour stability. As in the other economic councils created during his administration, this council had autonomy over its resources and decisions, with meetings concurring every three months. Its main objective was to “promote the equilibrium of labour relations in an ambient of harmony and mutual respect” (González, 2003, p. 2). Among the participants of this Council were five representatives of the academic, labour and entrepreneurial sectors, respectively.

Nuevo Leon already had a long tradition of stability in its labour relations that went all the way back to the 1930s, and its first attempts at rejecting the CTM union standards

promoted by Cárdenas. As related in Chapter 5, the Monterrey Group had a long-lasting success in defining Nuevo Leon's practices regarding industrial relations through their paternalist white unions. This group had been able to extend this success over the decades, even replicating it in other states when Monterrey's big businesses expanded substantially during the 1980s (Palacios, 2007, p. 218).

However, at the turn of the century, the NAFTA agreement and the more open economy in Nuevo Leon threatened to erode the stability of its industrial relations – thus motivating Governor González to create the Council of Labour Relations and Productivity. Within this Council, representatives of the more important unions (such as CTM, CROC and FNSI) and entrepreneurial chambers (COPARMEX, CAINTRA, CANACO, and CMIC) gathered to discuss measures regarding industrial and labour relations.

When the 2008 crisis hit Nuevo Leon, no other council seemed more fit to attempt a counter-crisis initiative. Consequently, on the 5th of November, entrepreneurs and union representatives of Nuevo Leon signed an agreement with their state government in the hope of reducing the damages of the economic crisis (García, 2008). In this manner, the *Agreement to Confront the Consequences of the Economic Crisis* took shape. The commitments and propositions were spread out across the different sectors of Nuevo Leon.

The state and society actors of Nuevo Leon made several propositions to the federal government, which were later appropriated by it – such as a reduction in tariffs of state-owned enterprises as Pemex and CFE, along with the expansion of economic incentives to small and medium enterprises, and to enterprises in strategic exporting sectors such as automotive, IT and heavy machinery (CEFP, 2009, p. 17).

More importantly, Nuevo Leon's actors were quick to assume their own commitments. The government of Nuevo Leon agreed to reduce gas tariffs and exempt the state employment tax payment for new hiring; it also committed itself to duplicating incentives from the *Law for Fomenting Investments and Employment*, along with other economic resources aimed at small and medium enterprises. Likewise, it decided to privilege local small and medium enterprises as purveyors of governmental goods (CEFP, 2009, p. 21).

The unions, in turn, agreed to implement shorter working schedules and avoid calling for strikes, in close coordination with their enterprises which committed in turn to avoid firings as much as they could. Along these lines, the cited unions and entrepreneurial

representatives formalised an agreement “to share co-responsibly the adjustments imposed by the new economic circumstances, as well as opting to protect employment and privilege schemes of hourly reductions against lagging production in sectors of high social impact” (Op. cit. 2009, p. 19).

The academic sector committed itself to extending scholarships for workers’ capacitation and to initiate training courses, to substantial demand, in different communities of the state (CEFP, 2009, pp. 17–21).

For instance, in January, 2009, the UANL launched a contingency plan within this Agreement to subsidise 1,000 citizens studying on training courses and then integrate them into their job database (“Unibolsa de empleo”) (UANL, 2009). Likewise, the government’s decentralised Institute for Technological Capacitation and Certification (ICET) gave away 4,343 full scholarships in the areas of computer maintenance, electricity, ironmongery and the maintenance of and household electronics (González, 2009a, p. 90).

This program was soon replicated across other states of Mexico and, likewise, taken into consideration by Mexico’s Congress and the federal government through its *National Agreement in Favour of Families’ Economies and Employment* (CEFP, 2009, p. 3).

In 2009, the commitment of Governor González in ameliorating the consequences of the crisis was reinvigorated through the creation of *Fondo Nuevo León* –a bursary of 330 million pesos in support of temporary jobs, small and medium enterprises, marginal communities and the creation of new jobs (González, 2009a, p. 87).

The economic crisis nevertheless left its scars in Nuevo Leon. From October 2008 to May of 2009, this state lost 7% of its formal employment according to the Mexican Institute of Social Security (IMSS) (González, 2009a, p. 82). But, correspondingly, Nuevo Leon’s recovery during 2009 outpaced most other Mexican states. From June to July, 2009, Nuevo Leon generated 25% of the country’s employment – 7,826; and, while the Mexican industrial sector kept descending at the rate of 1% during that year’s first trimester, during April, Nuevo Leon’s manufacturing sector exhibited an increase of 2.6% (González, 2009a, p. 83). Likewise, Governor González’s initiatives cemented labour stability in his state. Almost at the end of his successor’s administration in 2014, Nuevo Leon amassed 15 years without a single labour strike (Vázquez, 2014, p. 121).

Accordingly, Governor González had proved to be an effective “binding agent” for his state’s industrial transformation, both through inducement and cooperative mechanisms. Moreover, the higher institutionalisation of the state’s economic

development apparatus proved key in consolidating this industrial drive. The Secretariat of Economic Development soon took the reins of Nuevo Leon's development. The creation of clusters, economic development and investment councils, as well as organisms such as the Institute for the Innovation and the Transference of Technology further strengthened the state's economic policies and governance-orientation.

When the administration of Governor González Parás (2003-2009) came to an end, Nuevo Leon was effectively repositioned as one of the leading states in terms of industrial and technological development. Through this framework of incentives, Nuevo Leon's productive investments grew exponentially. In the PIIT, in particular, not only were local and foreign enterprises establishing, but also the leading R&D centres of other leading industrial states or cities such as Mexico City, Jalisco and Queretaro. In 2008, enterprises such as *Sigma Alimentos*, *Gamesa*, *PepsiCo*, and *Motorola* (along with others) invested more than 150 million dollars to establish themselves in the PIIT (Sandoval, 2008).

The governor's triple helix initiative kept generating positive results within the industrial groupings or "clusters". In May 2008, a cluster of nanotechnology was officially formalised between the state and leading local enterprises such as *Cydsa*, *Lamosa*, *Ternium*, *Villacero*, *Vitro* and *Xignux*; the joint investment of these enterprises summed an initial 50 million dollars (Vélez, 2008a).

During the second half of 2008, Nuevo Leon's government invested approximately 850 million pesos in the PIIT, besides the industrial estate where it was located, along with substantial investment from federal programs (Gobierno de Nuevo León, 2008).

As a consequence, other states soon turned their eyes toward Nuevo Leon as a platform for industrial development. Jalisco's Centre of Technological Research and Assistance (CIATEJ), for instance, invested 30 million pesos during January of the following year to establish its centre in the PIIT (González, 2009b). Another five centres from universities such as the University of Texas at Austin or the *Politecnico's* CINVESTAV (Mexico City) also began investing with the same objective. During 2009, the total investment from enterprise and research centres was estimated at around 200 million pesos, while Nuevo Leon's government had destined 201 million pesos of its budget to the Institute of Technological Innovation and Research, which was in charge of the PIIT (Ibid.).

Likewise, by 2009, even without a TNC assembling automotive plant, Nuevo Leon had consolidated itself in fourth place regarding Mexican states' participation in the production of automotive related parts, superseded only by Coahuila, Puebla, and Estado

de México (Villarreal, 2012, p. 247). Also, it achieved the same rank in the production of electronics and computing equipment, trailing only Mexico City, Jalisco, and Chihuahua (Op. cit. 2012, p. 263).

During the administration of Governor González Nuevo Leon's percentage of manufacturing exports rocketed as well. In 2005, before his administration consolidated its microeconomic practices of incentives and its legal framework, Nuevo Leon contributed 7.9% of the country's manufacturing exports; by 2009, at the end of his administration, this percentage multiplied to 10.8% (SEDEC, 2014, p. 11).

Even among international perspectives and platforms, the state of Nuevo Leon gathered the attention of academics due to its capacity to emphasise and consolidate its development along the core lines of technology and innovation. The state of Nuevo Leon began to be paired with the likes of Sao Paulo in Brazil and California in the United States for its subnational government's impact in redirecting growth. In the words of Ferreira Santos et al. (2008, p.178), these governments became "well known for their long-term commitment to higher education, research, and extension services. Funded in large part by state resources, these state government investments have had an extraordinary impact on economic growth."

A great part of this was achieved through the promotion of Nuevo Leon as a committed facilitator of industrial and technological development with the necessary infrastructure and human capital. From January 2004 to September 2009, Nuevo Leon's economic development officials – from the SEDEC, PIIT, and MTYCIC – conducted 188 "commercial missions" to promote Nuevo Leon's advantages while contacting 1,533 foreign enterprises (González, 2009a, p. 84).

As a result, in 2009, Governor González ended his administration amidst generalised approval of his state's main societal sectors, enabling eventually the permanence of the PRI during the following administration. With his successor, Governor Rodrigo Medina (2009-2015), however, the state-society synergies which had been gradually consolidating became fractured due to the devolution of crony practices within Nuevo Leon's administration.

The administration of his successor, Governor Medina, eventually derailed the framework of state-society synergies and microeconomic practices that Governor González had put in place. As it will be shown in the following subsection, Governor Medina instead decentralised Mexico's long tradition of crony practices into the state – fulfilling the perils foreseen by recent decentralisation literature on Mexico (Hernández-

Rodríguez, 2003, p. 124; Spink et al., 2008, p. 268). Nevertheless, at the same time, Nuevo Leon continued to benefit from the strengthened institutionalisation of its economic development, as its Secretariat of Economic Development continued to implement the industrial policies set out by Governor González.

7.4 The Secretariat of Economic Development from 2009 to 2015: continuing the legacy of the MTYCIC

When Governor Rodrigo Medina (2009-2015) entered his administration, Nuevo Leon once again had gained a leading place in Mexico's industrial development. The state's positive results in exports and its growth in greenfield investments were once again characterising Nuevo Leon as an industrial and technological leader. However, when Governor Medina arrived, Nuevo Leon's most urgent problem was not economic development but rather, the critical outbreak of drug related violence throughout the country. Governor Medina had to therefore divide his attention between his state's security and its economic development.

This divided attention nonetheless sparked the opportunity for the state's Secretariat of Economic Development (SEDEC) to take a more proactive role in related public policies. Within this proactive role, the cornerstone of the state's economic development guidelines was still the *Law for Fomenting Investment and Employment*, decreed by Governor González (related during interviews with Nuevo Leon's top officials in the Secretariat, 2015).

The "Monterrey City of International Knowledge" (MTYCIC) had largely been absorbed by the remarkable success of the technological park, PIIT. But the overarching framework for promoting economic development within the region was the same: incentives and a tripartite collaboration between public, private and academic sectors. The main tool to achieve this triple-helix was the state's economic "clusters" which were established in the economic sectors that Governor González and the academy had defined since the preceding State Plan for Development.

According to a former Secretary of Economic Development during the administrations of both Governor González and Governor Medina (Interview with officials from Nuevo Leon's Secretariat of Economic Development, 2014), Nuevo Leon became the great pioneer in Mexico in terms of the "clusterisation" of the economy; a framework which was constructed on a model of "virtuous association of collaborative production" between economic agents in the same sector. In the words of the same

Secretary, the main issue was that the “pie stayed in Nuevo Leon, and later see how that pie was to be divided” according to the participation of economic actors. Moreover, these actors, according to this testimony, were in charge of defining the related proposals and initiatives, whereas the government became a mere “facilitator” regarding infrastructure and the incentives for collaboration.

In the case of Nuevo Leon’s automotive cluster, for instance, the government gave an annual economic support of 3 million pesos and took charge of the lease for the cluster’s offices in exchange for reports of activities – which could vary, depending on the case, from a monthly to a yearly basis (interview with actors in Nuevo León’s clusters, 2014).

In this manner, the SEDEC of Nuevo Leon consolidated and sponsored development projects from clusters in the strategic sectors contemplated in the *Law for Fomenting Investment and Employment*: automotive, aeronautic, agro-industrial, biotechnology, household electronics, nanotechnology, information technologies, health services and housing-construction.

