

ACTUALIZING THE DEVELOPMENTAL RESPONSE OF MULTINATIONAL CORPORATIONS: THE CASE OF AGRIBUSINESS IN THE MEXICAN COUNTRYSIDE

WILLIAM P. GLADE* AND LEE A. TAVIS**

1. INTRODUCTION

The confluence of three global trends is fundamentally changing the nature of the multinational corporate interaction with developing country societies: marketization, governmental decentralization, and the diffusion of decision making in multinational organizational systems. Constraints imposed by globalization hover over all of these adjustments. In some countries, including Mexico, these constraints are reinforced and accentuated by the exigencies of regional economic cooperation schemes such as the North American Free Trade Agreement ("NAFTA"). The universal rush to open markets, at a time when many fiscal systems are being retrenched in the interest of macroeconomic stabilization, risks exacerbation of the income gap within developing countries. It does so between regions and among households, even as it holds some promise for lessening the gap between developed and developing countries. Governmental decentralization and the diffusion of multinational decisionmaking move the locus of action closer to local levels. Together, these trends fundamentally change the allocation of global resources, the role of governments and multinationals in resource distribution, and the way in which these two institutions interact.

Through marketization, governments of developing countries are abrogating their control to the marketplace, giving rise to the possibility that the notorious public sector failures, in all their

* Professor of Economics and Director of the Mexican Center in the Institute of Latin American Studies, University of Texas at Austin, and Senior Scholar, Woodrow Wilson International Center for Scholars, Smithsonian Institution, Washington, D.C.

** C.R. Smith Professor of Business Administration and Director of the Program on Multinational Managers and Developing Country Concerns, University of Notre Dame.

dismaying variety, may be replaced by market failures. For example, adequate attention to the need for developing the institutional infrastructure of the market, for regulation, or for legal structures to undergird market transactions, has not generally accompanied elimination of economic controls. The widespread collapse of the Chilean banking system after the first wave of marketization and the current weaknesses in Mexican, Brazilian, Venezuelan, or Argentine banking illustrate this.¹

With respect to both capital markets and financial intermediary institutions, the regulatory framework is still far from optimal (however defined) and the integrity and stability of the financial institutions are by no means certain. Actual enforcement of environmental legislation, product safety and consumer protection regulation are all still on the agenda of new business. Massive misallocations of resources and confusion in multinational operating environments are occurring during this transitional period, as the abrupt drop in Mexican gross domestic product ("GDP") following the peso crisis illustrates.²

A second feature of governmental action in developing countries has been an effort to spread decisions over a broader base. Through decentralization, national governments transfer a substantial component of their remaining power to state and municipal governments. Local governments are still struggling to exercise this new power effectively. In many cases, local and state systems of public administration are even weaker than national systems. Additionally, public expenditure management and revenue collection are both problematic in more instances than not. Although policy changes and constitutional amendments already reflect the much-discussed trend of decentralization, the real testing ground is found in implementation, where decentralized authorities have only recently embarked on a learning process. The debate in developing countries over decentralizing power through governmental policy, revenue sharing, taxing authority, and achievement of local administrative efficiency

¹ See Enrique R. Carrasco & Randall Thomas, *Encouraging Relational Investment and Controlling Portfolio Investment in Developing Countries in the Aftermath of the Mexican Financial Crisis*, 34 COLUM. J. TRANSNAT'L L. 539, 550-51 (1996) (discussing the default of many Latin American countries on debt obligations to commercial banks in the early 1980s).

² See *id.* at 570 (noting that Mexico's GDP "fell approximately 7%" in 1995).

parallels that of the United States. However, in developing countries, one must reckon with an assortment of learning disabilities on the part of the governments to which new functions are being transferred.

