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Mexico's Business and Entrepreneurship in the Era of Nationalism

This article studies the evolution of business in Mexico from the Revolution (1910–1920) to the early 1980s, a period when the state played a major role in the economy and undertook nationalistic policies. It explores the development of distinctive features that characterize business in Latin America: the importance of family-owned diversified business groups and immigrants, the prominence of illegal business, the central role of the entrepreneur, and the greater need to forge ties with government agents for company success. We argue that while some of these features had existed earlier, during this era they took the form that has prevailed until the present day.

Keywords: Mexico, twentieth century, nationalism, business, entrepreneurship

Business in Mexico shares some distinctive features with business in other emerging markets, particularly in Latin America. One of the most salient is the prevalence of the family-owned diversified business group rather than the multidivisional form, or M-form, as the primary organizational structure of large-scale domestic business. This kind of business organization has recently attracted academic interest as a rational response to institutional voids, which could be highly productive and enduring, rather than a "second-best" alternative to Western-style corporations.[1] The scholarship on "varieties of capitalism" has also paid attention to this business

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[1] Asli M. Colpan, Takashi Hikino, and James R. Lincoln, eds., *The Oxford Handbook of Business Groups* (Oxford, 2010). Other studies show that the family-business group was also widely used in some advanced Western countries. Geoffrey Jones, *Merchants to Multinationals* (Oxford, 2000); Jones, "Britain: Global Legacy and Domestic Persistence," in *Business*

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structure since it is a prominent element of what Ben Ross Schneider has labeled "hierarchical market economies."[2] Several scholars have studied business groups in the Latin American context, finding considerable diversity across different regions and within countries.[3] The latter studies have shown that business groups in emerging countries "have been closely linked to the historical path of entrepreneurial families, their businesses, and their position in their respective social and political milieu."[4] Furthermore, studies have also shown that entrepreneurial families have been essential in organizing global corporations in Latin America (*multilatinas*).[5]

Another feature pointed out in the literature that distinguishes business in Latin America, and is shared with other emerging markets, is the central role of entrepreneurs, entrepreneurial families, and family businesses.[6] The latter are more important in the region's business development than large corporations and managerial hierarchies.[7] The scholarship has also highlighted the importance of immigrants as a critical source of entrepreneurship.[8] Finally, several studies have identified the relevance of political relations for business success; the prevalence of rent-seeking behavior as a distinguishing element of Latin American business; and the role that illegal and informal forms of business have played in the region.[9]

Groups in the West: Origins, Evolution, and Resilience, ed. Asli M. Colpan and Takashi Hikino (New York, 2018), 123–46.

[2] Ben Ross Schneider, "Hierarchical Market Economies and Varieties of Capitalism in Latin America," *Journal of Latin American Studies* 41, no. 3 (2009): 553–75.

[3] María Inés Barbero, "Business Groups in Argentina during the Export-Led Growth (1870–1914)," in *Entrepreneurship and Growth: An International Historical Perspective*, ed. Gabriel Tortella and Gloria Quiroga (Houndmills, U.K., 2013), 90; María Inés Barbero and Nuria Puig, "Business Groups around the World: An Introduction," *Business History* 58, no. 1 (2016): 6–29.

[4] Gareth Austin, Carlos Dávila, and Geoffrey Jones, "The Alternative Business History: Business in Emerging Markets," *Business History Review* 91, no. 3 (2017): 557.

[5] María Inés Barbero, *Multinacionales latinoamericanas en perspectiva comparada: Teoría e Historia*, Serie Cátedra Corona no. 23 (Bogotá, 2014).

[6] The terms "entrepreneur" and "entrepreneurship" are subject to a considerable debate. In this essay we understand "entrepreneur" to refer to someone who identifies a commercial opportunity and then organizes a venture or system to implement it so that it makes money. The entrepreneur will usually invest capital in the business and take on the risks associated with the investment. We understand entrepreneurship as the resource and process whereby individuals utilize opportunities in the market through the creation of new business firms. The concept of the entrepreneurial family refers to the family as an institution, or social structure, that can both drive and constrain entrepreneurial activities.

[7] Austin, Dávila, and Jones, "Alternative Business History," 544; Paloma Fernández Pérez and Andrea Lluch, eds., *Familias Empresarias y Grandes Empresas familiares en América Latina y España: Una visión de largo plazo* (Madrid, 2015).

[8] Austin, Dávila, and Jones, "Alternative Business History," 548–49.

[9] Austin, Dávila, and Jones, 551–52; Stephen Haber, ed., *Crony Capitalism and Economic Growth in Latin America* (Stanford, 2002); Andrew Paxman and José Galindo, "El capitalismo de cuates en perspectiva global," *ISTOR* 17, no. 68 (2017): 3–6; José Galindo, *Ethnic Entrepreneurs, Crony Capitalism, and the Making of the Franco-Mexican Elite* (Tuscaloosa, AL, 2021), 55–81.

These characteristics developed historically as entrepreneurial actors forged their capabilities over generations to adapt to particular contexts. Gareth Austin, Carlos Dávila, and Geoffrey Jones explain that long eras of foreign domination, extensive state intervention in the economy, and extended turbulence in emerging countries gave way to business responses that differed from those found in the developed world. In Latin America, business had to deal with instability, political and economic uncertainty, institutional voids, inefficiencies, and autocratic governments.[10] However, the particulars of these circumstances varied between countries and time periods, resulting in different business responses that, along with path dependence, shaped the variety of features that we observe in the present. It is thus relevant to identify when and in what contexts the distinctive traits of business in a particular region appeared and how they evolved.

This article explores the origin and evolution of Mexico's main business characteristics since the late nineteenth century. We identify three major cycles in which local business adapted to different contexts in terms of its relationship with the government and to international flows of goods and capital. Government capacities and policies, as well as the international environment, varied within these three periods, which are marked by ruptures produced by internal and external factors. The first cycle corresponds to the international belle epoque of commerce and financial flows that has been characterized as the first era of globalization, when Mexico was ruled by President Porfirio Díaz (1877–1910). The second cycle refers to the international era of deglobalization that began with World War I and was reinforced by the Great Depression.[11] In Mexico, this rupture began earlier, as a result of the Mexican Revolution (1910–1920), but was also radically shaped by international events, giving way to a larger role of the state in the economy and policies that restricted foreign trade and investment that we call the era of nationalism. The third cycle, marked by the new era of globalization and the prevalence of market-oriented policies, began in Mexico with the deep financial crisis that started in 1982.

In particular, we focus on the changes that took place between the first and the second cycles, in which business and the state reached a new equilibrium—based on nationalistic premises—that gradually eroded and collapsed. It was during those years when the most important of Mexico's current business conglomerates appeared and began to organize into closely held family-owned business groups. We will

[10] Austin, Dávila and Jones, "Alternative Business History," 537, 558.

[11] Geoffrey Jones, "Globalization," in *Oxford Handbook of Business History*, ed. Geoffrey Jones and Jonathan Zeitlin (Oxford, 2015), 147–49.

focus on the way entrepreneurs and businesses responded and adapted to the new challenges and how this gradually shaped Mexico's present-day business features, which have prevailed despite changes that came about after the 1980s when the country embraced the second global economy.

We argue that many of the traits that characterize contemporary Mexican business were forged during this second cycle. Yet business historians have seldom explored this period, in part owing to the difficulty of accessing primary sources. Given the broad objective of this article, we base our arguments mostly on secondary sources, many of which were produced during the second period for policy purposes and have not previously been used for historical analysis. We hope that this article raises interest in those years so that future researchers discover more primary sources that would contribute to its understanding.

In the pages that follow, we explore the evolution of some distinctive features that characterize Mexican business according to the literature: the role of entrepreneurs and immigrants, the importance of illicit business and rent-seeking strategies, and the creation and evolution of family-owned diversified business groups. The first part describes the business context and business main characteristics between 1880 and 1910. Next, we explain how the Mexican Revolution and the end of the first era of globalization transformed business organizations. Third, we analyze how a new arrangement between business and government was forged through the study of the banking sector. Fourth, we examine how businesses responded and adapted to the postrevolutionary administrations, increasing role of a nationalistic state, and deglobalized international context. Fifth, we focus on the birth and evolution of diversified business groups and the role that immigrants played in them, and sixth, we describe when and how this cycle came to an end. Finally, we conclude.

The Business Context from 1880 to 1910

As a result of severe political instability, invasions, and wars, Mexico joined the "first global economy" later than other Latin American countries.[12] Between 1880 and 1910, Mexico recovered the lost decades by taking large steps that included connecting the country with nearly twenty thousand kilometers of railway lines and improving its major ports—projects that were sponsored by the government, carried out by international companies, and financed by external capital. Foreign companies also made important investments in

[12] On the "first global economy," see Jones, "Globalization," 143–47.

mining and agriculture that were primarily produced for export markets. Between 1878 and 1910, international direct investment rose from around 13 million dollars to approximately 800 million dollars, and the number of foreign companies operating in Mexico increased from seventeen to more than five hundred.[13] Many foreign firms were set as "free-standing companies," particularly in the mining and banking sectors, and several of them included some Mexican partners.[14]

Economic growth relied on foreign investment but also fostered domestic entrepreneurship. Modern manufacturing flourished. Hundreds of factories that produced textiles, beer, glass, cigarettes, and steel, among other products, mainly for the domestic market, were established. The banking system also expanded. While Mexico had only one bank in 1875, by 1909 it had thirty-two emission, mortgage, and medium-term credit banks operating under a government concession —the largest being Banco Nacional de México (Banamex)—and fifty commercial banks, including foreign bank branches.[15] In addition, by 1895 a stock market was already operating in Mexico City. Although not as important as stock exchanges in other Latin American countries, such as Brazil, the largest domestic firms were listed on it. By 1910, the financial press in Mexico was reporting regularly on around 129 companies (52 mining companies, 36 banks, 31 manufacturing companies, and 10 companies in the real estate, transportation, insurance, or agricultural industries).[16] Nonetheless, personal elite connections were crucial to getting equity buyers or bank credit, and many companies raised their capital without resorting to the financial system.[17]

The most important domestic firms were joint-stock limited liability corporations (*sociedades anónimas*), the larger of which were listed on the stock exchange. Business networks built around ethnic or hometown ties were more important than those based on families for the creation and development of firms. A significant number of domestic companies were founded by entrepreneurs who were linked to business networks by

[13] Paolo Riguzzi, "México y la Economía Internacional," in *Historia económica general de México*, ed. Sandra Kuntz (Mexico City, 2010), 380–81.

[14] Carlos Marichal and Paolo Riguzzi, "Bancos y banqueros europeos en México, 1864–1933," in *México y la economía atlántica (siglos XVIII–XIX)*, ed. Sandra Kuntz and H. Pietschmann (Mexico City, 2006), 208–9.

[15] Aurora Gómez-Galvarriato, *Globalización y nacionalismo: la banca extranjera en México 1864–1933,* Serie Cátedra Corona No. 27 (Bogotá, 2017), 29–35.