This practice soon spread around the country. During 2014, for instance, there were automotive clusters in every leading Bajío state – Guanajuato, Aguascalientes, Queretaro – and other states hosting automotive TNCs such as San Luis and Estado de Mexico. Even the federal Secretary of Economy of the returning Presidential PRI administration, which bolstered a more “emphatic industrial policy” (Guajardo, 2014), visited the state of Nuevo Leon to examine the subnational state’s practices of collaboration and the identification of strategic sectors (interview with former head of SEDEC, 2014). The result was the Secretariat of Economy’s own demarcation of strategic sectors, with a clear effort to once more reinsert the federal government amongst the country’s industrial policy formulation (interview with former delegates of the federal Secretariat of Economy in Nuevo Leon and Queretaro, 2014).

According to the former Economy delegate in Nuevo Leon (interview, 2015), there had for a long period of time been “a null industrial policy, because it was believed that this was the best industrial policy”. Now, given the return of the PRI, the delegate emphasised the federal resuscitation of an industrial policy, though with the inclusion of the subnational states, not with decisions being taken from the centre only.

The cluster and triple-helix strategies of Nuevo Leon, along with the administration of Governor Medina (2009-2015) surely gave signs of success, with high-tech projects in several fields. A software to monitor an aeronautic pilot’s mental activity was created

(Investigación y Desarrollo, 2014b); a chip to detect any illness in minutes (Investigación y Desarrollo, 2014a) was devised; and nanocomponents were invented for manufacturing processes including automotive and aeronautic components (Investigación y Desarrollo, 2014c). Nuevo Leon's incubator for nanotechnology enterprises was rated amongst the international top 10 (Buendía, 2014). Additionally, the first Mexican drone was designed and built (Sánchez, 2014), while prototypes for industry were printed in 3D (Agencia ID, 2015), among other projects.

During the first five years of Governor Medina's administration, Nuevo Leon's economy grew 27.3%, outpacing the country's growth of 17.9% by almost 10 points (Medina, 2014, p. 20; INEGI, 2016). The growth of manufacturing exports reached 11% of the country's total amount in 2015 (Ibid.). Likewise, its administration program *Hecho en Nuevo Leon* supported more than 500 local enterprises in registering trademarks, attending international fairs, and providing capacitation regarding exporting measures (Op. cit. 2014, p. 23).

Governor Medina's most praised achievement, however, was the record setting reception of FDI during his administration: 21 billion dollars, surpassing the administration's prospective 10 billion (Villarreal, 2015, p. 16) and the past administration's total of 13 billion (González, 2009a, p. 84).

Accordingly, the lasting mark of this administration was the arrival of Nuevo Leon's first assembling automotive plant. In 2015, with an investment of 3 billion dollars, KIA Motors decided to establish itself in Nuevo Leon. The way in which it landed and the crony benefits that arose from its arrival, however, evidenced the crony practices that Governor Medina had developed during his administration. Eventually, the accumulation of accounts of cronyism in Nuevo Leon's media generated the fracture of state-society synergies and the dismissal of the PRI party in the following gubernatorial elections.

7.5 Devolving crony practices during Governor Medina's administration (2009-2015): the perils of decentralisation and the Monterrey Group's response

Starting in the second decade of the present century, Nuevo Leon began to once again live up to its reputation as an industrial and technological leader. As depicted in the past sections, the successive abandonment of industrial policy from federal governments eventually led to a more proactive stance from Nuevo Leon's governor González. Likewise, the expansion of fiscal decentralisation enhanced Nuevo Leon's governmental capabilities in successfully redirecting its state's economic development.

As related by Gutiérrez (2013, p.58), the growth of economic resources destined to subnational states grew exponentially: in 1996, subnational states expended 4 billion pesos on average; in 2010, this quantity had increased to an astounding 28 billion. This section will thus examine how an exponential increase in fiscal resources triggered the devolution of crony practices in Nuevo Leon, along with the state-society fractures it generated.

This exponential fiscal decentralisation eventually brought up similarities once again between Mexico and its fellow Latin American country, Brazil. As cited above regarding economic development, effective public policies had paired Nuevo Leon and Sao Paulo as successful cases of subnational governance with industrial and technological intensive agendas (Ferreira et al., 2008, p. 178). But soon, the exponential increase in the economic resources that subnational states were receiving led to similar pitfalls happening in Brazil. The promise of fiscal decentralisation thus came up against some perils as well.

As depicted by Eaton and Dickovick (2004, p. 98), the increasing fiscal decentralisation in Brazil soon led to patronage, substantial debts and crises at the subnational level. In Mexico too, the same perils took shape during the second decade of the century. Nuevo Leon, in particular, went from having a debt of 2.35 billion pesos in 1994 to a debt of 61.08 billion pesos in 2015 (SHCP, 2015), approximately 5.2% of its GDP. Just during the administration of Governor Medina (2009-2015), the public debt grew around 44 billion pesos (Ibid.).

Nuevo Leon's massive debt, along with the constant decrying of crony practices implemented by the governor, eventually generated the anger of its citizenry. In little less than six years, Nuevo Leon's subnational government exhibited the negative side-effects recently diagnosed by Mexico's decentralisation literature (Hernández-Rodríguez, 2003, p. 164; Spink et al., 2008, p. 268; Diaz-Cayeros, 2006): patronage, rigged public bids, *cacicazgos*, subnational debts, among other problems.

Besides the continuing state-society synergies that Governor González had first put in place, the government of Nuevo Leon began to be decried evermore frequently regarding the crony practices of the subsequent Medina administration. This included public bids being constantly exhibited in the state media due to lack of transparency and conflict of interest.

A monumental project to cover Nuevo Leon's water capacities for the following decades, for instance, was soon highlighted for its non-transparent and crony manoeuvrings. The project, "Monterrey VI", called the biggest hydraulic project in Latin

America with costs of around 18.3 billion (Valle, 2015), was denounced nearing the end of the administration of Governor Medina for its non-transparent mechanisms and the clientelism characteristics of its actors. Through a controversial public bid, the work was awarded to *Grupo Higa*, a company that had been frequently questioned in the national media regarding its ties with Mexico's President, its cabinet, and suspected involvement in illicitly financing the 2012 Presidential campaigns.

The controversial practices of Governor Medina continued as the campaigns for Nuevo Leon's next gubernatorial administration neared completion in 2015. Even more related to the state's economic development, KIA's assembling project found itself at the centre of the turmoil. A public bid to refurbish the real estate conditions upon which the assembling plant was to be established, was soon denounced in the media due to a conflict of interests. The public bid for works costing around 1.6 billion pesos, was done "fast-track" and granted to an entrepreneur who had a Lear-jet the governor frequently borrowed for travelling on vacation (Ramos, 2014). Likewise, the governor's father was seen with the said entrepreneur at a sporting event around the same time (Rodríguez, 2014). To further aggravate matters, a year later, and during campaigns for Nuevo Leon's gubernatorial chair, a newspaper in Nuevo Leon revealed the governor had also bought two real estate properties from close friends in order to include them within the territories of the KIA plant (Ramos, 2015). Following similar trends in Mexico and elsewhere in Latin America, as reviewed by Little and Posada-Carbó (1996, pp. 12-4) across the region, the issue of corruption became central to the electoral campaigns of Nuevo Leon's candidates in the 2015 elections.

As a result of the discontent generated by these crony interactions, the PRI lost the gubernatorial elections of 2015 by a landslide – due in large part, once again, to the political mobilisation led by the main actors of the Monterrey Group, who were gravely dissatisfied with the exiting administration. In other words, the Monterrey Group once again exhibited its capabilities as a social force opposing the state. A recent national political reform which allowed independent candidates – meaning those without party affiliation – to run for every elected office, eventually made Nuevo Leon the first state in Mexico to have an independent governor. The candidate's campaign sponsors, however, caused controversy across the national media.

Jaime Rodríguez, who had just renounced a lifelong career in the PRI to run as an independent candidate, was supported, financially and morally, by the main leaders of the Monterrey Group or Monterrey's Group of Ten (*Grupo de los Diez*). His compromised

ties with Nuevo Leon's leading businessmen garnered him the nickname "López Obrador of the rich folks" in the national media (López, 2015) – López Obrador being one of the most charismatic political figures in Mexico of recent times.

When Jaime Rodríguez was eventually elected, his compromised agenda multiplied controversies across the local media. An academic questioned just "how truly independent was this *independent* governor" from the factual powers that the Monterrey Group represented in Nuevo Leon (Colín, 2015). Likewise, this academic questioned the candid manner in which the governor "accepted at least 80 percent" of a State Development Plan that these business leaders had presented to the governor and his cabinet in a nine-hour reunion (Colín, 2015; Reyes, 2015). Following the election, another analyst questioned the compromising inherence that an NGO, founded by Monterrey's leading businessmen, had on defining the governor's cabinet and his officials (Petersen, 2015).

The last testimony of this compromised government, which well resembled a business-capture of the state, occurred with a confrontation between the new Secretary of Economic Development and the arriving TNC KIA. The newly appointed Secretary of Economic Development – who turned out to be one of Nuevo Leon's leading automotive industrialists and a main supporter of Governor Rodríguez independent campaign – decided to default all the incentives negotiated by the past administration with KIA. The secretary alleged there existed excessive benefits and incentives, and went on to infringe Nuevo Leon's confidentiality obligations by publishing the negotiating terms with KIA.

The local media later exposed that KIA had declined to contract the secretary's enterprise as purveyor of automotive parts when first establishing in Nuevo Leon (El Horizonte, 2015). Due to this conflict of interests, Nuevo Leon's legislators asked the governor to remove the secretary from the negotiations with KIA, although to no avail (Garza & Tapia, 2015). It soon became evident that the continuity of industrial policy and state-society relations had once more suffered a fracture in Nuevo Leon. Furthermore, from a democratic perspective, the increasing fragmentations at the federal level began to surface at the subnational level as well – not only between different political parties and the governor, but also between different branches of government.

7.6 Conclusion

Governor Gonzalez's array of microeconomic practices, founded once again on state-society synergies, proved to be a rewarding attempt at incorporating the social force of

the Monterrey Group or, at least, working in coordination with it in benefit of his state's economic development. Through these joint efforts – largely resembling an embedded autonomy – public, private and academic sectors were able to refurbish Nuevo Leon with what already seemed like a lost industrial edge. Governor González therefore managed to undertake the role of “binding agent” in his state's economic development by redrawing its industrial path and achieving the cooperation necessary amongst the different agents.

The government of Nuevo Leon knowingly developed practices from East-Asian, European and Brazilian regions that had experienced great accomplishments – namely the implementation of industrial parks and clusters. Furthermore, Governor Gonzalez's efforts regarding industrial policy were more attuned to Brazil's “new developmentalism”, rather than Mexico's extended neoliberalism. Nuevo Leon's government thus became more proactive in regaining its industrial edge, with an emphasis on public-private collaboration, productive investments, incentives for industry and innovation.

In this context, the ongoing institutionalisation of Nuevo Leon's industrial policy also contributed to Governor González's efforts. In this particular aspect, Thelen's elaboration of the “institutional systems” (1999, p.283) of political economy is again relevant. In the case of Nuevo Leon, its institutional system of industrial policy was strengthened through several platforms relating to its sub-systems: legal frameworks; public-private councils regarding industrial relations, investments, and innovation; also a greater reliance on the Secretariat of Economic Development as the organisation in charge of coordinating these policies.

The derailment from this path with Governor Medina's administration, however, put an end to the referred state-society synergies. In this case, the promises of decentralisation quickly transformed into a number of perils. In turn, Nuevo Leon's public debt and crony practices grew exponentially to the discontent of the Monterrey Group.

As a result, the PRI's reign over Nuevo Leon in the new century was lost, and the continuity of Governor González's economic development projects seemed equally at risk. In 2015, with the PRI's electoral loss of Nuevo Leon, the Monterrey Group once again exhibited its remarkable capability in mobilising human and economic resources with the intention of running the subnational state's policies and plans.

As witnessed throughout Mexico's history, the national state has had its fair share of problems in containing the growing social force of the Monterrey Group as it continued to build over the past century. Even before the PRI's birth and institutionalisation with

President Calles and, later, with President Cárdenas, the Monterrey Group was already consolidated as a remarkable social force containing vast resources and the capability of defining the leading practices of their territory.