These changes in governmental policy coincide with the move of multinational corporations from hierarchical organizations to a heterarchical diffusion of decisionmaking, so that decisions formerly reserved for the command core are now made throughout the multinational organizational network. The dismantling of multinational command and control systems reflects the response of these firms to the increased power of the marketplace, as well as technological advancement. The net result is a shift in both governmental and multinational decision power to the local level. According to the principle of subsidiarity, this is where the power should rest.³

This paper summarizes these three trends as they occur on a global level, using Mexican agribusiness as a focal example. The Mexican government, in an attempt to increase agricultural productivity, is opening its agricultural markets to foreign corporations, decreasing or eliminating subsidies, privatizing government-owned agricultural processing plants, and changing the constitution in order to permit and even promote large-scale farming. Mexican and foreign firms have responded with substantial investments. To date, however, the result has been a drop in rural standards of living, *campesinos*⁴ leaving and losing their land, conflict in the countryside, and losses or below-expectation profits for many agribusiness ventures.

The Mexican national government is struggling with the starts and stops of decentralization while Mexican municipal governments attempt to cope with national policy confusion on the one hand and, on the other, increasing local exploitation, marginalization, and unrest.

³ The principle of subsidiarity addresses "vertical challenges to, or affirmations of, sovereignty" and "accuracy in allocation of authority vertically." Joel Trachtman, *Reflections on the Nature of the State: Sovereignty, Power and Responsibility*, 20 CAN.-U.S. L.J. 399, 404-12 (1994) (suggesting that subsidiarity may indicate "a need for flexibility and experimentation in allocating functions to varying levels of sub-state units").

⁴ "*Campesinos*" is the Spanish word that approximates "peasants," "small farmers," and "rural worker" and embraces all three categories of rural people, though it is not an exact equivalent to the term "peasant" as given by European history.

Both multinational and Mexican agribusinesses are attempting to cope with the increasing risk in this operating environment, as exacerbated by the collapse of aggregate demand in 1995, when the Mexican economy lost more ground than any other country in the region.⁵ They must do so, however, without the cushion of home market profits to sustain them and with the added, and quite substantial, burden of interest rates that shot to exceedingly high levels in 1994 and 1995 and that remain relatively high today.⁶ In attempting to weather the current situation, many multinational businesses are taking a long-term view and have implemented strategies of collaboration with local groups.

This collision in the Mexican countryside plumbs the issue of ethical responsibilities for the institutions with the power to ameliorate or to exacerbate the situation, particularly government, agribusiness, and nongovernmental organizations. The deliberation and implementation of both public policy and private strategy need to be analyzed as a bottom-up phenomenon. It must begin from the grassroots, with a focus on the interaction among local agribusinesses, local governmental regulators, and the other local components of civil society. The reason, aside from a possible ethical imperative, is a pragmatic one. Unless the road back to prosperity involves a great deal more sharing in the benefits of growth and much wider access to the evolving opportunity structure, it is doubtful that the prevailing general policy framework will endure. This is particularly so because the country is already conspicuous for having one of the most unequal income distributions in the world. The experiment that concludes this report is an attempt to bring about collaboration at the grassroots in the Mexican states of Guanajuato and Queretaro.

2. MARKETIZATION

2.1. *Global Trends*

National developmental policies are mid-stride in a basic paradigm shift. The years of unlimited expansion of governmen-

⁵ See generally ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN, UNITED NATIONS, ECONOMIC PANORAMA OF LATIN AMERICA (1996).

⁶ See Jeff A. Wright, *Cetes Fall 2.06 Points, Rates at 1994 Pre-Crisis Level*, *The News (Mexico)*, Sept. 24, 1997, available in 1997 WL 8252483.

tal budgets and direct involvement in all facets of society are now gone. Worldwide, governments are changing their development strategies, moving along the spectrum from economic intervention toward marketization.

Government-led development is giving way to market-led development, even where a reliable new institutional framework is not yet present to lend support. This decrease in the involvement of the state in all sectors of the society is unprecedented. Governmental expansion and resource allocations are now more often directed by markets than by governmental ministries and agencies. Five-year plans have been replaced with forecasts. The focus is now on efficiency through market pressures. At times, this approach has conflicted with regulations created to restrain private monopoly power, to ensure the integrity of financial intermediaries, and to make available comprehensive and authenticated information needed for the efficient operation of a capital market.⁷