[16] "Plaza de México," *El Economista Mexicano,* 4 Apr. 1910, 63–65; Alfredo Lagunilla Iñárritu, *La Bolsa en el Mercado de Valores de México y su Ambiente Empresarial, 1895–1933* (Mexico City, 1973), 211–13.

[17] Stephen Haber, "Financial Markets and Industrial Development: A Comparative Study of Governmental Regulation, Financial Innovation, and Industrial Structure in Brazil and Mexico, 1840–1930," in *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800–1940,* ed. Stephen Haber (Stanford, 1997), 146–78.

their place of birth or residence. The most salient among them was the network formed by businessmen from Monterrey, a city in northeastern Mexico, that pulled its capital to create companies such as the Banco de Nuevo León, the Banco Mercantil de Monterrey, the Cuauhtémoc Brewery, and several mining companies. Their network often included businessmen from other northern cities, such as Torreón, Chihuahua, or Durango. This was a period when first-generation entrepreneurs played a larger role than entrepreneurial families.[18] Their offspring, through family intermarriages, would in later decades form one of Mexico's most important family business groups.

Other business networks were formed by immigrants who, upon their arrival in Mexico, built strong ties with others who came from the same region or country and used them as a strategy to invest in different sectors. Business networks served as a source of capital, markets, supplies, and employees. This was the case for immigrants from the region of Barcelonnette, France, who built a closely knit business network that was pivotal in the development of banking and the manufacturing industry. They established several department stores and other commercial venues that became the main stockholders of the largest and most modern textile mills in Mexico. Germans specialized in supplying hardware and machinery, and Spaniards controlled major grocery stores and bread production and distribution but also invested in several manufacturing and banking companies.[19] While immigrants made up a small percentage of Mexico's population, they played a crucial role in the country's business. Most immigrants were male and single. Immigrant networks expanded as they encouraged relatives (particularly nephews) or fellow countrymen to join them in their Mexican ventures. Immigrants typically planned to return to their home countries after accumulating the desired amount of capital, and thus they postponed marriage. The most successful among them achieved this goal, but many could not, remained in the country and eventually formed families in Mexico. However, there were still few entrepreneurial families, so ethnic business networks rather than families were their main source of support.[20]

[18] Alex M. Saragoza, *The Monterrey Elite and the Mexican State* (Austin, 1988), 44–48.

[19] Jürgen Buchenau, *Tools of Progress: A German Merchant Family in Mexico City, 1865–Present* (Alburquerque, 2004), 30-37; Brígida von Mentz, "Empresas y empresarios alemanes en México, 1821–1945," *Jahrbuch für Geschichte Lateinamerikas* 25, no. 1 (1988): 1–32; Clara Lida, ed., *Una inmigración privilegiada: Comerciantes, empresarios y profesionales en México en los siglos XIX y XX* (Madrid, 1994).

[20] Aurora Gómez-Galvarriato, *Industry and Revolution: Social and Economic Change in the Orizaba Valley, Mexico* (Cambridge, MA, 2013), 20–29; Galindo, *Ethnic Entrepreneurs*, 17–54.

Some of the largest firms were formed by entrepreneurs from different business networks pooling their resources. For example, Fundidora Monterrey, the first steel plant in Latin America, was founded in 1900 by two leading businessmen based in Mexico City—León Signoret, a Barcelonnette who owned textile mills and banks, among other business, and Antonio Basagoiti Arteta, a core member of the Spanish business network who had important investments in textile, tobacco, and banking businesses—and two businessmen who lived in Monterrey and were well connected with the latter city's network, Italian Vicente Ferrara and New York banker Eugene Kelly.[21] Board interlocks were common, particularly in banks, railroads, and utilities, and manufacturing companies worked closely with banks. However, diversified family-owned business groups, as such, did not exist.

Although President Porfirio Díaz initially tried to separate political from economic power, his strategy was unsuccessful.[22] Some members of rich families whose fortunes were formed before the Porfiriato, including the Terrazas-Creels in Chihuahua and the Escandóns in Morelos, became governors. It was also common for high-level federal government officials to have relatives who were prominent businessmen, like Julio Limantour, brother of Minister of Finance José Yves Limantour. Politicians, or members of their families, held shares in many important companies. The former's role in elite networks was very significant since information, concessions, and privileges were passed largely from officeholders to the companies they represented. In return, public officials claimed some of the rents generated by businessmen.[23]

Some prominent entrepreneurs, such as American John F. Brittingham, made important links with businessmen from different networks and with government officials to establish companies. In 1884 Brittingham, a serial entrepreneur, founded his first company, a small soap and candles factory. La Nacional was organized in alliance with Brittingham's childhood friend Juan Terrazas, who had been his classmate at a Missouri Catholic boarding school. Juan was the son of the general Luis Terraza, a major landowner and governor of Chihuahua for several terms between 1858 and 1904. In alliance with the Terrazas family, Brittingham also founded a meat-packing company, La Internacional SA. Brittingham married the daughter of another important Chihuahua politician, Celso González, who established an important bank,

[21] Saragoza, *Monterrey Elite*, 56–59; Carlos Marichal, "De la banca privada a la gran banca: Antonio Basagoiti en México y España, 1880–1911," *Historia Mexicana* 48, no. 4 (1999): 767–93.

[22] Friedrich Katz, *The Secret War in Mexico* (Chicago, 1981), 11.

[23] Aldo Musacchio and Ian Read, "Bankers, Industrialists, and Their Cliques: Elite Networks in Mexico and Brazil during Early Industrialization," *Enterprise and Society* 8, no. 4 (2007): 842–80.

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the Banco Minero, of which he became an important shareholder. Brittingham built a wide network of social relations that helped him expand his businesses. In association with several businessmen from Monterrey and other northern cities he founded the Compañía Industrial Jabonera de la Laguna, which produced soap and glycerin using cotton by-products; a cement factory, Cementos Hidalgo; a glass manufacturing company that later became Vidriera Monterrey; and a bank, Banco de la Laguna. Together with some influential businessmen from Mexico City, linked to the political elite, Brittingham also founded a dynamite company and became partner of several banks and an insurance company.[24]

From 1880 to 1910, Mexico experienced high rates of economic growth. Adoption of new technologies and a greater connection with the global economy allowed the country's GDP and GDP per capita to grow 3.9 percent and 2.5 percent, respectively, every year in this period.[25] However, the country was unable to develop a stable political regime independent of its leader, Porfirio Díaz, and growth was accompanied by greater income inequality and social conflict.

The Rupture of the Mexican Revolution

The Mexican Revolution that began in November 1910 ended a long period of political and economic stability and disrupted the business environment. As violence escalated, particularly from 1913 to 1916, most companies in Mexico faced severe problems. Although heavy fighting ended in 1917, violence was constantly employed to solve political differences. Influential revolutionary leaders were killed, including Emiliano Zapata in 1919 and Pancho Villa in 1923. Two presidents were assassinated: Venustiano Carranza in 1920 and Alvaro Obregón in 1928. Additionally, there were three failed military rebellions, in 1923, 1927, and 1929, and the federal government led a violent confrontation with the Catholic Church that led to a civil war from 1926 to 1929.

The effects of the civil war varied considerably across regions and sectors. The upheavals opened a major rupture between business and government. This antagonism, however, was not homogeneous. Some business owners and managers found it easier than others to cooperate with the insurgents and adapt to the new conditions. In most cases, buildings and machinery were not destroyed but occupied by revolutionary armies or forced to close for several months or years. In 1913 the

[24] Mario Cerutti and Juan Ignacio Barragán, *John F. Brittingham y la industria en México (1859–1940)* (Mexico City, 2018), 27–45.

[25] John Coatsworth, *Los Orígenes del Atraso* (Mexico City, 1990), 117.

Cuauhtémoc Brewery in Monterrey endured looting, fires that seriously damaged buildings, wild exchange rate fluctuations, sales reductions, insurance price hikes, fuel price increases and had to pay substantial premiums in freight prices.[26] Brittingham's soap factory in the Laguna region, in northern Mexico, was severely damaged by an explosion and bombing when Pancho Villa's army occupied Torreón, and it was forced to grant several forced loans.[27] The Chihuahua brewery, which was in the hands of Villa's army for four years, lost approximately half a million dollars and was unable to recover from the occupation in later years.[28]

Railway and telegraph companies that were not destroyed by the fighting were confiscated by warring factions, complicating companies' everyday activities all over the country. Many large companies, like Fundidora Monterrey and Cuauhtémoc Brewery, bought freight trains to move their merchandise and supplies.[29] As a result of frequent disruptions in railway transportation, Fundidora Monterrey faced severe difficulties obtaining the inputs necessary to keep production running. Nonetheless, it was able to export steel to Japan and other countries, taking advantage of the hike in prices that World War I had caused.[30] Textile mills, then the largest manufacturing industry, kept operating through the Revolution and were seldomly attacked or seized by revolutionary armies. Nevertheless, they had to cope with a new, belligerent organized labor movement that undertook frequent strikes. The companies' labor relations changed radically during this period, from a regime where firms set working conditions with individuals—enforced by the government, sometimes through violent means—to one in which they had to deal with labor unions through collective contracts. Government regulations were issued during the revolutionary years, granting labor rights such as maximum working hours, health and injury insurance, and dismissal indemnities. Although the 1917 Mexican Constitution protected these rights, the government was too weak to enforce them. The law was thus applied and complied with only in those places where unions were strong and had local government backing.[31]

[26] Minutes of the Shareholders Assembly, Cervecería Cuauhtémoc, 6 July 1914, Archivo de la Cervecería Cuauhtémoc-Moctezuma, Monterrey, Nuevo Léon, Mexico (hereafter ACCM).

[27] Cerutti and Barragán, *John F. Brittingham*, 51–52, 88–94.

[28] Losses were obtained from Inventario General de la Cía. Cervecera de Chihuahua, SA, "Resumen de Devolución y Nota de Refacciones, no. 1," 30 Dec. 1917, vol. 355, file 1234, Archivo Manuel Gómez Morin, Mexico City, Mexico (hereafter AMGM).

[29] Minutes of the Board of Directors, Cervecería Cuauhtémoc, 14 Mar. 1914, ACCM.

[30] Aurora Gómez-Galvarriato, "El desempeño de Fundidora Monterrey durante el Porfiriato," in *La Historia de las Grandes Empresas en México 1850–1913*, ed. Carlos Marichal and Mario Cerutti (Mexico City, 1998), 201–43.

[31] Gómez-Galvarriato, *Industry and Revolution*, 116–77.