The case of Nuevo Leon in the new century thus presents itself as a clear testimony of Migdal's state-in-society approach whereby the state becomes one of a variety of different social forces looking to consolidate social control over a territory, and often failing to do so (Migdal, 2001, p. 50). As a silver lining for Nuevo Leon's development, and in line with Migdal's mutual empowerments (1994, p. 24) or Evan's state society synergies (1997a), it also proves that the state and the leading forces of society can participate in mutually empowering arrangements.

In this case-study of Nuevo Leon, industrial policy is seen as central to these arrangements. Nevertheless, the devolution of crony practices soon fractured any pre-existing synergies until resuscitating, once more, the contestation not only for Nuevo Leon's industrial policy, but its political control as a whole. With this extended conflict across several of Nuevo Leon's platforms, its economic development projects were interrupted once again.

Chapter 8. Queretaro after State Withdrawal

8.1 Introduction

By the mid-1980s, the recent fractures between state-business relations in Mexico was one of the factors precipitating the end of Mexico's national drive toward industrialisation. The ISI project was shut down amidst a failed transition to its more complicated phase – the indigenous and competitive production of capital goods. The country's 1985 entrance to the GATT mechanism served the administration of de la Madrid (1982-1988) as a “point of no return” for Mexico's new outward orientation.

This neoliberal shift, though highly lobbied for by some economic elites, was soon resented across Mexico's businesses and industries (Johnson, 1998, pp. 137–8). The rising industrial niche that had been consolidated in Queretaro was no exception in the struggle against the new challenge of a more open economy.

From the 1940s up to the end of the Mexican Miracle in 1982, Queretaro had been transformed from a rural economy to one of Mexico's leading industrial entities. Even amidst the slow-down of Mexico's industrial Miracle, Queretaro went from being the 19th Mexican state in 1970 to the 13th in 1980, in terms of industrial manufacturing growth (INEGI, 1986, p. 11). Moreover, before the end of the 1980s, Queretaro had 10 industrial parks across its territory which served as platforms to incentivise its industry (González & Osorio, 2000, p. 91).

It was, more precisely, in the 1960s that the state of Queretaro was effective in developing what Hirschman (1958, p.44) calls “maximizing induced decision making”. Or, in other words, creating the sufficient incentives and organizational background to seduce private capital into a joint project of transformation and industrialisation; a framework which was gradually consolidated from the 1950s onwards, through Queretaro governors' “microeconomic practices” – as this research project has termed them. These were practices were, in turn, nationally endorsed by protectionist tariffs and regulations within the national industrialisation drive.

As examined in past chapters, these microeconomic practices triggered the impressive industrialisation of a rather backward Mexican state in terms of industry. In the 70s or 80s, either through negotiations with national industrialists (as in the ICA Group) or TNCs (as in Kellogg's or Massey Ferguson), Queretaro soon found itself as one of the leading states in sectors such as auto-parts, machinery and steel-works.

But the end of Mexico's national industrialisation and the opening up of its economy shook Queretaro's industrial future. Many of the restrictions that Mexico had put on foreign investment as a way to trigger domestic industrialisation, and which had been strengthened through President Echeverría's Ministry of Industry, were dismantled through the country's accession to the GATT. Moreover, the dismissal of trade protections and vertical subsidies left domestic industries standing mostly alone against international competitors. Given this, Queretaro's industrial efforts again had to be rethought in order to survive the new globalised competition.

Thus, following on from Chapter 6's account of Queretaro's industrial catch-up, the current chapter will devote itself to Queretaro's industrialisation after the federal state began "vacating" the related "policy domains" – termed by Snyder (2001a, p.7) in relation to Mexico's neoliberal shift. As it will be related, the loss of protectionism and nationwide incentives to industrialisation posed significant dilemmas to Queretaro's industrialists. To aggravate matters, the first alternatives that Queretaro's governments devised within this new context were not exactly the most rewarding.

Previous governors had been much more than expected intermediaries (Hernández-Rodríguez, 2003, p.103) or modern viceroys (Ward & Rodriguez, 1999, p.675). However, the neoliberal shift or the federal state's curtailment from industrial policy since the 1980s and 90s proved to offer a further challenge to the subnational governors. Thus, the roles and initiatives that each state government enacted to trigger each state's economic development in this new scenario again was decisive. Consequently, the main level of examination herein will once more be related to Mexico's governors and their ministries. As in previously detailed developmental experiments, the state-society arrangements at a subnational level again turned out to be essential in regaining Queretaro's industrial momentum.

The following section, 8.2, will depict how the opening of the economy and the dismantling of industrial "greenhouses" using Mexico's neoliberal shift began affecting Queretaro's surging industry. Furthermore, the signature of NAFTA increased the pressure on Queretaro's industries in terms of competing at an international level. Queretaro's governments first response, however, proved to be a misguided one as it turned to the low-linked *maquila* industry as its main alternative. The "precarisation" of wages and the erosion of local businesses generated by the *maquila* nevertheless called for some strategy re-drawing by Queretaro's governors. Herein, Governor Garrido (2003-

2009) once again stressed the importance of indigenous industry in Queretaro's economy, with a particular emphasis on the automotive sector.

Section 8.3 will examine how Queretaro used its success in the automotive sector to construct its current competitive advantage in an even more demanding sector: aeronautics. As will be seen, Queretaro's government once again relied on state-society synergies to gain a leading advantage in what promised to be Mexico's next dynamic sector. In the new century, Queretaro's governors once more consolidated the "binding agent" qualities (Hirschman, 1958, p.10) needed for economic development: not only promoting the state's industrial capacities, but also being aware of the restructured path that led to their consolidation. Moreover, at the turn of the century, Queretaro's governors were now accompanied on this task by a more institutionalised economic development apparatus – mainly their Ministry of Sustainable Development (SEDESU) and its Under-Ministry of Economic Development.

8.2 Responding to the challenges of Mexico's new open economy: 1982-2009

As detailed in Chapter 6, Queretaro's industry had managed to take-off in leading sectors such as the automotive, steel-works, heavy machinery and others. In the particular case of the automotive sector, the ICA Group managed to construct a comparative advantage for Queretaro. First, the microeconomic practices of Governor González Cosío (1960s) were widely successful in playing what Evans, in the wider literature, calls the "midwifery" role: inducing existing groups into more challenging industries or fostering the emergence of new entrepreneurial groups (1995, pp. 13–4).

Many of these inducements were developed through the construction of industrial parks and the extension of fiscal incentives. Eventually, the governor found his private-sector counterpart in Bernardo Quintana – an industrialist who led the Mexico City-based ICA Group. Together they managed to transform Queretaro's industry and, in turn, induce a wider community of industries, national and transnational, to contribute to the subnational state's industrial project.

Then, nearing the end of the 1960s, Quintana's ICA Group further diversified its industrial activities by exploiting Mexico's next industrial conjuncture. During the 1960s, during the administration of President López Mateos, consolidating the auto industry was seen as the next step in Mexico's industrialisation. As related in past chapters, the Mexican state's negotiations with the big automotive TNCs had been rather dull, giving the latter free entry to local production without any requirements for national content.

A bit later, however, Mexico's *Consejo de Fomento y Coordinación de la Producción Nacional* placed emphasis on vertically integrating local industry into the automotive sector; to which the federal government answered by launching a decree which required a minimum of 60% of national content (Miranda, 2005, pp. 378–9). Within this timeframe, therefore, the growing ICA Group exploited the industrial conjuncture by entering into a joint venture with a United States' firm, Clark Enterprises, and thus establishing *Tremec* – an automotive enterprise.

Before the end of the 1960s, *Tremec* was consolidated as one of the continent's leading producers in automotive transmissions, as it was able to enter into negotiations with the headquarters of Ford, eventually becoming one of the TNC's main suppliers of transmission parts (Miranda, 2005, p. 381). The success of Queretaro's *Tremec* eventually attracted other joint-ventures until Queretaro was transformed into an industrial hub of automotive machinery.

Nevertheless, the opening of the market economy during the 80s, along with its “lost decade”, forced Queretaro's industry and state elites to reconsider their industrial outlook. Following the new demands and the trends of globalisation, Mexico's development was increasingly shaped by international trade and FDI (Gereffi, 2009, p. 37). Following the signing of NAFTA in 1994, the automotive sector, more than any other sector in Mexico, eventually set the tone for Mexico's development. The three bigger automotive TNCs – Chrysler, Ford and General Motors —began expanding their production facilities within Mexico, in accordance with the newly globalised trends of automotive production set by the rising East-Asian firms (Daville-Landero, 2012, p. 694).

With the federal government's emphasis on attracting FDI as a surrogate for productive investments and industrial policy, landing investments from these big automotive TNCs seemed the next logical step for the new century's industrialisation. However, it was the bigger neighbouring states of Queretaro which were landing these big TNCs' investments – Guanajuato, Aguascalientes, Puebla and Estado de Mexico — in what soon became portrayed as a “race to the bottom” between states (OECD, 2009, p. 140). Moreover, the lack of any federal-led coordination or policy regarding FDI increasingly motivated this “race to the bottom” (Ibid.; Interview with Queretaro's economic development officials, 2015).

This orientation was most evident during the 1990s, as two successive governors centred Queretaro's industrial policy on the directing FDI toward the *maquila* sector (Carrillo & Salinas, 2010, p. 343). Thus, the emphasis made by Queretaro's government

was no longer relying on local entrepreneurship, competitiveness or innovation; rather, the focus became about attracting foreign enterprises with intensive workforce (*mano de obra*) requirements (Carrillo et al., 2007, p. 58).

The signing of NAFTA in 1994 and the governors' emphasis on the *maquila* sector substantially shook Queretaro's industrial pillars, and not exactly in a positive manner. According to Carrillo and Salinas (2010, p. 343), the initial consequences of this outward orientation in Queretaro were "the breaking of productive chains, a deficit in trade balance, the scarce contribution of the manufacturing sector to employment, the downfall of productive investments, a *terciarization* (of Queretaro's economy) and the uncontrolled growth of (its) the informal sector".

Indeed, when Queretaro's second successive PAN governor, Francisco Garrido, entered his administration (2003-2009), Queretaro's industrial landscape seemed to become troublesome. Big TNCs focused on automotive parts, both from the United States and Japan, had largely displaced local producers from both local and global productive chains (Daville-Landero, 2012, p. 715). Likewise, Queretaro's trade deficit had grown to 799.5 million USD just during the year 2004 (SEDESU, 2005, p. 136).

As witnessed in other Third World Countries (Evans, 1995, p. 140), the dismantling of Mexico's ISI greenhouse had gradually eroded productive chains and local suppliers. To counter the negative effects of the low-linked *maquila* sector and the displacement of local industry by the bigger TNCs, the administration of governor Francisco Garrido (2004-2009) once more underscored the importance of strengthening Queretaro's local industry and creating higher quality employment (Carrillo & Salinas, 2010, p. 342). Accordingly, the state government was emphatic in shifting its industrial focus away from the *maquila* sector, declaring it an "unviable option" for Queretaro's sustainable growth (Ibid.).

To tackle these challenges, Queretaro's Ministry of Sustainable Development (SEDESU) once again deployed strategies and programmes oriented toward a vertical integration of the state's local automotive industry. Given that Queretaro could not land a TNC assembling plant, the government's challenge was to consolidate its industry on the back of the state's existing expertise: mainly automotive transmissions. The SEDESU's Under-Secretariat of Economic Development began to put in place programmes and initiatives aimed at vertical integration.

Along these lines, Queretaro's Under-Ministry of Economic Development very much paralleled the "husbandry" role portrayed by Evans (1995, p.140) in other Third World

countries, with a specific emphasis on increasing or strengthening the capacities of local industries amidst international competition in high-technology sectors.

As related by an official of the aforementioned Under-Secretariat (interview with Queretaro's economic development officials, 2015), this bureaucratic unit began holding regular consultations between big automotive TNCs and local industries to integrate Queretaro's domestic businesses once again into the supply-chain, along with training programmes for its human capital and certification programmes for automotive processes.

A monitoring project for Queretaro's local industries, *Sistema de Comercio Exterior* (COMEXQRO), was also put in place to identify opportunities occurring in the related productive chains with the objective of import-substitution (SEDESU, 2005, p. 137). Within these policies, further emphasis on coordinating the state of Queretaro with federal programs to promote exports was undertaken – for example, PITEX, for exemptions on provisional imports and ALTEX, for enterprises with high exporting volumes.