Formerly, government-led developmental efforts ranged from the command economies of Central and Eastern Europe (including former Soviet republics and China) to the state capitalism of Latin America. Such efforts have also included the more market-sensitive policies (with heavy governmental involvement) of the fast-growing economies of East Asia, some of which, of late, have begun to slow down.⁸ As measured by economic growth, these governmental efforts were often successful, at least for a while. The earlier dramatic growth of communist countries, before they began to stagnate, was followed closely by the well-known Asian high performers.⁹ Although Latin America struggled with its pioneering development strategy of import-substituting industrial-

⁷ The most notable example was the limited-term monopoly given to Telefonos de Mexico ("Telmex") on long distance service at the time of privatization, in addition to its domination of local telephone service. See Michael Bowen, *Telecom Ballot Tallies Announced*, *The News (Mexico)*, Feb. 11, 1997, available in 1997 WL 8251849 (describing Telmex as a "long time monopoly holder"). While this ran counter to the goal of increasing competition, it is believed that the government granted the monopoly privileges to boost its revenue from the privatization sale.

⁸ See generally WORLD BANK, *THE EAST ASIAN MIRACLE: ECONOMIC GROWTH AND PUBLIC POLICY* (1993).

⁹ See *id.*; see generally STANISLAW GROMULJKA, *GROWTH, INNOVATION, AND REFORM IN EASTERN EUROPE* (1986); Gur Ofer, *Soviet Economic Growth: 1928-1985*, at 25 J. ECON. LITERATURE 1767-833 (1987).

ization, Latin American countries experienced substantial growth in the three decades before 1982.¹⁰ This fact inadvertently helped pave the way for some of the later successes of restructuring, most notably through diversification into manufacturing exports.¹¹

The transfer of the role of central government in development to other institutions in society (as constrained by regulatory regimes and market forces) has sparked many changes. It has altered power relationships and has triggered "learning by doing" among the various stakeholders of the multinational corporation (including the consuming public, the labor force, and multiple levels of government as an over-arching set of stakeholders). It has also redefined the moral responsibility of the multinational manager.

2.2. *Marketization of Mexican Agriculture*

The Salinas government, for all of its alleged shortcomings, made great headway in following important policy initiatives of its predecessor, the de la Madrid administration, to open the economy, install new policies to increase productivity, and recover Mexico's growth path. One particularly important part of the new policy package was the move to make Mexican agriculture more competitive on world markets and to reduce the fiscal drain of costly agricultural subsidies.¹² As a procession of earlier government programs failed to revive an agricultural sector which had performed relatively well from the 1930s to the early 1960s, Salinas opened the sector to radical restructuring in 1992 by abolishing the special legal basis of the *ejido* system¹³ that had been the foundation of constitutionally mandated agrarian reform.¹⁴ By these means, Salinas hoped to stimulate foreign and

¹⁰ See generally LONG-TERM TRENDS IN LATIN AMERICAN ECONOMIC DEVELOPMENT (Miguel Urrutia ed., 1991).

¹¹ See generally Montague Lord, *Latin America's Exports of Manufactured Goods*, in INTER-AMERICAN DEVELOPMENT BANK, ECONOMIC AND SOCIAL PROGRESS IN LATIN AMERICA, 1992 (1992).

¹² See generally REFORMING MEXICO'S AGRARIAN REFORM (Laura Randall ed., 1996).

¹³ The *ejido* structure was a "system of small-property holding controlled by each village." RODERIC CAMP, POLITICS IN MEXICO 217 (2d ed. 1996).

¹⁴ The government adopted the *ejido* system after 1915 in its constitutional reforms of Article 127, distributing land to the legal residents of rural villages for common use but not legal ownership. See *id.* at 45, 153.

domestic investment in agribusiness and realize the country's rich potential in a variety of labor intensive crops, such as vegetables and fruits.