There is debate regarding the overall effect that the Revolution (1910–1920) had on the business community. Because the internal conflict coincided with World War I, disentangling their effects has proven difficult. Several prominent businessmen, particularly immigrants or those closely related to the Porfirian government, left the country permanently. Many Barcelonnette and Spanish businessmen returned to their home countries, leaving their companies in the hands of junior partners and keeping track of them from committees established abroad. While this practice was common before the revolutionary war, it expanded once the war started. In some cases, the managers who remained in charge of the companies eventually became their main shareholders. This was the case with Adrián Jean, who before the Revolution was a minor partner in a number of Barcelonnette commercial, textile, and banking companies, serving as administrator or member of the board. In the decades after the conflict, Jean and his brothers became major owners in some cases.[32] Similarly, Agustín Legorreta García, who in 1911 was chief of internal correspondence and secretary of the board of Banamex, was left in charge of the bank in 1916 when José Simón, the general director, left for Paris. Legorreta García became director of the bank in 1920 and gradually its majority shareholder. His brother Luis succeeded him as general director of the bank when he died in 1936.[33] The Asturian Adolfo Prieto, who was the representative of Antonio Basagoiti Arteta in Fundidora Monterrey, was appointed its manager in 1907 and eventually became its principal shareholder.[34]

Other businessmen left Mexico only temporarily, eventually returning. In 1913, Isaac Garza and his partners left the country and entrusted the Cuauhtémoc Brewery's management to a group of employees. From Houston, Austin, Laredo, and Galveston, Texas, Garza managed (with tremendous difficulties) the Cuauhtémoc's affairs via telegrams, letters, and personal couriers.[35] Garza believed that the brewery's closure should be avoided since reopening it in the future would be more costly and highly complicated. When the factory no longer had bottles, crown caps, labels, and boxes with which to package beer, it was decided to use cork stoppers, different-sized colored bottles, and

[32] Galindo, *Ethnic Entrepreneurs*, 107–12.

[33] María Eugenia Romero Sotelo, "Familia Legorreta," in *200 Emprendedores Mexicanos: La Construcción de una Nación*, vol. 2, ed. Leonor Ludlow, 41–47.

[34] José Luis García Ruíz, "Antonio Basagoiti Arteta," n.d., Asociación Española de Historia Económica, accessed June 2021, https://www.aehe.es/wp-content/uploads/2015/09/ANTONIO-BASAGOITI-ARTETA.pdf.

[35] This can be seen in the minutes of the Board of Directors of Cervecería Cuauhtémoc for the years 1913, 1914, and 1915, ACCM.

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handmade labels.[36] The Cuauhtémoc Brewery was seized by revolutionary forces in May 1914 and by the end of 1915, as the revolutionary armies left Monterrey, Garza closed his office in Laredo and returned home. Reconstruction and reorganization of the brewery began in earnest in 1916.

In 1913, as Villa's army occupied the Compañía Industrial Jabonera de la Laguna, John F. Brittingham, his family, and approximately three hundred employees left the country. Brittingham left British employee Patrick O'Hea in charge of his soap factory and, from El Paso, Texas, supervised the company's operations. Despite the numerous problems, the factory kept afloat by exporting cotton "cake" to England. During this period, Brittingham kept busy and established the State Bank and Trust of Eagle Pass, Texas. He returned to Mexico in 1918, to handle the recovery of his numerous firms.[37]

Violence and instability also opened new business opportunities. Banking was one of the sectors that suffered the consequences of the Revolution most strongly. Governments forced banks to grant them loans, rebels seized all the cash they could obtain from financial institutions, and different revolutionary factions issued their money emissions. This ignited inflation and led to hyperinflation in 1916, which devastated Mexico's monetary system and had profound economic consequences. Once the violence had begun to subside in 1917, the federal government confiscated the banks, handing them back—with empty coffers—to their owners only in 1921. The absence of a secure and stable banking system negatively affected everyday life in the business community. Big companies were able to circumvent the lack of financial services for their daily operations by relying on banks abroad, such as the Bank and Trust of Eagle Pass, Texas, but smaller ones were left with no good options.[38]

Foreign bank branches established before the upheavals, such as the Canadian Bank of Commerce and the Deutsch-Sudamerikanische Bank, were some of the few banks that remained operating in this period, mainly to carry out currency exchange and foreign transfer services. The high cost and absence of financial services paved the way for some risk-taking entrepreneurs to offer them. An example is Emilien Lacaud: within a few years, his small business Casa Lacaud, which traded in stocks and bonds, metals, and foreign exchange, became the

[36] Minutes of the Board of Directors,Cervecería Cuauhtémoc, 10 Feb. and 27 Mar. 1915, ACCM.

[37] Cerutti and Barragán, *John F. Brittingham*, 39–41, 93–97.

[38] Aurora Gómez Galvarriato and Gabriela Recio, "The Indispensable Service of Banks: Commercial Transactions, Industry and Banking in Revolutionary Mexico," *Enterprise & Society* 8, no. 1 (2007): 68–105.

Banque Français du Mexique.[39] In this venture he hired and trained young men such Alberto Baillères and Carlos Trouyet, who would become key businessmen in the postrevolutionary period.

Some entrepreneurs took advantage of the Revolution and entered new business ventures. Hyperinflation and lack of credit opened up opportunities to those who could obtain foreign currency. This was true in the case of Esperanza Iris, an important actress and operetta performer who established a theater company in 1913. Iris took the bold and risky step of taking her ensemble, husband, and young sons on a far-reaching overseas tour. From 1914 to 1918, the theater company performed in several Latin American countries to great success. Iris was not only the star performer but also in charge of the tour organization, logistics, financing, and public relations. The international tour allowed her to weather Mexico's instability and resulted in the financial success she needed to buy a theater upon her return to Mexico City, since the substantial currency devaluations the country faced had multiplied the local value of the dollars she earned.[40]

William Jenkins, a U.S. citizen, was another entrepreneur who profited amid revolutionary chaos. He arrived in Mexico in 1901, settled in the state of Puebla, and entered into a partnership to produce socks and hosiery. His savings in foreign currency enabled him to take advantage of the depreciation of the peso and eventually buy out his partners as well as large plots of land. Jenkins later invested in sugar mills, cinemas, and banks and became one of the most important businessmen in Puebla. He did not shy away from using bribes and extortion, and even killing his opponents, but also employed technological innovations to succeed.[41]

The British businessman Weetman Pearson, who owned the Mexican Eagle Company, is another example of an entrepreneur who made important profits during this time. From 1915 to 1917, as Mexico was immersed in the most violent years of the Revolution, high international oil prices and the discovery of new wells lured foreign investment into the country. For example, the Mexican Petroleum Company and the Mexican Eagle Oil Company increased their production by 176 percent and 764 percent, respectively, between 1911 and 1920.[42] Pearson had come to Mexico during the late nineteenth century when the Mexican

[39] Gómez-Galvarriato, *Globalización y nacionalismo*, 43–44.

[40] Grisell Ortega Jiménez, "Esperanza Iris, una aproximación a su sobresaliente trayectoria como empresaria teatral, 1896–1918," in *Negocios, empresarios y entornos políticos en México, 1827–1958*, ed. Marco Palacios (Mexico City, 2015), 149–84.

[41] Andrew Paxman, *En busca del Señor Jenkins* (Mexico City, 2016).

[42] These figures are estimates based on Joel Álvarez de la Borda, *Los orígenes de la industria petrolera en México 1900–1925* (Mexico City, 2005), Tables II.2 and II.3, 64, 66.

government hired him to build Mexico City's drainage canal and other projects. In 1909 Pearson registered the Mexican Eagle Company and a year later, as the Revolution broke out, the company found significant oil deposits. Amid the upheavals and the lack of a strong federal government that could tax the firm's earnings, the Eagle made enormous profits. As the violence subsided, however, the new revolutionary government attempted and struggled to impose taxes on petroleum companies. In 1917, a significant legal change was introduced that could potentially affect oil companies. The Constitution of 1917 awarded the state the rights to subsoil minerals, water, and petroleum. Although it did not have retroactive effects, it empowered the government to raise taxes on the petroleum industry and seriously increased the risk of oil investments. As a result, in 1919 Pearson sold his company to the Shell group.[43]

Alcohol and drug prohibition and a Revolution coupled with a largely unsupervised, 3,145-kilometer Mexico-U.S. border combined to make fertile ground for new illegal business opportunities catering to the U.S. consumer—a market that historically has been characterized by a tremendous appetite for hard drugs.[44] The unraveling of the nation-state that the Díaz government had built over three decades in Mexico coincided with new legislation in the United States that prohibited the production and consumption of drugs and alcohol. In 1914, the U.S. Congress approved the Harrison Narcotics Act, which severely restricted drug sales and use. In 1919 the Volstead Act, forbidding the sale and consumption of alcoholic drinks, was enacted and in 1924 the country banned heroin production.[45] Several states in Mexico introduced similar regulations; in 1916, the state of Durango barred the sale and manufacture of alcohol, and in Mexico City, *pulquerías* were banned.[46] These regulations, however, were often ignored since fiscal revenues depended on taxes paid by both producers and consumers of alcohol.[47]

[43] Paul Garner, *British Lions and Mexican Eagles: Business, Politics and Empire in the Career of Weetman Pearson in Mexico, 1889–1919* (Stanford, 2011); Jonathan Brown, "Domestic Politics and Foreign Investment: British Development of Mexican Petroleum, 1889–1911," *Business History Review* 61, no. 3 (1987): 387–416.

[44] In 1896, with a population of 70 million, the United States imported approximately 76,000 pounds of opiates. Germany, a country with a population (60 million) of a similar size, imported 17,000 pounds. Benjamin T. Smith, *The Dope: The Real History of the Mexican Drug Trade* (New York, 2021), 62.

[45] Smith, 35–36; Gabriela Recio, "Drugs and Alcohol: US Prohibition and the Origin of the Drug Trade in Mexico, 1910–1930," *Journal of Latin American Studies* 34, no. 1 (2002): 22–23.

[46] A *pulquería* is a type of tavern that specializes in selling *pulque*, an alcoholic beverage made from the fermented sap of the agave plant.

[47] Recio, "Drugs and Alcohol," 29–30.

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Profitable narcotic black markets grew along the Mexico-U.S. border, where "the local authorities charged drug traffickers fees to not implement antidrug laws. And they used these fees to pay for government buildings, soldiers, police forces, pen pushers, and schools." Several men who participated in the rebel armies and later became part of the civil administration profited from the new illegal markets. One of these men was Esteban Cantú, who was governor of the Northern District of Baja California from 1915 to 1920 and, according to Benjamin Smith, "established the first lucrative state-run protection racket as early as 1915."[48]

When Cantú took office, he faced a district with empty coffers and an absence of economic activities that his administration could tax. Drug trafficking, however, was flourishing. Vice prohibitions in the neighboring state of California opened up new possibilities for the border cities of Tijuana and Mexicali. New bars, casinos, restaurants, bullfighting arenas, and a horse-racing track began catering to the U.S. consumer. Cantú not only obtained much-needed taxes from the new businesses but also entered the alcohol business and began trafficking in opium. As governor, he issued licenses and concessions that regulated the opium trade and its consumption; then, his strategy was to constantly revoke them, seize the drug, and sell the confiscated merchandise to the original owners at much higher prices.[49] Opium at the time was not grown in Mexico but imported at the port of Ensenada and re-exported to the Chinese in Los Angeles. The Cantú business was a family operation. From 1916 to 1920, it appears that all opium-related traffic originating in Baja California involved a member of the governor's family.[50] In 1919, the Mexicali U.S. consul estimated that Cantú was earning close to half a million dollars annually "from the Drink and its associated vices."[51]

In 1918 President Venustiano Carranza prohibited the import of smoking opium.[52] Soon after, opium was planted in Mexico for the first time by Chinese farmers in the states of Sonora, Sinaloa, and Durango.[53] Chinese wholesalers bought, stored, and distributed the drug both locally

[48] Smith, *The Dope*, 61.