During his administration, Governor Garrido's initiative proved to be of great value to the automotive sector, as local suppliers began to be included in the automotive parts supply chain once more; although at first within the lower-return and lower technology products (interview with Queretaro's official in charge of productive chains, 2015). The generalised support to industry, however, exponentially increased the state's trade deficit. Queretaro's replication of the federal government's horizontal industrial policy of export promotion generated negative outcomes for the subnational state's trade.

At the end of 2009, Queretaro's trade deficit had catapulted to 2,150.7 million USD, more than tripling the deficit at the start of Governor Garrido's administration (SEDESU, 2010, p. 167). Nevertheless, two sectors presented themselves as silver linings: the automotive sector, with a trade deficit of only 3.7 million USD, and 1,399.4 million USD in total exports (SEDESU, 2010, p. 168), along with the promising aeronautic sector which began attracting considerable national and international investments.

The following section will thus examine Queretaro's re-deployment of a more vertical or active industrial policy, with a particular emphasis on its construction of the aeronautic industry as a comparative advantage. Likewise, section 8.3 will expand on the positive returns yielded by an ongoing institutionalisation of Queretaro's industrial policy.

8.3 Constructing a comparative advantage in Queretaro: state-society synergies and bureaucratic continuity (2002-2015)

The most promising heritage of Governor Garrido's administration (2003-2009) was not only his renewed emphasis on Queretaro's local industries, but also the landing of the aeronautic TNC Bombardier's plant.

The automotive sector, with a gradual but steady upgrading of its local industry, seemed once more like a consolidated sector in Queretaro. Little by little, local suppliers began to upgrade their industrial capabilities. In one official's account (interview with official in charge of Queretaro's productive chains, 2015), this upgrading was consolidated when local industries began migrating from more labour-intensive metal-mechanic products to more technological-demanding processes such as plastic injections, basic electronic parts, and more recently, developing the entire information and electronical equipment required by automobiles. The positive results were eventually felt in Queretaro's near trade balance in the automotive sector for 2009 (SEDESU, 2010, p. 168).

The growing buzz around Queretaro's technological and human capital capabilities in the automotive sector, and its strategic location, eventually attracted what seemed to be an even bigger challenge for its industry: the aeronautic sector.

The current section, therefore, will trace the efforts of subsequent administrations in Queretaro to construct a comparative advantage in the aeronautic sector. Similar to Queretaro's catching-up form of industrialisation, scaling-up efforts and mutually-empowering relations between state and society at different levels were again key to obtaining this advantage. As will be related, the continuity of subnational initiatives became one of the cornerstones of Queretaro's success in re-establishing a competitive edge to its industry.

As in the case of Nuevo Leon, within the new international context, Queretaro made a considerable deviation from the federal state's neoliberal image. It gradually pursued an industrial policy agenda based on public-private collaboration, human capital accumulation, industrial upgrading and the construction of comparative advantages in the subnational state's previously defined strategic sectors. A set of policies which were also reminiscent of the "new state activism" or "new developmentalism" (Trubek, 2013, p. 18; Trubek et al., 2013, pp. 53-61) taking shape in Brazil around the same time, and of the construction of comparative advantages in Costa Rica as well (Sánchez-Ancochea, 2009, p. 62-3).

Given the alternation at Mexico's presidential chari and the arrival of the PAN party to *Los Pinos*, the country seemed evermore divided and fragmented in its efforts toward economic development. Some proposals by President Fox (2000-2006) regarding industrial policy mentioned the importance of sectoral initiatives but soon turned out to be mainly rhetoric, whilst the attraction of FDI became the overarching emphasis (Moreno-Brid et al., 2005, p. 1103). However, some "political inertias" or "favouritisms" were being put in motion by President Fox regarding the attraction of FDI (interviews with economic officials both at state and federal level, 2015) –as already reviewed in the previous chapter.

Subnational associations eventually rose as a counterbalance to this perceived show of favouritism. First, the CONAGO (National Commission of Governors) rose to oppose the favouritism; shortly afterwards, this was joined by the Mexican Association of Secretaries of Economic Development (AMSDE) (referred interviews, 2015). Once more, Queretaro's governors and ministers seemed to be facing the resuscitated crony practices of the PRI regime – in which personal ties played a heavy hand in choosing economic development opportunities.

The opposition within the CONAGO and AMSDE, however, was not the turning point for Queretaro's industry; rather, the issue lay with Queretaro's experienced implementation of mutually empowering relations between state and business. In this order of things, one of President's Fox crudest conflicts proved to be the deciding opportunity for Queretaro's industrial upgrading: the attempt to construct Mexico City's next International Airport.

On the 22nd of October, 2001, President Fox decreed the expropriation of 5,391 hectares near Mexico City to resolve the increasing saturation of the city's International Airport (Díaz, 2014). The peasants who owned the expropriated lands however proved an insurmountable obstacle to President Fox's initiative as they denounced what they saw as unjust compensation. After continuous mobilisation, legal remedies, road blockages and confrontations with federal police that went on for almost a year, these peasants managed to obtain President Fox's detraction of the initiated expropriations and related projects in August 2002 (Ibid.).

This frustrated initiative, however, was seen as an opportunity in another jurisdiction: Queretaro. Governor Loyola (1997-2003), also from the PAN, had the same problem in Queretaro, as its International Airport was saturated and mostly outdated. His project for a new airport counted nonetheless with support from the state's leading industrialists and

generalised consent from the citizenry. This joint initiative of governor-industrialists was then presented to President Fox as a temporary solution for the failed attempts at constructing Mexico City's new airport. The project quickly garnered the President's unconditional support as it was also devised to alleviate part of Mexico City's air traffic problem (Molinari, 2004). Presidential support, in turn, crystallised in the commitment of the federal government to contribute 30% of the airport's costs (Op. cit. 2004). As the saying goes in Mexico, "it takes a nail to carve out another nail".

In the eyes of President Fox then, Queretaro's state-society synergies began to consolidate a good position. Accordingly, when President Fox's birthday neared, in 2003, Governor Loyola went as far as saying that the construction of Queretaro's International Airport would be finished on July 2nd of 2003, the same day as the President's birthday. In the words of Governor Garrido, Queretaro's International Airport would be a "good gift" for the President (Crónica, 2003). When the said date came, President Fox correspondingly arrived at Queretaro's new International Airport, though it was still far from finished, accompanied by Queretaro's governor (Becerril & Chávez, 2003).

The proximity of the elections for Queretaro's gubernatorial chair and legislature garnered accusations against the President from the media and the PRI, who stated that he was "promoting" activities of the PAN governor. The President, nonetheless, dismissed these allegations, answering that he had simply flown to Queretaro to have lunch at Queretaro's COPARMEX chamber and discuss the state's opportunities. At the same time, he complimented Queretaro's "great dynamism" and described how Queretaro was the second leader in Mexican states regarding employment during that same year. Queretaro's COPARMEX industrialists welcomed the President with a birthday cake in the shape of an airport, even with its miniature control towers and airplanes (Op. cit. 2003).

What was left behind closed doors, nonetheless, was the latent possibility of redrawing Mexico's next leading economic sector with an important role for Queretaro. Due to Mexico's exponential growth in the automotive sector over the last decades and its similar consolidation in the field of electronics – though both led mostly by TNC capital – the aeronautic sector seemed like the next challenging arena for developing or attracting FDI (Secretaría de Economía, 2012, p. 3). By 2004, when FDI from interested aeronautic TNCs seemed up for grabs in Mexico, the global sales in the aeronautic sector were around 450 billion USD (Op. cit. 2012, p. 5): quite an alluring pie of profits.

In high-technology sectors, with substantial barriers to entry and a dominance of TNCs, the Third World's path towards a comparative advantage has generally implied alliances or negotiations between states and TNCs (Evans, 1995, p. 81). This is even more so in today's increasingly internationalised context, with Mexico continuing to position FDI attraction as one of its main industrial policy pillars.

Therefore, attracting and convincing the big TNCs – such as Bombardier, Airbus, Honeywell, and Boeing – into local production in Mexico seemed like the next logical step. Queretaro, which had been dismissed by all preceding TNC automotive assembling plants on Mexican soil, was thus looking to seize the opportunity to construct a comparative advantage in the aeronautic sector through using an aeronautic assembling plant as an “anchor enterprise”. This would bring about a comparative advantage, not only in an international context, but even more so with regard to the national “race to the bottom” as other states would certainly offer aggressive incentives – tax exemptions, economic resources and real estate – to land this type of investment.

In the words of a former Vice-President of Queretaro's CAINTRA (Chamber of Transformative Industries) gaining a first step in what seemed to be Mexico's next dynamic sector was all about “having the tortillas ready” (interview with Queretaro's CAINTRA members, 2015) and convincing President Fox about it. In other words, the state-capital synergies in Queretaro were presented their case to President Fox as the appropriate hosting state for having the human capital, commitment and infrastructure to develop the aeronautic sector. Correspondingly, when the aeronautic TNC, Bombardier, announced their intentions to establish an assembling plant in Mexico in 2006, Queretaro came on top as their preferred location. The main factors for Bombardier's decision were Queretaro's geographic location, its industrial infrastructure, its expertise in the automotive sector, and, first and foremost, the existence of trained human capital – a commitment which was strengthened with Queretaro's launch of its National Aeronautic University in 2007 (UNAQ) (interview with Queretaro's economic development officials, 2015).

But the consolidation of Queretaro's economic development in the new century was still far from accomplished. When the administration of Governor José Calzada (2009-2015) began, the rising participation of local industry in the automotive sector and the arrival of the aeronautic, Bombardier, were two good stepping-stones to growth, but a local context of worsening trade deficits prevailed. Indeed, Queretaro's trade deficit in

the manufacturing industry had increased more than 50%, going from 1,947 million USD in 2005 to 2,925 in 2008 (Calzada, 2010, p. 38).

Moreover, the “big shuffle” (Migdal, 2001, p. 78) loomed once more over Mexico’s economic development continuity: Governor Calzada being from the PRI, whilst the previous two governors had been from the PAN. As portrayed by Byung Kook (1987, pp. 100–3), the lack of a meritocratic bureaucracy in Mexico has proven to be an obstacle to its economic development, in stark contrast to Korea’s career-minded bureaucracy. In the new decentralised context in Mexico, the same perils were being reflected in subnational administrations, including bureaucracies without exams for entry and a lack of meritocratic traditions. Moreover, every six years, “the big shuffle” of public servants took place across Mexican states with harsh effects to subnational projects – recalling Leftwich’s (2005, p. 695) “institutional incompatibility” between democracy and economic development.

In contrast, Governor Calzada left political colours aside by leaving the past administration’s Secretariat of Sustainable Development team untouched. “Continuity” became thus one of the central pillars of Queretaro’s reinforced industrialisation (interview with Queretaro’s Economic Development officials, 2015). Leaving the same team within the Under-Ministry of Economic Development proved to be key, summing a total of 18 years of continuity. Programmes on enhancing backward linkages in Queretaro’s industry were continued through the guidance of the same team who had first put it in place, along with training programmes for industries’ human capital and certification programmes for local suppliers in Queretaro’s more challenging sectors, such as the IT, automotive and aeronautic (Calzada, 2010, pp. 38–9).

That, however, was not the only merit of Governor Calzada’s State Development Plan, as he also put in place sectoral strategies of development – distinguishing between “consolidated” and “emerging” sectors – and aimed to strengthen state-society synergies through the “clusterisation” experiences pioneered by Nuevo Leon.

According to Queretaro’s former Director of Productive Chains (interview, 2015), getting the sectors divided between “consolidated” and “emerging” sometime led to blurred lines – especially in the aeronautic sector. The automotive industry was clearly a consolidated sector, given its already historic tradition in Queretaro and the fact that it represented between 10-11% of the state’s GDP. The electronic households (*electrodomésticos*) and agro-industrial sectors were also defined as a consolidated sector

considering, likewise, the already historic arrival of Singer and Kellogg's in the 1950s and 60s, plus the subsequent linkages that formed around them.

In contrast, the IT sector was clearly defined as an “emerging” sector with difficulties in vertically integrating with the local industry, considering the prevalence of the more ethereal software industry among Queretaro's TNCs.

In between “emerging” and “consolidated” was the aeronautic sector, which in the words of the same official could belong to any of the two considering its established presence in the state by 2015. This official, however, positioned it as an emerging sector given the pending tasks of further integrating local industry into its more challenging productive chains – largely dominated by TNCs such as Bombardier, Safran, Eurocopter, Aernnova, among others.

Along these lines, the Under-Ministry of Economic Development continued developing an interesting strategy, combining what Evans (1995, p.78; p. 205) defined as a key ingredient for high-tech sectors: combining the midwifery role *along with* the husbandry role of the state. In the first case, Queretaro's microeconomic practices had been emphatic in attracting TNCs to start-up the aeronautic sector in the state with incentives regarding real-estate (Queretaro's Aerspatial Park within its International Airport) and human capital facilities (through the establishment of Mexico's first aeronautic university).

At the same time, the husbandry role was kept in place in Queretaro's consolidated sectors through the same programmes of productive chains and certifications, though also with attempts to avoid lower-return activities. According to Queretaro's former Under-Minister of Economic Development (interviews, 2015), the objective of Queretaro's 2009-2015 administration was to upgrade Queretaro's industry toward activities of higher value. In consolidated sectors, such as the automotive, this usually meant multiplying industrial linkages between the Tier 3 enterprises and up-and-coming local producers – a strategy which was supported through the implementation of the “cluster” strategies first implemented in Nuevo Leon.

The cluster strategy, a triple helix coordination between state and private and academic sectors, was thus implemented in Queretaro's sectors as well. Its Aeronautic Cluster was the first of its kind in Mexico, joined later by the IT, Automotive and Biotechnology Clusters – efforts which nonetheless presented more difficulties regarding their integration when compared to Nuevo Leon. According to Queretaro's economic development officials (interviews, 2015), this difficulty was owed in large part to

Queretaro government's more meagre economic resources, which translated into an incapacity to give more incentives to the integration of the clusters.

Difficulties aside, in these same interviews, officials were quick to acknowledge the essential role that these clusters were having regarding information exchange and addressing the domestic sector's challenge to integrate itself within productive chains. Constituting, in this manner, another testimony of the advantages that the subnational level offered to these particular cluster strategies in Mexico – a factor already reviewed by Schneider regarding the software industry (2013, p.22; 2015, p. 43). As in Nuevo Leon, these cluster strategies resemble public-private collaborations that have been deemed central to recent achievements in industrial transformation across the globe (Ornston, 2013, pp.12–22; Devlin & Moguillansky, 2009, pp.104–14).

At the same time, with the arrival of the PRI Presidential administration in 2012, the federal government once again attempted to have a say in guiding the country's industrial policy. In the words of the former Under-Minister of Economic Development of Queretaro (interview, 2015), the federal government “recognised that the growth, development and execution of (economic development) policies was transferred in the past years to the states”. According to this testimony, the return of the PRI government to the presidential chair has thus far shown that the federal government “was doing every effort possible to collaborate or be participants in the states' public policies”.

But the states kept having the commanding voice within their jurisdictions, and it was the aeronautic sector which positioned Queretaro as one of Mexico's leading states regarding the high-technology industry. The governors' initiative to attract FDI in the aeronautic sector led them and the Ministry of Sustainable Development to numerous “commercial missions” around the globe: either related to World Congresses in Detroit, Cincinnati and Berlin or promotional visits to cities, enterprises and ministries in Spain, Italy, France and Canada (Calzada, 2014, p. 34). By 2014, Queretaro had been consolidated as the main recipient of aeronautic FDI with 48.4% of the national pie, followed in second place by Baja California, with a distant 12.5% (Torres, 2015).

Likewise, consolidating a leading infrastructural space for the up-and-coming aeronautic sector was promoted as both incentive and evidence of Queretaro's commitment to the sector. Post-2007, after the TNC Bombardier committed to investing more than 200 million USD to establish in Queretaro, the state government created a public trust to further develop the sector. This trust – through ties with the TNC and Queretaro's private and academic sector – was kick-started with the state government

donating 78 hectares within Queretaro's International Airport to establish an Aeronautic Industrial Park (Nuñez, 2007). Moreover, within this industrial park, the state government invested 400 million pesos in Mexico's first aeronautic university – *The Universidad Nacional Aeronáutica de Querétaro* (Álvarez, 2007).

Then, through its *Programa de Desarrollo de Proveedores Aeronáuticos* (Programme for Development of Aeronautic Suppliers), the Under-Ministry played the midwifery role with established local industries, generally in the automotive or electronic household sectors, inviting them to upgrade into the more challenging aeronautic sector through certification programmes and economic incentives, both subnational and federal (Carrillo & Salinas, 2010, p. 350).

By 2009, 14 local enterprises had managed to complete a two-phased certification programme from the Under-Ministry of Economic Development (Carrillo & Salinas, 2010, p. 350). At the beginning of 2014, Queretaro had become renowned as “the only Mexican state able to start up an aeronautic industry of local capital” with 11 local enterprises as direct suppliers of the bigger TNCs or as independent exporters (Flores, 2014). According to SEDESU Minister Marcelo López, in the past, these enterprises had dedicated their activities to the automotive and electronic household sectors until upgrading to the aeronautic sector. Consolidating local enterprises was thus a main objective of the SEDESU Ministry. In the words of its Minister, “if we want to talk about a Mexican aeronautic industry, there must be Mexican enterprises” (Ibid.).

In only ten years, Queretaro was being hailed as a “successful case” of development in regards to its aeronautic sector (Tzitzitzi & Feix, 2015). Queretaro had grown from having two enterprises to 80 in the sector; forming around 8,000 professionals in the field, while attracting more than 1,500 million USD in a sector constituted by high quality employment.

Overall, the success of Queretaro's continuity in terms of its economic development policies and, more specifically, in Governor Calzada's sectoral policies, were reflected at the end of 2015. For the first time in decades, Queretaro had managed a positive trade balance differential of 200 million USD. Furthermore, from 2005 to 2014 Queretaro was the Mexican state with the highest annual economic growth average with 5.0 GDP (Márquez, 2015 based on INEGI).

8.4 Conclusion

By 2015, Queretaro had once again managed to construct a competitive advantage in one of the country's most high-technology sectors: the aeronautic sector. In less than a decade, Queretaro's aeronautic industry had consolidated to the point of contributing 36% of Mexico's exports in that sector (Calzada, 2012, p. 3) Once more, Queretaro's governors and its more institutionalised economic development ministries played the role of "binding agents" for the subnational state's industrial achievements. The microeconomic practices of these actors had managed to replicate the success of Queretaro's industrial consolidation in the past century. The objective that these microeconomic practices had achieved was, as then, about "maximizing induced decision-making" (Hirschman, 1958, p. 44) or what Evans termed "midwifery" (1995, pp. 13–14) – essential roles for industrial transformation.

Queretaro's economic development surely benefitted from its government's emphasis on continuity as well. A testimony, in turn, of how "the basic bureaucratic model can be stretched further and still deliver" (Evans, 1995, p. 64), even if carrying deficiencies in regards to its meritocracy – sharing similar experiences with Brazil and India during the past century. Additionally, Queretaro's present and past experiences of mutually empowering relations serve as evidence of rewarding approximations toward a twenty-first century embedded autonomy.

In this particular aspect of state-society synergies, the institutional layering of industrial policy in Queretaro continued to be a helpful platform for channelling public-private collaboration. The institutionalisation of these relations in the past century, through the CODIQUE for example, served as a continuing mechanism to improve Queretaro's industrialisation. In the new century, the subnational government's most impacting institutions were the formal tripartite clusters between government, business, and academy, as well as both formal and informal patterns of synergies. Likewise, industrial policies in Queretaro were substantially guided by the increasingly protagonist role of the Under-Secretariat of Economic Development as the coordinating organisation of industrial policy.

In the particular case of Mexico, Queretaro is yet another testimony of how the subnational level seems to be the better platform for these public-private collaborations in industrial matters – as already reviewed by Schneider (2013, pp.21–2). Furthermore, as in the case of Nuevo Leon, these public-private collaborations were highly reminiscent of strategies enhancing industrial transformation in Nordic Europe (Ornston, 2013,

pp.12–22) and other countries across the globe (Devlin & Moguillansky, 2009, pp.104–14; Hausman, Rodrik & Sabel, 2008, pp. 12-7). In a similar vein, the emphasis that Queretaro’s subnational government put on industrial upgrading and accumulation of human capital is also reminiscent of the recent strategies of Costa Rica as related by Sánchez-Ancochea (2009, pp. 62-3).

The present circumstances of a new internationalised and more democratic context, however, do keep presenting some formidable challenges. In regards to TNCs, according to economic development officials, the challenge is to positively involve them in their host state’s more encompassing goals – creating local suppliers and human capital, enhancing social responsibility and participating jointly in the state’s evolving industrial challenges. A more integrated development of Queretaro’s local industry, in the case of the aeronautic sector, seems far from over. However, the aforementioned evidence of upgraded local producers presents rewarding results. Furthermore, the creation of more professional and technical human capital has also, thus far, shown some positive effects on the state’s living conditions (*calidad de vida*). This factor is reflected in Queretaro having been the highest generator of formal employment from 2009 to 2014 (SEDESU, 2015, p. 9).

Queretaro’s past experience of state-society synergies were also seemingly fundamental in conceiving a developmental consensus, even more so with the growing complications of the “new internationalization” – where state-society ties have become increasingly disrupted by TNCs (Evans, 1995, p. 208). Contrastingly, in Nuevo Leon, the more conflictive traditions between business (the Monterrey Group) and state led to grave confrontations in which TNCs (namely KIA motors) and a crony “race to the bottom” inflicted substantial friction.

A vital finding thus revolves around the reiterated importance of crony practices in Mexico’s economic development. For Querétaro to land its first aeronautic investments, its state-society ties had to play the midwifery role, not only with the aeronautic TNCs, but, first, with Mexico’s President as well. It was only in 2003, after gaining the President’s favour, with Queretaro’s airport as a “gift”, that their territory gained a presence as a platform for landing aeronautic FDI.

Lastly, the participation of the federal government is yet to be defined. Throughout the new century, the National Council for Science and Technology (CONACYT) has continued to be a both an R&D and financial support for subnational programmes on industry. Besides CONACYT, however, the federal government still seems rather

“indisposed to adopt industrial policies” (Schneider, 2013, p. 26), preferring instead to extend past efforts at global integration and horizontal policies without any other notable strategy for strengthening domestic industries. In the particular administration of Peña Nieto (2012-2018), the initial enthusiasm in promoting industrial policy with the creation of federal programme such as INADEM (National Institute of the Entrepreneur) has gradually withered away, as in past administrations. At first, the enthusiasm was mostly felt with more expenditures on productive investments and federal-subnational coordination to define each state’s “strategic sectors” (interview with economic development officials, 2015). However, the present federal administration has gradually exhibited once more a cited “indisposition” towards more active industrial policies – continuing, in this manner, past administrations’ trends of deploying industrial policy more as “rhetoric” (Moreno-Brid & Ros, 2010, p. 224).

Chapter 9. Conclusion, Findings and Implications for Future Research

9.1 Industrialisation beyond Mexico's centre

The central question that this research posed at the beginning was: to what extent have subnational agents contributed to industrial transformation in Mexico? Before any fieldwork was undertaken, the project began with the rather naïve premise that it was only after the neoliberal shift that developmental roles were appropriated by subnational governments. During the fieldwork, however, through interviews and reviews of primary and secondary sources, another testimony was found. At least in the case studies, it was soon evident that subnational governments had been the main protagonists of Mexico's industrial upgrading in their respective regions. Moreover, the fieldwork also found out that certain societal groups (namely, in Nuevo Leon) had, at times, managed to supersede the state in terms of setting the strategies and rules of industrial growth across certain areas.

With this rather unforeseen finding, the project's approach was then redrawn both in its theoretical and empirical components. Given Mexico's already remarked upon ambivalence regarding its political and economic development, the "state-in-society" approach contributed in encompassing all the necessary elements to trace Mexico's multilevel industrialisation. Regarding the case studies, the state-in-society approach allowed this thesis to disaggregate the more elusive and centre-exclusive approaches that had been defining Mexico's industrialisation studies thus far. Through this approach, it was possible to link the micro- to the macro-level changes responsible for reshaping Mexico's economic development over the past century.