[49] Several letters, 812.114/Narcotics/12, 13, and 15, National Archives and Records Administration, Washington, DC (hereafter NARA).

[50] Several letters, 1916–1920, 812.114/Narcotics/15, NARA.

[51] Walter F. Boyle, Mexicali Consul, to the Secretary of State, 28 Mar. 1919, 812.114/Liquors/8, NARA.

[52] Smith, *The Dope*, 52.

[53] Letter from L.G. Nutt to the Department of State, 29 Nov. 1924, 12.114/Narcotics/14 and Department of State to the Treasury Department, 12 May 1928, 812.114/Narcotics/132, NARA. The cities that are mentioned are Caborca, Oquitoa, Pitiquito, and the Yaqui and Mayo Valleys in Sonora; Mazatlán and Culiacán in Sinaloa; and Tamazula in Durango.

and to the United States. The business was organized along family and clan lines, entailed operating a mix of legitimate and illicit operations, had the political backing of the regional strong man, and was connected through marriage with the local business circles. Such was the case with the Antonio Wong Yin family in Torreón and the Ley family in Culiacán.[54]

Abelardo L. Rodríguez, governor of the Northern District of California from 1923 to 1929 and president of Mexico from 1932 to 1934, was a crucial player as well. Rodríguez "allowed" opium dens, saloons, and houses of prostitution to offer their services while taking a "commission." He also invested in one of the most popular casinos of the Tijuana area, Agua Caliente. He used his profits to invest in licit business. While governor, he made significant investments in real estate, mining, wine, agriculture, and airplane manufacturing. Some contemporaries estimated that by the time he left his post as governor, Abelardo Rodríguez had amassed a fortune of approximately 12 million dollars.[55] When Rodríguez became president, he headed a group of investors and established a bank, the Banco Mexicano.[56]

A New Business-Government Relationship Is Forged

As a result of the Revolution, many firms went bankrupt or reduced their operations. In those uncertain times, the role of entrepreneurs increased relative to that of large corporations or managerial hierarchies, and entrepreneurs' relationships with politicians took new forms. Given the political and economic instability, connections between government officials and entrepreneurs became less institutionalized, more direct, and oriented toward grasping short-term opportunities.

Some former revolutionaries, like Juan Andreu Almazán, became entrepreneurs by deftly creating political and economic ties to other revolutionary leaders. By 1920, Almazán was already in the real estate business in Mexico City. As head officer of military operations in the state of Veracruz, he knew which lands had been abandoned by their previous owners, which owed taxes, and most importantly, when they would be auctioned. Using privileged information, Almazán was able to buy an important banana plantation at a bargain price and established the Compañía Platanera Mexicana. On May 13, 1927, with no previous experience in the construction business, Almazán organized the Compañía

[54] Smith, *The Dope*, 55–58, 128.

[55] José Alfredo Gómez Estrada, *Gobierno y casinos: El origen de la riqueza de Abelardo L. Rodríguez* (Mexico City and Tijuana, 2007), 151–55, 160.

[56] Gustavo A. Del Angel, "The Nexus between Business Groups and Banks: Mexico, 1932–1982," *Business History* 58, no. 1 (2016): 118–19; Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton, 1982), 299.

Constructora Anáhuac. One day after its incorporation, a presidential decree awarded Anáhuac the contract to build a large section of the highway that would connect Mexico City with the United States via the Texas city of Laredo. Almazán was able to reduce the company's operating costs by incorporating the army in the highway construction. In 1929 Almazán became partner in a sugar company, the Compañía Industrial y Colonizadora Río Mante, with former president Plutarco Elías Calles (1924–1928), Aarón Sáenz, and Fernando Torreblanca, politicians who were close to the regime. In 1930, when Almazán became secretary of Communications and Public Works, he resigned his post as director of Anáhuac but continued to be its major shareholder. In fact, as secretary, he awarded his company almost two-thirds of the highway's total construction.[57] Years later, Almazán candidly stated that "the success of any company was not the result of good advisers, nor in the quality or value of their work; the key always resided in obtaining official support."[58]

In the 1920s, a strong antagonism existed between those firms that managed to survive and the postrevolutionary governments. This enmity coupled with a generalized lack of confidence inhibited new investments. Despite some government efforts, it was not until the 1930s that a new business-government arrangement was solidified. The evolution of the banking sector allows us to understand how it took place. The emission banks that managed to escape bankruptcy were returned to their owners in 1921. Some, like the Banco de Londres y México—whose major shareholders included the Société Financière pour l'Industrie au Mexique and the Banque de Paris et des Pays-Bas—were unable to recoup their losses; by 1926 the bank's shares had lost 50 percent of their value.[59] Banamex also suffered a substantial loss in its stock value, which fell from 452 pesos to 83.5 pesos between 1910 to 1920, and did not recover through the 1920s.[60] Nonetheless, Banamex withstood the crisis better than others and acquired several smaller banks, such as the Banque Francaise du Mexique and the Compañía Bancaria de Paris y México, that had managed to survive the Revolution but suffered from bank runs during the early 1920s. Banamex, however, faced competition from foreign

[57] Marcela Mijares Lara, "Juan Andreu Almazán y la Compañía Constructora Anáhuac: Negocios y política durante la posrevolución (1927–1932)," in Palacios, *Negocios*, 234, 240–41, 243–44.

[58] "En legítima defensa," *El Universal*, 23 Nov. 1952, cited in Mijares Lara, "Juan Andreu Almazán," 230, our translation.

[59] Banco de Londres y México to Banco de París y de los Países Bajos, 1 Apr. 1925 and 6 Mar. 1926, vol. 322, file 1129, AMGM.

[60] The average value of its share was obtained from several issues of *El Economista Mexicano* and the *Boletín Financiero y Minero*.

institutions, like the Bank of Montreal, which offered greater confidence to their clients.

The Constitution of 1917 established a government-controlled bank with a monopoly over money emission, but it was only in 1924 that a new banking law was enacted and in 1925 that the central bank, the Banco de México, was created. However, the sharp differences between bankers and the government resulted in a lack of support of the former to the central bank. Banamex opposed its creation and only two private banks—the Banco de Londres y México and the Banco de Sonora—acquired stock of the Banco de México. Additionally, the newly created central bank was too weak to operate as a lender of last resort and lacked the public's trust. In its early years, Banco de México served as a commercial bank and financed several ventures that lacked sufficient financial viability because of political influences.

Banking operations and credit remained a fraction of what they had been during the prerevolutionary era. Similarly, although the stock exchange continued to operate, fewer companies were listed on it, and those that remained faced substantial reductions in their stock value. In 1925 the financial press reported the stock prices of only twenty-four firms (fourteen mining companies, seven manufacturing companies, and three banks).[61]

The Great Depression presented an opportunity for the government to establish a new arrangement with the business community, as protection from foreign trade and investment became a token it could grant domestic businesspeople in exchange for their compliance and support. A new era of nationalistic, inward-oriented economic policies and more extensive participation by the state in the economy began.

In 1932 the central bank, Banco de México, went bankrupt. New regulations for the central bank and for the banking and financial sectors were enacted to solve the situation. The new laws strengthened the Banco de México as a central bank, eliminated its role as a commercial bank, and placed several restrictions on foreign banks. As a result, between 1931 and 1933 all foreign banks—with the exception of National City Bank, which in 1929 had established a branch in Mexico City—left the country.[62] A truce was reached between bankers and the government. Mexican bankers finally accepted the Banco de México leadership in exchange for control of the national market.[63]

With foreign banks out of the market, domestic banks could expand their market share. By then, the most important banks had been

[61] Lagunilla Iñárritu, *La Bolsa*, 233.

[62] Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812–1970* (Cambridge, MA, 1985), 123.

[63] Gómez-Galvarriato, *Globalización y nacionalismo*, 53–61.

acquired by new owners who took advantage of their depreciated value, such as Agustín Legorreta García in Banamex. Similarly, the Garza Sadas, J. B. Ebrard, Maximino Michel, and some of the Barcelonnette who stayed in Mexico took control of the Banco de Londres y México.[64] In later decades this financial institution was merged with other banking interests of the Garza Sada family business group and took the name Banco Serfin.

New banks also began to be established. In 1932, Raúl Baillères, in partnership with Salvador Ugarte (a former director of Banamex), Liberto Senderos, Mario Domínguez, and Ernesto Amezcua, inaugurated the Banco de Comercio (Bancomer). During the Mexican Revolution, Baillères had worked at Casa Lacaud, where he learned the financial trade in times of high volatility and made influential financial acquaintances—for example, John B. Gleen of the Chase Manhattan Bank, with whom he later partnered to broker and export silver.[65] In 1934 Baillères founded Crédito Minero y Mercantil (Banca Cremi), which in its initial years offered its services to mining companies. In 1934, Eloy Vallina, a leading entrepreneur from Chihuahua, founded the Banco Comercial Mexicano.[66] In this same decade, the government created several state development banks, including Nacional Financiera SA (NAFINSA), that played a crucial role in financing essential infrastructure projects such as highways and dams. State development banks also worked in tandem with private banks and foreign credit to provide entrepreneurs with resources.[67]

The Nationalist Business-Government Arrangement in Operation

As Mexico began to recuperate from the economic crisis after 1932, manufacturing became the fastest-growing sector, pulling the rest of the economy. Through protectionist policies, the government offered local business a larger share of the market in different sectors while excluding foreign companies with new regulations. This strategy allowed the government to regain power and was the basis of a new equilibrium in which the state played a more prominent role.

The policies of President Lázaro Cárdenas (1934–1940) once again strained the relationship between business and government. In 1936 a

[64] Hamilton, *Limits of State Autonomy*, 317–20.

[65] Jorge A. Orozco Zuarth, "Raúl Bailleres y su imperio económico" (BA thesis, UAM-Azcapotzalco, Mexico City, 1983).

[66] Del Angel, "Nexus," 118; Hamilton, *Limits of State Autonomy*, 294–97.

[67] José Carral, "La banca extranjera y la estatización de la banca," in *La nacionalización bancaria, 25 años después: La historia contada por sus protagonistas*, vol. 2, ed. Amparo Espinosa Rugarcía and Enrique Cárdenas Sánchez (Mexico City, 2008), 135, 139–40.