Still, as a first step, it was deemed necessary to address Mexico's incapacity for developing a cohesive developmental centre. It was thus useful to encounter Shils' statement regarding how the majority of the Third World countries lack an "effective center" (in Migdal, 1994, p.46). In the particular case of Mexico, it too had failed throughout the past century to consolidate a cohesive developmental centre. In the words of Susan Gauss (2010, p.15), Mexico's "post-revolutionary state never came close to creating an agency that approximated the role of the MITI in coordinating industrial trade and policy in Japan or the role of the *Commissariat Général du Plan* in leading France's

post-World War II indicative planning.” Or in creating a capable “pilot agency” as Evans (1995, pp.48–52; p. 117) termed the corresponding agencies in Japan, Korea and Brazil.

As depicted in the developmental literature and economic development history, successful industrialisers were reliant on state-capital alliances, although state autonomy or authority was also essential to mobilise the entire nation and move it towards economic growth (Evans, 1995; Kohli, 2004; Weiss & Hobson, 1995). In Mexico, it was the state’s autonomy or authority which faltered. Thus, using an intersection of Evans’ “embedded autonomy” and Migdal’s “state-in-society” approximations of state-capital relations, it was argued through Chapters 3 and 4 that economic elites achieved a regulatory capture of the state with regards to its economic development; a result also foreseen by Evans (1995, pp.12–3) when embeddedness supersedes the corresponding autonomy of the state. This circumstance, in turn, was exhibited in the state’s incapacity to implement integral fiscal reforms, levy taxes, devalue its currency or deepen its efforts in the country’s indigenous industrialisation.

The diverging contrast therefore between the revolutionary state’s myth or image of the national industrialiser and its pervasive crony practices eventually contributed to the neoliberal conjuncture of the 1980s and an increasingly fragmented state. But this thesis’ reliance on the state-in-society approach does not focus on the dialectical relation between a state’s image and its practices. Rather, it is used to heighten the periphery feedback triggered by an incapable centre, although unwillingly at times. This incapacity of Mexico’s developmental centre kept enhancing, and at times necessitated, the proactive role of subnational governments that wanted to pursue industrialisation across their respective territories. It is due to these circumstances that the present research considered it essential to disaggregate from the traditional centre-focused study on Mexico’s industrialisation. In contrast, the emphasis on a multilevel industrialisation – with a rather commanding initiative from below – seems a much stronger suit for addressing Mexico’s industrialisation throughout the past century and in current times.

Given these lines, mapping out the different levels of the state that were engaged in Mexico’s industrialisation generated a much clearer landscape of the diverging practices deployed towards industrialisation. As would be expected, the roles of each part of the state evolved during the studied timespan of more than a century. Overall, however, two of the sets of practices proved to be a benchmark for this multilevel industrialisation: crony practices and microeconomic practices.

Those practices termed “crony practices” had been consolidated between *Porfirian* political and economic elites since the end of the 19th century. Either through the *Porfirian* image of laissez-faire or the nationalistic image during ISI, these crony practices between political and economic elites at the centre kept setting the tone for Mexico’s industrialisation. As already depicted by several authors (Haber, 2002; Coatsworth, 1978; Bennett & Sharpe, 1982; Schneider, 1999), cronyism has managed to pervasively prevail in Mexico’s economic development. These practices, moreover, have been largely controlled from within Mexico’s economic neuralgic centre, that is, the Finance Ministry (Maxfield, 1990, p.33; Erfani, 1995; Bennett & Sharpe, 1982). Thus, when new bureaucratic units – such as the *cardenista* factions in the Ministry of Industry and Commerce, Nafinsa, or the Ministry of National Works – attempted to implement macro-economic practices more attuned with Mexico’s nationalistic image, they were generally undermined by the prevailing set of crony practices. Accordingly, it began to be increasingly difficult to think of attempts to foster new industries within this captured context.

This corrupted centre had two implications for subnational governments who aimed to bring prosperity to their states through industrialisation. First, they had to generate their own set of incentives and facilities to trigger subnational industrialisation. And, second, they had to row up-stream against the cronyism that was generally excluding peripheral actors. The implications of this will be examined further in the following sections.

9.2 Industrialisation from Below

The case studies of Nuevo Leon and Queretaro, two currently leading Mexican states regarding industry, thus manage to portray the aforementioned task of subnational industrialisation although in different time-periods. In this process, what this thesis termed “microeconomic practices” became essential to this task. Although in different time periods, both of the case studies found their beginnings in a rather underdeveloped context.

At the end of the 19th century, Nuevo Leon had this underdeveloped context, although with latent factors and agents for its industrial growth. A quite favourable relationship between its governor and its economic elites in the mid-19th century, however, contributed to considerably augment Nuevo Leon’s preindustrial capital – what has usually been considered as a main prerequisite for industrialisation (Gerschenkron,

1962, p.35). Still, the challenge of industrialising a northern state was not fully undertaken until the end of the century, within the context of *Porfirian* modernisation.

Near the end of the 19th century, Nuevo Leon seemed to have the pre-industrial capital and entrepreneurial agents necessary for industrial transformation. But most of these elements were being used in other not quite as productive activities: usury, speculation and commerce, among other activities. Thus, as written by Hirschman (1958, p.5), “development depends not so much on finding optimal combinations for given resources and factors of production as on calling forth and enlisting for development purposes resources and abilities that are hidden, scattered, or badly utilized.”

During these decades, the *Porfirian* regime’s state image of “laissez-faire” continued to show deficiencies at “calling forth” Nuevo Leon’s entrepreneurial resources. In the words of Gerschenkron (1962, p.24), “To break through the barriers of stagnation in a backward country, to ignite the imaginations of men, and to place their energies in the service of economic development, a stronger medicine is needed than the promise of better allocation of resources or even the lower price of bread”.

As argued by both of these authors regarding projects of industrial transformation, a “stronger medicine” and “a far stronger agent” (Hirschman, 1958, p.6) is usually needed. This was also the case for Nuevo Leon, a state which wanted to start up their industrial transformation during a time when their decay as a commercial leader seemed evermore imminent. It is therefore in this context that the figure of Governor Bernardo Reyes (1885-1909) rose to the occasion as Nuevo Leon’s binding agent for its industrial transformation. Nevertheless, to accomplish this role, Governor Reyes had to implement an ambitious set of incentives and facilities for industry (which were termed “microeconomic practices”). These microeconomic practices, in turn, were in vast contrast to the *Porfirian* state’s initial image of “laissez faire”.

Eventually and likewise, the stronghold that Mexico’s central offices (through the *científicos* and the Finance Ministry) had on the economy’s strategic sectors forced an interplay between Governor Reyes’ microeconomic practices and the crony practices deployed at the centre. After initial frictions and objections, Governor Reyes was able to break through these crony exclusions and scale-up the Monterrey Group’s resources and interests. Nuevo Leon then became Mexico’s industrial pioneer through the decisive guidance of the Monterrey Group. This is yet another case of industrial transformation constructed on state-capital alliances – as in the cases of East Asian NICs (Johnson, 1982;

Kohli, 2004) or early industrialisers such as Britain (Weiss, & Hobson, 1995, p.230), among others.

The fostering of the Monterrey Group by both the federal and subnational government nevertheless had its perils. In the 1930s, the self-proclaimed revolutionary government of Mexico began to experience its underlying weaknesses vis-à-vis other social forces, namely economic elites. According to Migdal (1988, p.234), “The problem has been that in the face of their own mobilizational weakness state leaders have allowed, even promoted, the growth of large power centers in Mexican society with significant concentrations of social control.” The Monterrey Group of entrepreneurs and industrialists, had thus grown to be a considerable power centre, not only in Mexico’s northern region, but across national platforms of economic and industrial policies.

The Monterrey Group’s capacity to establish their own set of rules regarding industrial relations during the 1930s and 40s, as depicted in Chapter 5, was clear testimony to both the mutual transformation and the struggles waged between state and society –struggles in which the state was sometimes the loser. By the time that a more ambitious industrialisation at the national level was favoured, mostly through the federal state’s role as regulator and subsidiser of services and infrastructure, the Monterrey Group was positioned as one of the most eminent industrial and financial groups in the country.

In contrast, the state of Queretaro was still remarkably underdeveloped around this time – that is, during the 1940s, the decade in which Mexico engaged in ISI. The lack of adequate infrastructure or Social Overhead Capital (SOC) in this state illuminated the role it usually played as an obstacle for triggering economic development across underdeveloped regions or countries (Hirschman, 1958, p.84). Queretaro thus had a stark SOC deficiency: lack of waterworks and resources, deficient electrical resources, as well as a grave transportation problem as it was rather isolated from Mexico’s highway system. In this sense, the implementation of a “development via shortage” of SOC (Hirschman, 1958, p.88) in Queretaro was much more “unbalanced” or challenging than in Nuevo Leon.

The continuing role, however, of Queretaro’s governors as binding agents, through a similar set of microeconomic practices, as in Nuevo Leon, triggered this “development via shortage” sequence. The facilities given to industrial activities began to attract bigger enterprises, both national and international, which in turn created pressures to address Queretaro’s lack of infrastructure. It was in this context that subnational state-society synergies or mutually empowering relations also proved to be key in Queretaro. It was

through these synergies between state and society that Queretaro managed to achieve “social construction” (Miranda, 2005, p.150) of its infrastructure. Furthermore, to achieve this “social construction” and its subsequent industrialisation, Queretaro’s governors were forced, as in the case of Nuevo Leon, to “scale-up” its industrialists’ objectives and efforts – as traced in Chapter 6.

Throughout this process of “unbalanced growth” (Hirschman, 1958, p.63), in which induced investments were created through the expansion of Queretaro’s infrastructure and industrial linkages, the state governor kept reproducing his role as binding agent; not only setting the strategies for industrial transformation, but also coordinating different economic agents and attracting prevailing industrial groups or fostering new ones.

Each level of the state was thus in charge of different roles, with the governors of Queretaro playing the “maximised inducer” (Hirschman, 1958, p.28) or “midwifery role” (Evans, 1995, pp.13–4), as termed by the authors in the wider literature, in a bid to attract new investments and foster new industrial activities. In contrast, the President and the federal government’s central offices (Finance Ministry, Nafinsa, General Direction of Electricity) were more in charge of regulating industrial activities in the context of ISI and subsidising infrastructural products and services to benefit the already consolidated economic elites.

In the characterisation of roles according to Evans (Ibid.), the President and the central offices generally combined the demiurge role (state-producer) with the custodian role (regulator). Both activities were continually undermined however through the re-deployment of crony practices from within that centre: SOE productivity was generally dismal due to its unflinching commitment to the private sector and regulatory attempts (i.e. tax reforms or regulatory frameworks for new industrial sectors) to foster a more sustainable industrialisation were also shot down by an overwhelming opposition of economic elites – as depicted throughout Chapters 3 and 4. Thus, as argued before, the evolving deficiencies of reproducing a developmental centre increased the need for subnational governments to consolidate their own developmental capabilities.

Within Queretaro’s subnational drive toward industrialisation, it is also vital to stress the importance of “institutional layering”, as it is termed in the wider literature (Streck & Thelen, 2005, pp.18–20), within its economic development. Informal patterns of coordinated efforts between state and society gradually consolidated into more formalised institutions – such as Juntas, the Council for Economic Development or the CODIQUE. Therefore, this institutional consolidation in Queretaro during Mexico’s ISI (1940-1982),

can easily be seen as a remarkable approximation to an “embedded autonomy”, as framed by Evans for other Third World cases (Evans, 1995, pp.12–3). This was a feat that was hard to conceive of in Nuevo Leon’s first industrialisation efforts during the *Porfiriato*, a time when the subnational state’s organisations were still much more improvised and embryonic. In the case of Nuevo Leon’s first industrial transformation, the institutional system of industrial policy relied mostly on two institutions: legal frameworks and informal state-business collaboration. Nevertheless, Mexico’s neoliberal shift during the 1980s, represented a troublesome interruption for both states’ industrial and state-society outlooks.

9.3 Subnational industrialisation amidst the new international context

As related in Chapter 4, adverse international circumstances and the growing friction between state and economic elites in the country ultimately led to the federal state’s shutdown of its national industrialisation project. A neoliberal shift was instead implemented. What this neoliberal shift brought to Mexico was what Evans termed as “new internationalization” for other Third World countries. In the words of this author, “If nationalist industrialization had been the leitmotif in the 1970s, a new internationalization was clearly taking hold at the end of the 1980s” (Evans, 1995, p.15).

Mexico thus also joined this wave of internationalisation, which represented an end to protectionist policies and industrial greenhouses, giving way to a bigger presence of TNCs across its economy. During the Salinas administration (1988-1994), this market orientation was deepened with a reform to Mexico’s foreign investment laws and regulations, ending many of the restrictions that foreign investment had exerted during Mexico’s ISI. Many of the economic elites who had previously lobbied for this neoliberal or market orientation were soon lobbying otherwise.

Within this new context, as traced at a national level in Chapter 4 and at a subnational level in Chapters 7 and 8, domestic firms and industries were increasingly displaced by TNCs. Ultimately, this displacement motivated the domestic business sector in launching a “microrevolution” (Johnson, 1998, p.125). What this business sector was demanding through its revolution was a federal government return to guiding the country’s industrial policy, along with complimentary changes to the state’s microeconomic policies in support of domestic firms. But this call for help went generally unanswered by the federal government throughout the end of the 1990s and the start of the new century (Johnson, 1998, pp.146–9; Moreno-Brid & Ros, 2010, pp.222–4).

This more open context, both in the economy and in the country's democracy, proved to be a bigger challenge to the consolidation attempt toward an embedded autonomy – as stated by Evans (1995, pp.205–6) in the wider literature. The wider presence of TNCs generally meant friction between the state and domestic firms. Similarly, the more democratic context also held a higher degree of complication for the traditional state-capital ties for industrial transformation, considering unions, workers and a more educated constituency had also to be included.

The negative effects were soon felt across this thesis' case studies. The competitiveness of Nuevo Leon's domestic sector began falling into decay (Fouquet, 2007, p.135). Likewise, Queretaro's productive chains and linkages were dismantled and its trade balance kept increasing (Carrillo & Salinas, 2010, p.343). It was evident that the federal government's withdrawal in regards to industrial policy was not the optimal response to the new internationalisation. In other words, the new internationalisation in Mexico lacked the combination of roles which Evans (1995, p.212) considered essential for supporting and fostering a domestic industrial sector in a more open context: midwifery – challenging industrial groups towards more challenging activities through the use of incentives – and husbandry – assisting existing firms in meeting new challenges.

In contrast to Brazil or India, Mexico's central offices did little to support the transition to an open economy. Where Brazil and India's central offices had played key roles in negotiating joint ventures between domestic capital and TNCs, along with better conditions for the domestic enterprises (Evans, 1995, pp.184–90), Mexico's central offices' presence was largely unfelt in this regard. According to a former Minister of Commerce and Industrial Foment, NAFTA *was* the state's industrial policy within this new international context (Johnson, 1998, p.137).

It thus became the subnational government's duty to address their private sector's demands for industrial policies and microeconomic changes. In order to reposition their respective states as industrial leaders in the country, the governors found themselves compelled to construct new competitive advantages in their state's industry. Again, the disparaging practices across the state's different levels of government would be crystallised in matters of industrial policy. The federal state's neoliberal or laissez-faire image was soon contradicted by microeconomic practices of strategic and sectoral incentives, deployed at the subnational level.

Along these lines, Governor González's "binding agent" role in Nuevo Leon was vital in regaining the state's industrial edge. The governor's vast array of microeconomic practices, with the objective of fostering the state's knowledge economy, positioned Nuevo Leon among other subnational cases of success in the said sector –Sao Paulo and California (Ferreira et al., 2008, p.178). A similar case was exemplified by Queretaro's governors, namely Governor José Calzada, in constructing a comparative advantage in the challenging aeronautic sector. A feat that was achieved in both cases through more inclusive and democratic mechanisms – generally through the "triple helix" model of collaboration between public, private and academic sectors.

In the case of Nuevo Leon, however, the benefits of devolution were soon undermined by its perils as the fiscal decentralisation of substantial resources eventually meant a devolution of crony practices in the administration of Governor Medina, leading once again to a confrontation between its government and the powerful Monterrey Group.

In this sense, the cases of Nuevo Leon and Queretaro present both similarities and differences with regards to their economic development institutions. In both cases, the layering of institutional arrangements and synergies between state and society led to substantially better approximations to an embedded autonomy than those attempted within national platforms. Nonetheless, in the case of Nuevo Leon, the growing force that its Monterrey Group had consolidated as a power centre and, later, the devolution of crony practices, eventually led to multiple fractures of state-society ties. Recapitulating on Nuevo Leon's institutional change regarding economic development, it could very well be captioned as a case of "punctuated equilibrium" (Krasner, 1984, pp.240–4). In this model, "institutions are characterized by long periods of stability, periodically 'punctuated' by crises that bring about relatively abrupt institutional change, after which institutional stasis again sets in" (Thelen & Steinmo, 1992, p.15).

Along these lines, the periods of stability between the Monterrey Group and the state were those in which the Group's interests were catered for – for instance, during the *Porfirian* regime and through the first two-thirds of Mexico's ISI. These periods were then punctuated by the more redistributive policies in operation during the Cárdenas administration (1934-1940) and during similar policies of Presidents Echeverría and López Portillo (1970s-80s), when the confrontations peaked between the President and the Monterrey Group. Later, in the new internationalised context, stability was gradually built up, consolidating most effectively during the administration of Governor González (2003-2009). This, however, only gave way to yet another crisis during his successor's

administration and its devolution of crony practices which, in contrast to the past decades, were not conditioned on favouring the Monterrey Group.

In contrast, Queretaro's state and society, scarred by the 19th century's bad experience of revolutions and military administrations, had been trying to avoid crises in state-society relations either at a subnational level or in relation to the federal government. This, in turn, facilitated their "social construction" (Miranda, 2005, p.150) of infrastructure, their rapid industrialisation and acquisition of favourable treatment from the President – e.g. the construction of the Benito Juárez Industrial Park during President Echeverría's administration or the support of President Fox in landing big TNC investments in the aeronautic sector.

Overall, the review of these two case studies through a state-in-society approach allowed this research project to actually review "where the ballgame (was) being played" (Migdal, 1988, p.39) in regards to Mexico's industrialisation. Likewise, this approach facilitated the examination of the subnational variation that the same process of industrialisation has had across two Mexican states. As a conclusion, the following section will recapitulate on the thesis' main contributions.

9.4 Contributions and implications for future research

The following paragraphs will examine the insights and contributions that the present research pursued regarding mostly two aspects of state-led industrialisation. First, a multilevel approach to industrialisation; and, second, a more *longue durée* approximation of Mexico's industrialisation. Lastly, this section will explore another contribution of this thesis that has been largely unaccounted for in Mexico's recent industrial policy literature: the on-going attempt of industrialisation and active industrial policy, despite Mexico's extended neoliberal orientation at the federal level.

At the core of this research's case studies, the shared role of "binding agents" at a subnational level seems to provide new perspectives on Mexico's fragmented industrialisation, and, more generally, on state-led industrialisation. As touched upon in previous chapters, Hirschman's conceptualisation of "binding agents" for industrialisation (1958, pp.5–10) proved to be a particularly useful concept for this thesis. Through this concept, this research project was able to characterise the vital role that some subnational agents played in Mexico's industrial transformation, without constraining itself to previous depictions of developmental agencies in the wider literature – that is, where meritocratic characteristics and career-paths are stressed as essential variables or

factors (Evans 1995, p.12; Jessop, 2016, p. 33; Johnson, 1982, pp.10–34). In contrast, whilst the binding agents of the case studies lacked the meritocratic characteristics of Weberian bureaucracy, they still managed to set a path for industrial transformation and to engage the required economic actors in this process. This is precisely the reason why political continuity, along with the presence of binding agents, becomes one of the transformative factors or variables of the examined subnational cases.

The leading role of subnational governments in achieving industrial transformation thus relates to the two main contributions pursued by the thesis. After detecting the pivotal role that these binding agents had at the subnational platform, this thesis was able to examine the more multilevel characteristics of industrialisation across Mexico. In particular, when this subnational process was highlighted, the research could consequently examine not only the subnational variation of Mexico's industrialisation, but also the subnational *determination*. In other words, the periphery feedbacks and influences that these subnational processes had on national industrialisation.

At first, to trigger industrial transformation, industrial policies and the necessary state-society relations were built at a subnational level. Then, it was the task of governors to scale-up their subnational state's industrial objectives against the crony mechanisms that were generated at Mexico's centre.

Mexico's prevalent cronyism at the federal level has been frequently highlighted in previous literature as a structural deficiency impeding more integral industrialisation (Haber, 2002, p.xii; Coatsworth, 1978, p.94; Bennett & Sharpe, 1982, pp.169–70; Schneider, 1999, p.280). However, as seen throughout the case studies, it was at the subnational level that more active policies and state-society relations were forged to achieve an industrial transformation. Furthermore, the cronyism prevalent at the federal level generally presented itself as an initial obstacle for subnational industrialisation efforts.

During the *Porfiriato*, Mexico's crony centre was mostly trying to jealously guard strategic sectors of the economy in order to benefit a close-knit network of allies. During ISI, the crony centre was generally attempting to appropriate economic rents relating to public subsidies and infrastructural resources for already consolidated industrialists. As a result, during both stages, the centre became an obstacle or ceiling for peripheral industrialisation. Beyond this initial obstacle, however, the centre promised substantial returns.

Despite these crony characteristics then the protectionist frameworks that were put in place both during the *Porfiriato* and ISI became fundamental in consolidating the industrial transformations of Nuevo Leon and Queretaro, respectively. It took, however, a lot of effort from governors as power-brokers and negotiators to benefit from the federal macro-economic framework of protectionism – an achievement which again underscores the multilevel characteristics of Mexico’s industrialisation.

Accordingly, the thesis required a *longue durée* approach to trace these subnational processes from start to finish. It was by using this particular aspect – the gradual institutionalisation of industrial policy – that the thesis pursued its second main contribution. In a large part of the literature on Mexico’s industrialisation, not only did a federal level focus predominate, but also a time-frame mainly encompassing the ISI years (1940-1980).

In this particular aspect, studies on Mexico’s industrialisation seem to deviate from the classical works on developmental states. In these works, long term approaches are undertaken to explain the institutional origins and evolution of the Japanese industrial Miracle (Johnson, 1982) or the Korean and Taiwanese industrial Miracles (Amsden, 1992; Wade, 1990) respectively. By using this long term approximation, these studies are able to trace the *longue durée* process that industrial transformation implies – along with the evolution of the organisations or agencies that led the process.

By using a more long-term approach, this thesis therefore managed to examine the institutional layering that industrial policy had on the case studies. It took decades for Nuevo Leon and Queretaro to achieve their industrial transformations; furthermore, these processes required a binding agent role that could hardly crystallise within the cronyism practiced at Mexico’s centre.

In Nuevo Leon, the initial transformation was undisputedly benefited by the continuity of Governor Bernardo Reyes, who held that position for more than two decades. Contrastingly, in Queretaro’s late industrialisation period, its industrial transformation was undertaken in political circumstances in which governors could no longer re-elect. However, from 1940, the “social consensus” regarding Queretaro’s development path was able to support several generations of governors who effectively played the role of binding agents – with the particular success of Governor González de Cosío during the 1960s.

The assumption of a “positive relation” between economic development and democracy, as evidenced elsewhere, has failed to crystallise in the Latin American region

(Landman, 1999, p. 624). In the case studies, moreover, the two political contexts which enabled this continuity recall Leftwich's (2005, p.695) "institutional incompatibilities" between democracy and development within the developmental states' literature. In Leftwich's words, "sustained growth and development has almost everywhere required a coherent, consistent and continuous policy path which has normally only been achieved by strong states through either *non-democratic authoritarian* rule or *dominant-party democracy*" (Ibid., emphasis added). In the thesis' case studies, it is the conjuncture of binding agents and political continuity that thus became the independent or transformative conditions; but as De Schweinitz (1964, p. 7) stated in his own research, these conditions were the "necessary but not (the) sufficient conditions".