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new expropriation law gave the government the authority to confiscate private property when the state considered it in the public interest; compensation would be paid to private owners according to the value registered for local property tax purposes and settled in ten years.[68] In 1937 the government acquired the outstanding shares of Ferrocarriles Nacionales, thus becoming the full proprietor of the company. A year later, the state expropriated all domestic and foreign oil companies, creating the largest state-owned company in Mexico, Petróleos Mexicanos (PEMEX). In 1938 it founded the Comisión Federal de Electricidad (Federal Electric Commission) to regulate the electric sector and provide electricity to some regions. Nonetheless, the most important electric suppliers continued to be Canadian Mexican Light and Power, established in 1902, and American and Foreign Power, established in 1928.[69]

While the Constitution of 1917 set the basis for the redistribution of land, this policy was initially carried out slowly. This changed between 1934 and 1940, when nearly one-tenth of Mexico's land surface was distributed to peasants. Land reform affected many firms. The British-American Tlahualilo Company, for instance, which had developed cotton production in the Laguna region since 1885, had its lands expropriated in 1934. However, the cotton industry continued to prosper until the 1960s, based on *ejido* agriculture, supported by the government construction of large irrigation projects and the credit provided to farmers by companies like Anderson, Clayton and Company.[70]

Several governors, especially in the fertile state of Sinaloa, used the opium trade to pay disgruntled ranchers who were affected by the land reform programs and to appease peasants once the pace of the land redistribution program slowed down.[71] By the mid-1930s, as drug markets bounced back and opium prices rose, Mexicans displaced the Chinese in the states of Sonora and Sinaloa and began planting and commercializing the drug. It was in that decade that Fidel Carrillo, Gil Caro, and Rafael Fonseca became important opium intermediaries in the highland town of Badiraguato, Sinaloa. Their know-how was transferred to the following generations and improved in important ways.[72]

[68] Ley de Expropiación, *Diario Oficial de la Federación*, 25 Nov. 1936, Articles 9, 10, and 20.

[69] Ernesto Galarza, *La industria eléctrica en México* (Mexico City, 1941), 26, 77.

[70] *Ejidos* were a form of communal property on which land was distributed. Mikael D. Wolfe, *Watering the Revolution: An Environmental and Technological History of Agrarian Reform in Mexico* (Durham, 2017), 44, 121–23; Luis Aboites Aguilar, *El Norte entre Algodones: Población, trabajo agrícola y optimismo en México, 1930–1970* (Mexico City, 2013).

[71] Benjamin T. Smith, "The Rise and Fall of Narcopopulism: Drugs, Politics and Society in Sinaloa, 1930–1980," *Journal of the Study of Radicalism* 7, no. 2 (2013): 127.

[72] Smith, *The Dope*, 124.

Families managed and operated the production and distribution of illegal substances over multiple generations. Ernesto "Don Neto" Fonseca Carrillo, son of Rafael Fonseca and nephew of Fidel Carrillo, became one of the most important international heroin traffickers. Rafael Caro Quintero, a third-generation participant in the family business, became an internationally renowned drug kingpin. His aunt, Manuela Caro, was a well known heroin chemist; his maternal uncle, Lamberto Quintero, was a major smuggler; and his first wife was a member of the Elenes family, another renowned drug-trafficking family.[73]

World War II propelled a boom in what is known as the "Golden Triangle" in Mexico. The war disrupted traditional opiate supply chains from Europe and Asia to the United States; by 1947, ten municipalities in the states of Durango, Chihuahua, and Sinaloa were producing 90 percent of illegal drugs sold in the United States.[74] Rodolfo Loaiza, governor of Sinaloa from 1941 to 1944, institutionalized the practice of collecting fees from illegal drug activities through judicial police. This new enforcement cadre was officially instructed to bring order to the state but in reality was in charge of "collecting fees" in every aspect of the drug business.[75]

World War II also presented many legitimate business opportunities. The conflict created a new external demand for Mexico's exports, which increased 104 percent between 1939 and 1945.[76] When the war ended, however, the export boom ground to a halt, producing a balance of payments deficit. In addition, several Latin American economists developed theories that recommended protectionist policies to foster industrial growth. In 1947 the Mexican government began to deploy explicit import-substitution policies, and in 1954 a new law required that companies had at least 51 percent Mexican capital to receive fiscal preferences and other government support.[77]

The first restrictions on foreign investment were put in place in June 1944 by a war emergency decree that would become permanent law in later years. Foreigners were required to obtain permission from the Ministry of Foreign Relations before establishing or acquiring a company in Mexico. While it was implemented in an ad hoc manner, the decree mandated that Mexicans held at least 51 percent company

[73] Smith, 180, 326–27.
[74] Smith, 115.
[75] Smith, 137–38, 149–52, 287.
[76] Enrique Cárdenas, *El largo curso de la economía mexicana: De 1780 a nuestros días* (Mexico City, 2015), 499–500.
[77] Alexander Bohrisch and Wolfgang König, *La política mexicana sobre inversiones extranjeras* (Mexico City, 1968), 33–35.

ownership and participated accordingly in company management. A new decree in 1945 reinforced the 51 percent Mexican capital requirement in several sectors, including radio broadcasting; the production, distribution, and exhibition of cinema; urban and interurban transportation; fisheries; advertising and marketing; bottling of carbonated water; book, newspaper, and magazine publishing houses; and airline transportation.[78] Over subsequent decades these policies were extended to telephony and mining.

The "Mexicanization" policies enabled some entrepreneurs to prosper. One was Carlos Trouyet, who began his business career at Casa Lacaud and continued to work with Julio Lacaud in the financial sector for several years. In 1953 Trouyet partnered with Eloy Vallina (president of the Banco Comercial Mexicano) to establish the first cellulose company in Latin America, Celulosa de Chihuahua.[79] As the government pushed forward its policies against foreign company ownership in Mexico, Ericsson and ITT—owners of the country's primary telephone company, Teléfonos de México—became increasingly concerned about the company's future. Gunnar Beckman, director of Teléfonos de México, was convinced that it would end up in Mexican private or government hands. In 1960 Teléfonos de México was sold to Eloy Vallina and Carlos Trouyet.[80] The partnership did not last long, however; a decade later, the government nationalized the company.

Nationalist policies threatened overseas companies but welcomed foreign firms that supported local industrial and commercial growth. Sears Roebuck, which established its first store in Mexico in 1947, exemplifies a company that achieved success despite government restrictions. Although reluctantly at first, the company adapted to the protectionist policies by tapping into local suppliers and developed industrial infrastructure. It provided loans to small manufacturers who agreed to supply the store with specific product lines. By 1949 it was purchasing about 75 percent of its Mexican merchandise from local manufacturers.[81] Other companies, such as Kellogg's, Anderson, Clayton and Company, and John Deere, started operations in Mexico

[78] Ricardo Méndez Silva, *El régimen jurídico de las inversiones extranjeras en México* (Mexico City, 1969), 112–16; Oscar Ramos Garza, *México ante la inversión extranjera* (Mexico City, 1974), 129–30.

[79] "Carlos Trouyet: El gran vendedor (1903–1971)," *Expansión*, 20 Sept. 2011, https://expansion.mx/expansion/2011/09/14/carlos-trouyet-el-gran-vendedor-1903-1971.

[80] Hamilton, *Limits of State Autonomy*, 298; Douglas C. Bennett and Kenneth E. Sharpe, *Transnational Corporations vs. the State: The Political Economy of the Mexican Auto Industry* (Princeton, 1985), 51; "Carlos Trouyet."

[81] Julio Moreno, *Yankee Don't Go Home! Mexican Nationalism, American Business Culture, and the Shaping of Modern Mexico, 1920–1950* (Chapel Hill, 2003), 172–206.

during those decades. By 1957, about one-sixth of Mexican manufacturing output came from U.S.-controlled companies.[82]

Protectionist policies encouraged national industry by offering trade protection and tax and credit incentives. Private investors who intended to produce a hitherto imported product could be reasonably assured that the government would suppress foreign competition, provide them some relief from income taxes and import duties on materials and machinery, and give them access to relatively cheap government credits. They could further assume that if some bottleneck emerged in the form of inadequate public facilities, there would be a sympathetic governmental response and an effort to meet their needs. This was true if the private investor was a well-connected Mexican, but a foreigner would run into various difficulties.[83]

During the 1940s and 1950s, Mexican business thrived in the protected sectors. Mexico's cinema industry witnessed years of great success, producing many movies that exalted nationalism in the so-called golden age of Mexican cinema. In 1941 the Banco Cinematográfico was founded; the government held 10 percent of the shares, and the other major shareholders were Luis Legorreta, son of Agustín Legorreta and a significant Banamex shareholder; Gastón Azcárraga, one of the first Mexican entrepreneurs to invest in establishing car dealerships in Mexico; and William Jenkins. The bank played an important role in promoting the film industry. By 1942, it had already financed the production of forty-seven movies. Cinema became the favorite form of paid entertainment in Mexico, well above bullfighting. In 1946, the movie *María Candelaria* won the Palme d'Or at the world-renowned Cannes Film Festival in France. Several entrepreneurs made substantial profits from the production, distribution, and exhibition of these films, including William Jenkins, Manuel Espinosa Yglesias, and Manuel Alarcón. Of all Jenkins's businesses, movie theaters were the most profitable. However, by 1960 the relationship that Jenkins had deftly woven with the Mexican political elite took a stark turn: a quarter of his movie theaters (the most profitable) were nationalized.[84]

During the 1940s and 1950s, the government established companies in sectors considered crucial to fostering economic development and industrialization. In 1943 it founded Guanos y Fertilizantes de México (Fertimex) to produce fertilizers.[85] By the end of the 1940s it had set

[82] Raymond Vernon, *The Dilemma of Mexico's Development* (Cambridge, MA, 1963), 113.

[83] Vernon, 9.

[84] Paxman, *En busca del señor Jenkins*, 317, 318, 343, 349, 367, 428.

[85] Manuel Clouthier, "La Industria Paraestatal de Fertilizantes," in *Memoria del Foro de Consulta Popular para la Planeación y la Empresa Pública*, ed. Instituto Nacional de Administración Pública (Mexico City, 1983), 761.

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up an industrial laboratory with the aid of the Armour Foundation that invented a new way to produce stable corn flour for making tortillas. In 1950 the government established the company Maíz Industrializado SA (Minsa) to produce the flour.[86] During the early 1950s, Bruno Pagliai and Luis Montes de Oca founded Diesel Nacional, SA (DINA) to assemble trucks and cars under license from the Italian company Fiat. The company was not successful, and when it was about to declare bankruptcy the government took control of it in 1958. Once in government hands, the license agreement with Fiat was canceled, and a new one was negotiated with the French company Renault.[87]

Some entrepreneurs felt uneasy about the state's increasing participation in the economy. Born in Monterrey, Eugenio Garza Sada graduated as a civil engineer from the Massachusetts Institute of Technology. In 1917, after his father was able to secure the Cuauhtémoc Brewery from revolutionary hands, he entered the family business. Throughout his life, he successfully pursued the family's growing industrial ventures. In 1943, he headed a group of businessmen that organized and financed what is now one of the biggest private universities in México, Tecnológico de Monterrey, with no governmental or religious involvement.[88]

As state-owned companies increased in number and became important players in new sectors, barriers to private investment increased. Eugenio Garza Sada and his brother Roberto faced such a problem in 1941 when they opened Hojalata y Lámina, SA (HYLSA). Chromed steel became scarce as a result of World War II; HYLSA would not only produce chromed steel but additionally manufacture crown caps to bottle beer, tinplate, containers, and lids for the Mexican market. The permit that HYLSA needed to import the machinery was constantly delayed by the finance ministry, because the finance minister was concerned that HYLSA could hinder the profitability of the new integrated steel mill, Altos Hornos de México, SA, that the government had recently established in a joint venture with U.S. private capital.[89] The Garza Sada brothers had to approach the president directly to obtain the permit.[90]

After the war ended, HYLSA faced international competition, so the Garza Sada family decided to invest in technology to improve the quality

[86] Aurora Gómez Galvarriato, "La construcción del milagro mexicano: el Instituto Mexicano de Investigaciones Tecnológicas, el Banco de México, y la Armour Research Foundation," *Historia Mexicana* 69, no. 3 (2020): 1247–309.