In the case of Nuevo Leon's initial industrial transformation during the *Porfiriato*, Governor Bernardo Reyes role as binding agent benefitted from the continuity that a "non-democratic authoritarian" regime provided. Consequently, in the more than 20 years that Bernardo Reyes administered the subnational state, a coherent and consistent policy path was gradually consolidated. On the other hand, Queretaro's governors not only benefitted from the "social consensus", but also from the political consensus enabled by the PRI's hegemony –a "dominant-party democracy".

Therefore, in this landscape of initial industrial transformations, both of Nuevo Leon and Queretaro, having their governors act as binding agents seems to be the central factor triggering rapid industrialisation. However, an array of supportive factors was also needed for these industrial transformations to crystallise: such as international conjunctures, macroeconomic policies, geographic location and state-society synergies.

Gradually, these binding agents in both Nuevo Leon and Queretaro formulated the industrial policies and state-society synergies necessary to pursue a cohesive project of industrial transformation in their states. As a result, when the international and democratic context posed new challenges for Mexico's economy at the end of the 20th century, these subnational platforms proved to have better institutional capabilities to regain a lost industrial edge.

In the existing literature on Mexico's industrialisation, much emphasis has been put on the federal government's dismantling of developmental apparatus from the 1980s onwards. Nevertheless, as argued in the thesis, this central apparatus of development was never the binding agent in charge of the country's industrial transformation. What the neoliberal governments of Mexico dismantled since the 1980s was, more precisely, the

crony framework consolidated throughout the century: massive bailouts and subsidies, plus a rather inefficient framework of state-owned enterprises.

Since the neoliberal shift in the 1980s, then, the Mexican state has been seen as “rather indisposed to adopt industrial policies” (Schneider, 2013, p.26) or using industrial policy merely as “rhetoric” (Moreno-Brid & Ros, 2010, p.224). But even if the Mexican state had a better disposition towards adopting industrial policy in the new century, it seems rather far-fetched to visualise it having any success, moreover, especially when considering the Mexican state’s ongoing fragmentation. Contrastingly, in the particular case of this research’s case studies, their subnational platforms had a much more developed institutional system of effective industrial policy – characterised by evolving legal frameworks and an increasing formalisation of industrial relations and state-business synergies; a circumstance that was fundamental for the successes that Nuevo Leon and Queretaro had in regaining their states’ industrial edge in the new international context.

This last implication led the thesis to a third insight, mostly regarding industrialisation in the new century. As related extensively by the industrial policy literature regarding Latin America and Mexico, the latter has been characterised as one of the more intense implementers of neoliberal policies – in detriment to a more active or vertical industrial policy. In the particular literature of the “new developmentalism”, Mexico is now usually portrayed as the opposite of Brazil, a country that has been shaping a new sort of state activism regarding industrial policy and economic development (Trubek, 2013, pp.14–7).

What this thesis hopefully achieved in the last two chapters of its case studies is to give a different account of state activism in Mexico. Again, if the prevailing literature aims to summarise Mexico’s current industrial policy by using mainly a federal focus, many of the underlying realities will be unappreciated. The federal level’s emphasis on FDI, international trade agreements and little intervention does not capture the multilevel landscape of Mexico’s industrial policy. In contrast, this thesis gives fresh insights to ongoing Mexican state activism and industrialisation at a subnational level; a testimony that is usually unaccounted for and that considerably deviates from the neoliberal orientation prevailing at Mexico’s federal level.

Therefore, throughout Chapters 7 and 8, this thesis was able to depict subnational governments’ activism reminiscent of Brazil’s “new developmentalism” (Trubek, 2013, pp.16–7; Schapiro, 2013, p.114). This subnational activism was thus emphatic on

redeploying active or vertical industrial policies and industrial incentives to each state's "strategic sectors", in an effort to strengthen the subnational industry's competitiveness, its exports and its innovation capabilities. Regarding this thesis' case studies, they are now among the Mexican states exhibiting productivity levels similar to the East Asian Tigers, as frequently cited by Ricardo Hausman (in *The Economist*, 2015). Many of these new subnational strategies have thus contributed substantially in the achievement of these levels. Still, a pending challenge for both of these subnational states is to further integrate their export industries to their domestic economy – where, for instance, Queretaro's aeronautic industry has recently shown progress.

Furthermore, in the new international and more democratic context, the factor of continuity has again garnered relevance. As examined throughout Chapter 8, according to Queretaro's ministers, "continuity" has in fact been emphasised as one of the main factors for the success of Queretaro's economic development ministries. Despite an alternation of parties in the gubernatorial election of 2009, Queretaro's industrial policy was strengthened by Governor Calzada's willingness to set political colours aside and, instead, favour the continuity of policies and ministers in his economic development cabinet.

Contrastingly, in the case of Nuevo Leon, the arrival of the first independent governor to a subnational office disrupted 12 years of a continuous and coherent industrial policy. Moreover, the reinvigorated presence of Nuevo Leon's economic elites in political and economic matters has proven to be a further challenge to the achievement of a balance between embeddedness and autonomy. It is thus evident that, in the absence of meritocratic and career-path requisites, the continuity of policies and policymakers will continue to challenge a more sustainable industrial policy at the subnational level. The depicted strategies of public-private collaboration through councils and clusters, have however, been relied upon to strengthen the continuity of industrial policies – a strategy which has similarly supported other countries in their respective industrial transformations (Ornston, 2013, pp.12–22; Devlin & Moguillansky, 2009, pp.104–14).

Finally, this research turns to the matter of "generalisability" regarding the case studies' findings; an aspect that also relates to this thesis' implications for further research. Although industrial transformation processes have been remarkably unique throughout history, in the present case studies the shared patterns of microeconomic practices, governors acting as "binding agents", "scaling-up" and state-society synergies can very well relate to other successful accounts of subnational industrialisation across

Mexico –for instance, northern Coahuila, central Estado de México, the Bajío’s Aguascalientes and Guanajuato.

In this sense, the formulation of “microeconomic practices” toward industrial progress could very well be transferred to other subnational states across Mexico. Or, even, to other cases across the globe, for example, Sao Paulo in Brazil or California in the United States, where subnational governments have already been identified as efficient and successful transformers of their respective states’ industrial outlook throughout the new century (Ferreira et al., 2008, p.178).

In the particular case of the United States, the much stronger tradition of federalism has usually generated these accounts of subnational variation and feedbacks (Spink et al., 2008). In the case of Brazil, heightened regionalism around its economic development could likewise contain interesting accounts of periphery-centre feedbacks regarding industrial transformation – as hinted at throughout Katzman’s depiction of Brazil’s “regional dimensions” of development (1977).

To conclude, the present research has aimed to provide a perspective on Mexico’s industrialisation. By moving away from a traditional focus on the federal level, the thesis’ case studies served as accounts of the more multilevel circumstances that eventually shaped the processes of industrial transformation in Mexico. Furthermore, the approximations and arguments developed throughout the course of this thesis could likewise contribute in broadening the scope of studies regarding state-led industrialisation in the wider literature.

Appendix I. Materials regarding semi-structured interviews

1. List of interviewees

Table 1. Interviewees in Nuevo Leon:

Name	Position
Ricardo Apaez	Director of Committee of Innovation of Nuevo Leon's Automotive Cluster (CLAUT)
Rolando Zubirán	Former Secretary of Economic Development in Nuevo Leon (SEDEC)
Jorge Arrambide	Former Secretary of Economic Development in Nuevo Leon
Enrique Martínez y Martínez	Former Delegate in Nuevo Leon of the federal Secretariat of Economy
Félix Coronado	Delegate in Nuevo Leon of the National Institute for the Social Economy (INAES)
Hector Tijerina	Former Coordinator for Investments in SEDEC
Alba Luz Cerdán	Coordinator of Programme <i>Hecho en Nuevo Leon</i> (Made in Nuevo Leon)
Mario Mendivil	Coordinator of Centro de Atención Empresarial (Centre of Entrepreneurial Assistance) of Nuevo Leon
Leslie Najera	Coordinator of the Direction of Clusters (<i>Agrupamientos Industriales</i>) in SEDEC

Table 2. Interviewees in Queretaro:

Name	Position
Juan Carlos Ituarte	Head of Under-Secretariat of Economic Development in SEDESU
Cecilia Bustamante	Director of SMES (Small and Medium Enterprises or Pymes, in Spanish) in SEDESU

Daniel Hernandez	Director of Programme for the Development of Purveyors in SEDESU
Rodrigo Villagrán	Coordinator of Investments in SEDESU
Sergio Almeida	Delegate in Queretaro of the federal Secretariat of Economy
José Luis Huici	Former Vice-President of Queretaro's Chamber of the Transformative Industry

2. Example of interview materials and questionnaire

Introduction, information sheet and consent form (resumed):

-Objective: The aim of this project is to illuminate the effects that decentralisation measures have had on economic development.

-Information sheet and confidentiality: Only the researcher will have access to the information arising from this interview. The participant's involvement is completely voluntary, and they are at complete liberty to withdraw or modify any statements or information at any time that they consider convenient during the research project

-Consent form: Do you agree to take part in the study? If you do wish to participate, do you prefer for your details to be kept under anonymity? (You may take part in the study without agreeing to this.)

Questionnaire (resumed):

-Could you describe your position in this organisation?

-What type of relation or coordination do you have between SEDEC/SEDESU and the federal Secretariat of Economy?

-What type of coordination is there between the governor and the SEDEC/SEDESU?

-What have your experiences been regarding decentralisation measures, if any, regarding economic development?

-In which way do you interact with programmes such as IMMEX, PITEX or INADEM?

-Could you illuminate on the processes of negotiation between your organisation and TNCs interested to invest or settle in your state?

-Could you expand on the measures, if any, undertaken to ameliorate the persistent trade deficits in Mexico?

-When defining the priorities or objectives for each year, did you look to involve actors from the private and academic sectors?

-Considering you are now more acquainted with the details of my research, is there any person you would recommend me who could provide important information?

List of Abbreviations

ALTEX	Programme for Highly Exporting Enterprises
AMSDE	Mexican Association of Economic Development Secretaries
CAINTRA	Chamber for the Transformative Industry
CAN	National Civic Action
CANACO	National Chamber of Commerce
CECATI	Capacitation Centre for Industrial Labour
CFE	Federal Commission of Electricity
CIATEJ	Research and Assistance Centre for Technology and Design of Jalisco
CINVESTAV	Centre for Research and Advanced Studies of the National Polytechnic Institute
CMIC	Mexican Chamber for the Construction Industry
CODIQUE	Council for Queretaro's Industrial Development
COMEXQRO	Programme for Queretaro's International Commerce
CONACYT	National Council for the Science and Technology
CONAGO	National Commission of Governors
CONAMIN	Confederation of Industrial Chambers of Mexico
COPARMEX	Confederation of Mexican Owners
CROC	Revolutionary Confederation of Workers and Peasants
CTM	Confederation of Mexican Workers
FDI	Foreign Direct Investment
FICORCA	Exchange Risk Coverage Fund
FNSI	National Federation of Independent Unions
FOBAPROA	Banking Fund for the Protection of Savings
IADB	Inter-American Development Bank
ICA	<i>Ingenieros Civiles Asociados</i>
ICET	Institute for the Evaluation and Capacitation of Labour
IFI	International Financial Institutions
IMF	International Monetary Fund

IMMEX	Programme for the Manufacturing, Maquila and Export Industry
IMSS	Mexican Institute of Social Security
INADEM	National Institute of the Entrepreneur
ISI	Import Substitution Industrialisation
MIC	Ministry of Industry and Commerce
MTYCIC	Monterrey, International City of Knowledge
NAFTA	North-American Free Trade Agreement
PAN	National Action Party
PRD	Party of the Democratic Revolution
PRI	Institutional Revolutionary Party
PGAD	General Plan of Works of Potable Water and Sewage
PIIT	Research and Technology Innovation Park
PITEX	Programme for Temporal Imports to Produce Exports
SEDEC	Secretariat of Economic Development (Nuevo Leon)
SEDESU	Secretariat of Sustainable Development (Queretaro)
TNC	Transnational Companies
Tremec	<i>Transmisiones de Equipos Mecánicos</i>
UANL	Autonomous University of Nuevo Leon
UdeM	University of Monterrey
UNAQ	Aeronautic University of Queretaro
WB	World Bank

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