[87] Bennett and Sharpe, *Transnational Corporations*, 100, 141, 142.

[88] Gabriela Recio Cavazos, *Don Eugenio Garza Sada: Ideas, acción, legado* (Monterrey, 2017).

[89] Roberto Garza Sada to Manuel Gómez Morin, 25 Feb. 1942and 30 July 1942, vol. 234, file 747, AMGM.

[90] Roberto Garza Sada to Manuel Gómez Morin, 30 July 30, 1942; Manuel Gómez Morin to Roberto Garza Sada, 3 Aug. 1942 and 21 Oct. 1942, vol. 234, file 747, AMGM.

of their metal products. In the 1950s the company experimented with different systems to produce iron and in 1959 it patented—both in Mexico and in the United States—a direct reduction technique that produced a sponge-like iron called *fierro esponja*.[91] By 1970, it had licensed the "Hyl process" to Brazil, Iraq, Iran, Indonesia, and Venezuela; it "became the most popularly employed direct reduction method internationally."[92]

Other entrepreneurs allied with the government to develop new businesses. This was the case with the television company Televisa, created in 1951 by Emilio Azcárraga Vidaurrieta. Before starting Televisa, Azcárraga had established a Ford car dealership in Monterrey. In 1923 he began to distribute records and phonographs from the Victor Talking Machine Company, which later merged with the U.S. radio giant RCA. In 1930, with RCA support, he established XEW Radio, the largest and most modern radio company in Mexico. With Televisa, Azcárraga and the government participated in a mutually beneficial understanding: Televisa would provide positive media coverage of government actions and accept limits imposed on news coverage in exchange for monopoly power. While Televisa enjoyed government privileges, it was also quite successful in developing soap operas as well as TV shows that were exported to many countries, thereby becoming the biggest Spanish-language media company in the world.[93]

The government and private business also cooperated in developing several important tourist projects. The highway from Mexico City to Acapulco was finished in 1928, and the first tourist hotel was opened in 1934 by Carlos Barnard. Even so, more infrastructure was required to make Acapulco an international tourist attraction. In the 1940s and 1950s, the government, together with several entrepreneurs including Manuel Suárez y Suárez, carried out the investment required. In 1954 the city's international airport was completed, and new hotels opened. In 1957, Aeroméxico inaugurated its first international routes, one of which was Acapulco–Los Angeles, transforming the city into a favorite beach resort of the international jet set.[94]

Something similar took place in Puerto Vallarta during the 1960s. Mexicana de Aviación eagerly competed with Aeroméxico, which held

[91] Juan Celada Salmón, inventor of the "Hyl process", interview by Gabriela Recio Cavazos, 13 May 2014; United States Patent Office, Patent number 2,900,247, "Method of Making Sponge Iron" filed 5 Aug. 1957, granted 18 Aug. 1959.

[92] Barbara Hibino, "Cervecería Cuauhtémoc: A Case Study of Technological and Industrial Development in Mexico," *Mexican Studies/Estudios Mexicanos* 8, no. 1 (1992): 40.

[93] Claudia Fernández and Andrew Paxman, *El Tigre: Emilio Azcárraga y su imperio Televisa* (Mexico City, 2013).

[94] José Luis Chías, "Desarrollo histórico de la aviación comercial mexicana," *Investigaciones Geográfica* 1, no. 11 (1981): 263–76.

a monopoly over the Acapulco routes. Several important hotel chains were founded during that decade. In 1960 Banamex, together with other investors, founded Hoteles Camino Real, and in 1962 it signed a contract with Western International Hotels (Westin). In 1967 another important hotel chain, Promotora Mexicana de Hoteles SA (Grupo Posadas), was established by Gastón Azcárraga Tamayo.[95] During the 1970s, Cancún was developed, this time on virgin land through an all-encompassing government plan that included the touristic areas and the city. Unfortunately, these projects were undertaken with little concern for environmental sustainability.

The evolution of the drug trade is the extreme example of an alliance between business and government officials because, since the drug trade is prohibited, cooperation has been a requisite to make it viable. This alliance was first carried out by municipal and state officials. During Miguel Alemán's presidency (1946–1952) the Mexican government made its first attempt to take national control of all revenues generated in the protection of drug-trafficking activities. Within the Cold War atmosphere, a new secret police organization was created, the Dirección Federal de Seguridad (DFS), whose main objective was to track and control subversives and left-wing politicians. However, its members also profited by charging "fees" to drug traffickers for protection against prosecution. But it was under the presidency of José López Portillo (1976–1982) that the "Mexican drug trade became a politically approved federal-level business."[96]

As the counterculture of the 1960s changed U.S. consumer tastes regarding drugs, Mexican drug traffickers adapted and innovated. As U.S. consumers became more selective, better marijuana quality and branding was introduced. By the end of the 1960s "Acapulco Gold" was the best in quality but consumers could also choose and pay accordingly for "Zacatecas Purple," "Guadalajara Green," and "Yucatán Red."[97] In the 1970s Pedro Avilés Pérez established a series of warehouses at the Mexican border to store heroin and marijuana. Additionally, he offered other important services such as transport by air or land and much-needed contacts on both sides of the border. Over the following decades, Fonseca Carrillo and Caro Quintero joined forces with Miguel Ángel Félix Gallardo to form a prominent international drug-trafficking network. While Fonseca Carrillo and Caro Quintero oversaw the planting, processing, and trafficking part of the business, Félix Gallardo—as

[95] Grupo Posadas, Annual Report, 2003, accessed 24 June 2020, http://cms.posadas.com/posadas/Brands/Posadas/Region/Mexico/Hotels/Finanzas/Catalogs/Media/Informe_Anual/Reporte_Anual/Espanol/Reporte_Anual_2003.pdf.

[96] Smith, *The Dope*, 137–38, 149–52, 287.

[97] Smith, 221.

a former bodyguard of Sinaloa's governor Leopoldo Sánchez Célis (1963–1968) and godparent to one of the governor's sons—provided the political connections.[98]

Family Firms, Business Groups, and Immigration

As immigration waned after the Revolution and founders gave way to the second generation, families became the basic business social structure. The uncertainty that engulfed the postrevolutionary period had a serious impact. Entrepreneurs became more conservative and risk averse in their investments. As investment resources declined and the stock market plummeted, family alliances through marriage became an important source of business expansion. While women did not participate in the companies' management, they were the bonding elements in maintaining strong family ties and mores.[99]

John F. Brittingham's trajectory provides some clues as to the reasons behind the increasing importance of family firms. Before the Revolution he was an adamant believer in large joint-stock limited liability companies, of which he founded many. Joint-stock companies allowed Brittingham to invest with limited risk, organize and lead controlling groups within company boards. During the Revolution, however, many of his former allies died, left the country, or lost power. The networks that he had woven disintegrated, and in 1924 the Compañía Industrial Jabonera de la Laguna was liquidated. Furthermore, Brittingham's business relationship with Vidriera Monterrey soured when a conflict erupted between his son Nelson, who was the superintendent of the glass factory, and the company's director, Roberto G. Sada. In 1926 when Brittingham founded a new soap manufacturing company, Jabonera del Pacífico, he opted for the family business model, forgoing partnerships with Mexican investors; instead, he partnered with the Colorado River Land Co. and his sons oversaw the company's management. The Brittingham family company did not last long, however. In 1932, it was sold to Anderson, Clayton and Company.[100]

During the early 1930s the most successful family firms began to organize as business groups through the creation of holding companies. This strategy was partly a means to cope with the increasing power of government and labor organizations. It allowed them to withstand with greater strength an increasingly corporatist political

[98] Smith, 180, 326–27.

[99] Larissa Adler Lomnitz and Marisol Pérez Lizaur, *A Mexican Elite Family, 1820–1980: Kinship, Class, Culture* (Princeton, 1988).

[100] Cerutti and Barragán, *John F. Brittingham*, 47–49, 201.

environment.[101] At the same time it enabled them to oversee their sprawling concerns by providing greater administrative autonomy to each unit while facilitating cooperation among the firms that belonged to the group. The holding also diminished the potential problems that arose as the second or third generation entered the family business. The new structure allowed Mexican conglomerates to penetrate sectors that until then had been controlled by foreign firms, such as the insurance business, and expanded their sources of capital since it enabled them to place long-term bonds at low interest rates in the stock market.[102]

Banks were the cornerstone in the formation of Mexico's first family business groups. Most groups incorporated one or two banking institutions and an assortment of industrial enterprises.[103] Business families began organizing their different industrial, mining, agricultural, commercial, and financial investments under the umbrella of holding companies. Some business groups developed from companies established in prerevolutionary times that belonged to their families or were acquired from foreign businessmen who had left the country. However, the majority emerged in response to nationalistic policies. This policy change allowed Mexican business groups to acquire companies in sectors where foreign participation was regulated, and most of them thrived serving the protected national markets. Some family business groups began their first forays into foreign markets by exporting their products, buying companies, and licensing technology in other countries.

In 1936 the Garza Sada family organized Mexico's first holding company, Valores Industriales SA (VISA), in the city of Monterrey.[104] In 1935 the board of directors acknowledged that the business and

[101] Susan Gauss, *Made in Mexico: Regions, Nations, and the State in the Rise of Mexican Industrialism, 1920s–1940s* (University Park, PA, 2011).

[102] Manuel Gómez Morin to Gastón Descombes, 21 Oct. 1935, vol. 453, file 1475, AMGM, cited in Gabriela Recio Cavazos, *El abogado y la empresa: Una mirada al despacho de Manuel Gómez Morin, 1920–1940* (Mexico City, 2017), 192.

[103] Raymond Vernon was probably one of the first to analyze business groups in Mexico, at the end of the 1950s and early 1960s. See Vernon, *Dilemma of Mexico's Development*. For a more recent discussion on business groups, see Del Angel, "Nexus," 111–28; Mario Cerutti, "Grandes empresas y familias empresariales en México," in Fernández Pérez and Lluch, *Familias Empresarias*, 153–88; Taeko Hoshino, "Business Groups in Mexico," in Colpan, Hikino, and Lincoln, *Oxford Handbook of Business Groups*, 15–66; Ross Schneider, "Hierarchical Market Economies," 553–75; Celso Garrido, "El liderazgo de las grandes empresas industriales mexicanas," in *Grandes empresas y grupos industriales latinoamericanos*, ed. Wilson Peres (Mexico City, 1998), 397–472; and Gonzalo Castañeda Ramos, *La empresa mexicana y su gobierno corporativo: Antecedentes y desafíos para el siglo XXI* (Puebla, 1998), 69–98, 213–68.

[104] This can be seen in the correspondence between Manuel Gómez Morin and the Garza Sada family, especially in Esquema, n.d., vol. 486, file 1520, AMGM. See also Gabriela Recio Cavazos, "Lawyers' Contribution to Business Development in Early Twentieth-Century Mexico," *Enterprise and Society* 5, no. 2 (2004): 301–4.

capital expansion of the Cuauhtémoc Brewery implied "an important volume of assets and capital that involved administrative and technical responsibilities; if the latter were not rationally separated and organized, political complications in relation to the recent general legislation could arise."[105] The new organization allowed the Garza Sadas to maintain absolute control of their different businesses and reduce the disclosure of its expansion. While shareholders who were not members of the Garza Sada family could invest in the firms that formed part of VISA, shares of the holding were only open to members of the Garza Sada extended family. The holding gave greater autonomy to its different units, opened the possibility of transfering funds among them, and allowed the group to concentrate resources in new investments.[106] By the end of the 1960s, as the third generation entered the family business, VISA controlled approximately fifty companies. In 1974, the family divided its interests in two. VISA, under the Garza Lagüera family, kept the breweries and the companies that provided inputs to them, such as malt, crown caps, lids, and a bank (Serfin). A new holding company, Alfa, in the hands of the Garza Sada family, was created with the steel, mining, and cardboard-packaging firms.

Raúl Baillères became the head of another relevant business group. In 1934 he established a *financiera* (nonbank bank), Crédito Minero y Mercantil, which "was the only intermediary authorized by the government to conduct international transactions with precious metals."[107] In 1941 he acquired majority ownership of the Moctezuma Brewery and in 1946 founded a private university, the Instituto Tecnológico Autónomo de México (ITAM). By the end of that decade, Baillères had bought one of the most important retail stores in Mexico City, El Palacio de Hierro, which was established in the 1890s by French families from Barcelonnette. In 1961 Baillères, like other Mexican businessmen, took advantage of a mining law reform that limited mining concessions in foreign hands and gave fiscal benefits to companies with a majority Mexican ownership. Foreign companies were forced to sell part of their capital to Mexican entrepreneurs or the government. That year, Peñoles, one of Mexico's largest mining companies, was sold to Raúl Baillères and José A. García. As a result, in 1965 Metalúrgica Mexicana Peñoles SA was created, and it acquired American Metal Climax. Upon his death, Baillères's son Alberto successfully continued to grow the

[105] Minutes of the Board,Cervecería Cuauhtémoc, 24 May 1935, AMGM, cited in Recio Cavazos, *El abogado y la empresa*, 203, our translation.

[106] VISA, Memorandum que sugiere la reconsideración de los proyectos primitivos, 3 Mar. 1936, vol. 468, file 1520, AMGM, cited in Recio Cavazos, *El abogado y la empresa*, 204.

[107] Del Angel, "Nexus," 119.

family businesses—the BAL Group, which currently ranks among the most important in the country.[108]

Nationalization policies in the mining sector also propelled the organization of the Larrea family business group. In 1965 the American Smelting and Refining Company (ASARCO)—a U.S. mining company that in 1901 was controlled by the Guggenheim family[109]—sold 51 percent of its shares to a group of investors headed by Bruno Pagliali, Jorge Larrea, and Juan Sánchez Navarro. During the following years, the company acquired drillships that offered services to the state-owned petroleum company PEMEX, developed irrigation systems, and began exploiting new mines in the state of Sonora. In 1974 the company engaged in metal manufacturing by establishing Complejo Metalúrgico in Sonora, and by 1976 it had significant investments in Perú. Two years later, when Mexican shareholders wholly owned it, it changed its name to Grupo Minero México. Under the Larrea family, the group continued developing infrastructure projects for PEMEX, expanded its metallurgical operations to produce zinc and copper, and acquired new mines.[110]

In 1948, Roberto González Gutiérrez, his son Roberto González Barrera, and Bonifacio Salinas Leal—a former revolutionary, governor of the State of Nuevo León (1939–1943) and of Baja California (1959–1966), and senator (1970–1976)—ventured into tortilla corn flour manufacturing, creating a company called Maseca that became the foundation of the Gruma business group. Bonifacio Salinas Leal was instrumental to the company since he introduced the González family to influential politicians such as Carlos Hank González, Raúl Salinas Lozano, and his own sons, Raúl and Carlos Salinas de Gortari. Carlos Hank González and Raúl Salinas de Gortari held critical positions in Conasupo, the government food agency—the former from 1961 to 1969 and the latter from 1982 to 1992. Raúl Salinas Lozano was secretary of industry and commerce (1958–1964), and Carlos Salinas de Gortari was secretary of budget and planning (1982–1987) and president of Mexico (1988–1994). The González family appropriated technology that had recently been developed in government labs to produce corn flour for making tortillas (Mexico's most important food staple) and used their government connections to access subsidized corn. They also gained the exclusive right to distribute the company's tortilla flour through Conasupo. During the 1960s, they gained a large share of the market by acquiring most of their competitors, and in the 1970s, they

[108] Del Angel, 119–20; Orozco Zuarth, "Raúl Bailleres."

[109] María Angeles Cortés Basurto, "Cimientos del imperio de la familia Guggenheim en México, 1890–1905," in Palacios, *Negocios*, 105–48.

[110] "Historia," Grupo México, accessed 20 Jan. 2021, https://www.gmexico.com/Pages/Historia.aspx.

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began their global expansion by establishing corn flour factories in Central America and the United States.[111] During the 1980s, family ties strengthened as Carlos Hank González's son married Roberto González Barrera's daughter. The couple's son, Carlos Hank González, is currently the president of the financial group Banorte and is related to the Gruma group. Since the 1990s, Gruma has produced around 70 percent of the corn flour consumed in Mexico and undertaken an extraordinary international expansion. Currently the world's largest producer of corn flour and tortillas, Gruma owns seventy-nine factories in 112 countries, and 75.8 percent of its sales are made abroad.[112]

Immigrants have long nurtured the business communities in Mexico. After the Revolution, the nature of their engagement with the country changed, since they no longer planned to return to their countries of origin but foresaw settling in Mexico permanently. Most were forced to emigrate as a consequence of one of the two World Wars, the Spanish Civil War, or the collapse of the Ottoman Empire. Ethnic networks among them continued to be important, and many of them were related to immigrants who had come to Mexico earlier and were well settled.[113] Nonetheless, because they settled in Mexico for good, married and had children in the country, families played a larger role in their business organization.

Braulio Yriarte, from the Basque region, whose investments included flour factories, was instrumental in bringing together other fellow citizens such as Martín Oyamburu and Pablo Diez to establish the Modelo brewery in Mexico City in 1925.[114] In 1933, the Modelo brewery first exported its iconic Corona brand to the United States, but high tariffs prevented the company from reaching that market in full form. It would not be until 1976 that Modelo formally started sending its beer to the U.S. market. Ten years later, Corona was the second most popular imported brand in the United States.[115]

[111] Manuel Rubio, "La industrialización de la harina de maíz," in *Maíz-Tortilla: Políticas y Alternativas*, ed. Gerardo Torres Salcido and Marcel Morales Ibarra (Mexico City, 1997), 131–40; Alberto Bello, "Roberto González Barrera: El Banquero Improbable," in *Los Amos de México*, ed. Jorge Zepeda Patterson (Mexico City, 2007), 387–421.

[112] Gruma S.A.B. de C.V., Annual Report, 2020, 29, accessed 20 Jan. 2021, https://www.gruma.com/media/704751/gruma_reporte_anual_2020_-_versi_n_final_con_anexos.pdf.

[113] Martha Díaz de Kuri and Lourdes Macluf, *De Líbano a México: Crónica de un pueblo emigrante* (Mexico City, 1997); Guadalupe Zárate Miguel, "Integración económica e ideológica de los judíos en México, 1920–1930," *Revista de Humanidades: Tecnológico de Monterrey* 9 (2000): 83–102.

[114] Carlos Herrero, *Braulio Iriarte: De la Tahona al Holding internacional cervecero*, Cuadernos de Historia Empresarial (Mexico City, 2002); Alicia Ortiz Rivera, *Juan Sánchez Navarro, Biografía de un testigo del México del siglo XX* (Mexico City, 1997).

[115] Edgar Rogelio Ramírez Solís and Verónica Iliana Baños Monroy, "From Family Firms to MultiMexicans in the Beer Industry: Grupo Modelo and Cuauhtémoc Moctezuma," in *Building Multinationals in Emerging Markets*, ed. Alvaro Cuervo Cazurra and Miguel A. Montoya (Cambridge, U.K., 2018), 223.

In 1903 Juan Servitje arrived from Catalunya and started working in La Flor de México, which was an exact copy of the Barcelona bakery La Igualdina. Lorenzo, his son, founded Panificadora Bimbo in 1945. The company, which is now managed by the second generation, not only controls Mexico's production and distribution of bread but has become one of the largest bread producers in the world.[116] In the late 1950s and the 1960s, several immigrants of Asturian and Cantabrian descent established Mexico's most important supermarket chains: Carlos González Nova founded La Comercial Mexicana, Angel Losada Gómez opened Gigante, the brothers Jerónimo, Manuel, and Plácido Arango Arias created Aurrerá, and the brothers Francisco and Armando Martín Borque inaugurated Soriana. In 1997 Walmart bought Aurrerá and has become the biggest retail chain store in the country.[117]

Some noteworthy entrepreneurs, such as Carlos Slim Helú, were second-generation immigrants. Slim's mother, of Lebanese descent, was born in Mexico, and his father arrived in 1902 from Lebanon. The senior Slim along with his brothers opened a haberdashery in Mexico City in which young Slim participated. Carlos studied civil engineering at Universidad Autónoma de México (UNAM) and graduated in 1961. Unlike his classmates, who entered the construction business, young Carlos became a broker and, in 1967, opened a brokerage firm, Inversora Bursátil. Slim's other investments at the end of the 1960s and the early 1970s were in real state. In 1978, he acquired Minera FRISCO SA, formerly the San Francisco Mines of Mexico Limited. The economic crisis that started in 1982 was a turning point for Slim. When the government expropriated the banks, his companies had a solid financial footing that enabled him to invest in Reynolds Aluminum, Sanborns, General Tire, Bimex, Hulera El Centenario, British American Tobacco, and Anderson, Clayton and Company, among others.[118]

The government's strong hold on the economy fostered the concentration of business into large family business groups since larger businesses were more capable of dealing with the government to obtain

[116] Silvia Cherem, *Al grano: Vida y visión de los fundadores de Bimbo* (Mexico City, 2008).

[117] Javier Moreno Lázaro, "Los asturianos y la modernización comercial en México en el siglo XX: Los Arango," *Memoria del XV Congreso Internacional de Investigación en Ciencias Administrativas* 4, no. 212 (2011): 33–67; Mario Cerutti and Eva Rivas Sada, "El agrocomercio como escalón a las grandes cadenas urbanas: Ángel Losada Gómez y la construcción del Grupo Gigante (1923–2004)," in *De la colonia a la globalización: Empresarios cántabros en México*, ed. Rafael Domínguez Martín and Mario Cerutti (Cantabria, Spain, 2006); Enrique Krauze, *Walmart de México: Una historia de valor y compromiso* (Mexico City, 2008).

[118] Diego Enrique Osorno, *Slim: Biografía política del mexicano más rico del mundo* (Mexico City, 2015), 141; Raciel Trejo, *Carlos Slim: Vida y obra, Quién es quién* (Mexico City, 2012); José Martínez, *Carlos Slim: Retrato Inédito* (Mexico City, 2002); "Biography," Carlos Slim Helú website, accessed 13 Feb. 2018, http://www.carlosslim.com/biografia_ing.html.

benefits. The ground was thus tilted against entrepreneurs who had smaller firms and lacked critical political connections. Moreover, in a context in which credit was scarce and rationed by the government, being part of a family that owned capital was vital to entrepreneurial success.

The increasing role of the government in the economy and nationalistic policies were also partly responsible for the heterogeneity of sectors in which Mexican business groups participated. Since government-related opportunities did not necessarily appear in the sectors in which the entrepreneurs specialized, many diversified their businesses to accommodate them. This is why Baillères and Trouyet, who were both in the banking business, became involved in mining and the telephone business, respectively. Other entrepreneurs devised complex business strategies to secure inputs that were subject to high import tariffs or could be rationed by government policies. This led them to diversify into many sectors and drove their investments far away from their original main product, such as vertically integrated companies that produced crucial inputs, or into financial services and banking. In addition, after the 1970s, when the economic environment turned very volatile, holding a portfolio of companies in several sectors also became an excellent way to diversify risk. Thus, business groups fared better than smaller firms through the series of economic crises that began in 1973.

The Demise of the Nationalistic Business-Government Agreement

In the context of the Cold War, the growth of social protests and guerrilla movements led to harsh government repression that culminated in a student massacre in October 1968, which became a watershed in Mexican politics. During Luis Echeverría's presidency (1970–1976), his left-wing policies strained relations between the government and Mexican business.[119] In 1973 Eugenio Garza Sada, the head of the VISA business group, was kidnapped and killed by a guerrilla organization. The entrepreneur had openly opposed government expansion policies, and many considered that the government was partly responsible for this terrible event.[120] When President Echeverría attended Garza Sada's funeral in Monterrey, crowds gathered in the procession and shouted "murderer" at the president. At the time of his assassination, Garza Sada had been leading a group of entrepreneurs that included Eloy Vallina Lagüera, Alberto Baillères, and Fernando Aranguren to

[119] Roderic Ai Camp, *Entrepreneurs and Politics in Twentieth-Century Mexico* (New York, 1989), 24–26.

[120] Jorge Fernández Menéndez, *Nadie supo nada: La verdadera historia del asesinato de Eugenio Garza Sada* (Mexico City, 2019).

buy an influential Mexican newspaper chain. One week before the transaction was closed, Garza Sada was shot to death, and Fernando Aranguren was killed a month later.[121] The Echeverría government took possession of the news organization and, before the end of his presidency, sold it to Mario Vázquez Raña, an entrepreneur with close ties to the government. In later years Mario Moya Palencia, who served as Echeverría's Secretary of State, became the director of Organización Editorial Mexicana, as Vázquez Raña renamed the company.[122]

Government-controlled enterprises increased at a faster rate during those years, their number climbing from 84 in 1970 to 760 in 1982.[123] This was possible as a result of the low-interest rates in the buoyant euro-dollar credit market and the increase in earnings that PEMEX obtained between 1978 and 1982, as oil prices rose.[124] The government acquired controlling shares of several foreign mining companies, including the Compañía Minera de Cananea SA, which belonged to the Anaconda Copper Co. By 1980, foreign companies owned only 36.7 percent of Mexico's total mining assets, while companies with government participation held 40 percent.[125]

The 1973 energy crisis placed several private companies in serious difficulties. The government's policy at the time, in order to avoid bankruptcies of companies and layoffs of workers, was to acquire them. The case of Fundidora Monterrey exemplifies this procedure. By 1974 Fundidora was heavily indebted with a 4.7 million–dollar loan it had obtained to expand its facilities. In 1976 a substantial devaluation and a series of workers' strikes forced it into bankruptcy. To solve the situation, in 1979 the government acquired Fundidora Monterrey and merged it with other state-owned steel companies that included the recently established Siderúrgica Lázaro Cárdenas-Las Truchas (Sicartsa), creating a new government company, Siderúrgica Mexicana (Sidermex).[126]

Oil revenues and a surge in government foreign borrowing allowed an extraordinary expansion of the public sector and rapid economic growth. Private investment, fueled by credit from international markets, doubled from 1977 to 1980. Protectionist policies continued

[121] Recio Cavazos, *Don Eugenio*, 22–23, 305.

[122] Recio Cavazos, 306.

[123] Camp, *Entrepreneurs and Politics*, 29.

[124] Carlos Marichal, "Historia de las empresas e historia económica de México: avances y perspectivas," in *Los estudios de empresarios y empresas: Una perspectiva internacional*, ed. Jorge Basave and Marcela Hernández (Mexico, 2007), 71–100.

[125] Raúl Delgado Wise and Rubén del Pozo Mendoza, *Minería, Estado y gran capital en México* (Mexico City, 2002), 19–23.

[126] Daniel Toledo and Francisco Zapata, *Una historia de la industria siderúrgica integrada en México* (Mexico City, 1999); José Oscar Ávila Juárez, *Acero, nacionalismo y neoliberalismo en México: Historia de la Siderúrgica Lázaro Cárdenas-Las Truchas, S.A.* (Querétaro, 2011).

as representatives of the most important business groups successfully dissuaded the government in 1979 from joining the General Agreement on Trade and Tariffs (GATT) that would open the economy to foreign trade. When oil prices plummeted in 1982, a deep economic crisis began and many private companies went bankrupt.[127] In September of that year, the government nationalized all Mexican banks, which marked a new and lasting rupture between the government and business. The unwritten agreement between business and government was broken and a long period of crisis and recession began. This was a turbulent financial period in which a large part of the entrepreneurial elite was effectively decimated, and only the strongest, shrewdest, and most flexible survived. It took more than a decade for government and business to reach a new equilibrium, which was established under completely different terms both politically and economically, coinciding with the new era of globalization. Although Mexico began to recover during the 1990s, it did not achieve the annual growth rates in GDP of around 6 percent of the previous period.[128]

Conclusions

Many of the features that characterize business in Mexico today resulted from a new arrangement between government and business during the era of nationalism. Entrepreneurs gained ground relative to corporations and managerial hierarchies relative to the prerevolutionary period. Instability, lack of financial resources, and institutional voids also made families a more central business actor than in the previous period. Family business groups began to emerge in the 1930s and became increasingly influential. Although immigrants had been an essential source of entrepreneurship since the nineteenth century, during the twentieth century their role changed as they settled permanently in the country, and their offspring became part of entrepreneurial families. Business strategies that involved obtaining privileges from government officials took new forms compared with the former period, but political relations remained an essential factor for business success and illicit business began to prevail.

The Mexican Revolution broke the previous arrangement between entrepreneurs and the government. It also caused a tremendous toll on the government's finances, capacities, and power. Over several years, the revolutionary governments could not undertake many of the

[127] Camp, *Entrepreneurs and Politics*, 28–29.

[128] Graciela Márquez, "Evolución y Estructura del PIB, 1921–2010," in Kuntz, *Historia económica general*, 553; INEGI, *Estadísticas Históricas de México*, vol. 1 (Mexico City, 1999), 3.

nationalist rulings set out in the Constitution of 1917. While the upheavals negatively affected companies and forced many into bankruptcy, several entrepreneurs devised strategies that allowed them to survive. Diminished governance in Mexico and drug and alcohol restrictions in the United States opened opportunities for those risk averse and shrewd enough to thrive in unpredictable, violent, illegal, and lucrative black markets. Numerous *revolucionarios* used their political connections to enter different business ventures. A new cohort of entrepreneurs emerged during this period, comprised in part of former revolutionaries who reached relevant government positions and those who had formed tight-knit connections.

During the 1930s, the Mexican government regained strength, which, together with the international context, helped it unleash nationalistic policies. The economic crisis allowed the government to create a new equilibrium in its relationship with business. The government granted domestic firms protection from foreign competitors and profitable government contracts in exchange for their compliance with and support of its increasing economic involvement and control. In addition, the "Mexicanization" policies allowed well-connected Mexican businessmen to acquire, in advantageous conditions, companies owned by foreign investors. As a result of this new "understanding," a number of entrepreneurs built large companies, many of which were organized as family business groups.

Those entrepreneurs with close ties to government officials had a considerable advantage over the rest. Their strategies centered on cultivating those relationships, and the battleground was tipped in favor of those with greater abilities in this field. Nationalistic policies also set stumbling blocks that hampered entrepreneurship and became increasingly difficult to surmount as more intermediate goods became protected, inhibiting the ability of Mexican companies to compete internationally. Moreover, the government came to control key services and inputs, which meant that entrepreneurs increasingly had to focus their energies on deciphering and taking advantage of the intricate bureaucratic maze instead of innovating and raising efficiency and productivity.

Nationalistic policies led to the formation of large, closely owned, and family-controlled business groups. Big, cohesive family business groups better endured the economic turbulence into which the country plunged after the 1970s and the structural changes that came about when the economy was opened to foreign trade and investment in the mid-1980s. Thus, the nationalistic period left a lasting legacy in terms of business structure. Moreover, it installed ongoing practices in the relationship between entrepreneurs and the government that would prove more difficult to dismantle than protectionism. This explains why the profound economic and political liberalization that Mexico experienced in the last decades did not transform the corporate landscape in ways that could have been expected.[129] Most business groups in Mexico nowadays date from the nationalistic era. In some cases the names have changed, but they have survived within the same extended families. Some have even become emerging multinational corporations.

The fact that Mexico shares certain business characteristics with other Latin American countries shows that their evolution did not require many of the specific historical circumstances that brought them about in Mexico. Every country has its own story of how these characteristics came about, and differences between business features among Latin American countries have yet to be explored. However, all large Latin American countries experienced, in one way or another, periods of violence and a high degree of political and economic uncertainty, as well as strong government intervention and nationalistic policies, which are broadly the basic ingredients required to produce business features such as those we have explored in the case of Mexico. Thus, the similarities among business characteristics in Latin America are no surprise. Nevertheless, the study of their emergence and evolution in other countries would be an important contribution to our understanding of these features and the contexts that promote them.

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[129] Ben Ross Schneider, "Economic Liberalization and Corporate Governance: The Resilience of Business Groups in Latin America," *Comparative Politics* 40, no. 4 (2008): 379–97.

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