Thanks to Mexico's favorable climate, reasonably cheap labor, and, in scattered regions, areas of fertile soil, there exists the possibility of regaining the comparative advantages that once generated a diversified pattern of agricultural exports and simultaneously fed the growing population.¹⁵ Mexican exports have long enjoyed reasonably good access to the adjacent U.S. market for most of its crops, with the exception of crops such as sugar and tomatoes where competing U.S. producers were affected.¹⁶ The inauguration of the NAFTA agreement in 1994 seems to provide a guarantee that Mexico's relatively favorable access to the world's largest national market will continue, except where, as in the recent tomato case, political expediency overrides.¹⁷ Meanwhile, the interest expressed by the world's largest integrated market, the European Union, in negotiating a closer relationship with Mexico appears to further expand the possibilities for Mexico's exports, provided the sector can rise to the occasion.¹⁸

There is, however, a risk that much of the rural population, which comprises almost thirty percent of the nation's total population,¹⁹ will lose its access to the subsistence livelihood it now possesses. Additionally, the reduction of tariffs and subsidies, along with rising efficiency, may ultimately drive hundreds of thousands — or even millions — of the rural poor into urban labor markets that are already oversaturated. In short, phasing out the *ejido* system risks replaying the enclosure movement that

¹⁵ See generally WILLIAM O. FREITHALER, *MEXICO'S FOREIGN TRADE AND ECONOMIC DEVELOPMENT* (1968).

¹⁶ See generally James Hansen & William Meyers, *NAFTA and Domestic Agricultural Policy: U.S. View*, Presentation at Symposium on NAFTA and Agriculture: Is the Experiment Working? (Nov. 1-2, 1996).

¹⁷ See David E. Sanger, *President Wins Tomato Accord for Floridians*, N.Y. TIMES, Oct. 12, 1996, at A2 (reporting that the Clinton Administration "pressured Mexico into an agreement that will set a minimum price" on tomatoes it exports to the U.S., thereby satisfying "growers and governmental officials in one of the most hotly contested states in the presidential election").

¹⁸ See *EU, Mexico Sign Trade Pact*, WALL ST. J., June 13, 1997, at A15 (describing a preliminary trade accord signed by the European Union and Mexico that "could be the basis for a broader agreement on trade in goods and services").

¹⁹ See generally INSTITUTO NACIONAL DE ESTADISTICA Y GEOGRAFIA, *CENSO NACIONAL DE POBLACION Y VIVIENDA 1994* (1996).

began in England in the sixteenth century and reenacting the widespread hardship that event visited on the rural populace. It does not take much prescience to foresee that an exacerbation of the problems of underemployed or unemployed rural workers would only help fuel an already visible political reaction against the "neo-liberal policy model."²⁰

3. GOVERNMENT DECENTRALIZATION

3.1. *Global Trends*

With marketization, most of the changes in regulation and restructuring have come at the national level because power typically rests at that level. Indeed, decreasing controls over the private sector, including trade liberalization, discontinuation of financial repression, deregulation of prices and phaseouts of subsidies, privatization of state-run firms, and a relaxation of restrictions on both foreign and domestic investment, emanated from the national level.²¹ However, most state (or provincial) and municipal governments have had minimal legislative power, little or no borrowing capacity, very limited fiscal autonomy, and a generally underdeveloped capacity to administer regulations.²² With the exception of a few favored cities — perhaps no more than two dozen or so — the pervasive lack of governmental power and bureaucratic sophistication at subnational levels has significantly inhibited productive multinational/governmental collaboration. In many areas, even personnel recruitment poses problems. Much of the genuine talent is drawn to the national centers.

There is scattered evidence from different parts of the developing world that strong control by agencies of the national government may be changing, albeit modestly in most cases, and Latin America has been no exception to this trend.²³ There, too,

²⁰ See generally NEO-LIBERALISM REVISITED: ECONOMIC RESTRUCTURING AND MEXICO'S POLITICAL FUTURE (Gerardo Otero ed., 1996).

²¹ See generally NORA LUSTIG, MEXICO: THE REMAKING OF AN ECONOMY (1992).

²² See R. ANDREW NICKSON, LOCAL GOVERNMENT IN LATIN AMERICA 209 (1995) (observing that municipalities operate as part of the centralized national party government and are "highly dependent financially on the federal government").

²³ See generally PROYECTO REGIONAL DE DECENTRALIZACION FISCAL, DECENTRALIZACION FISCAL EN AMERICA LATINA: BALANCE Y PRINCIPALES

governments have decentralized their decisionmaking powers, though few other countries of the region have caught up with Chile in this respect.²⁴ State officials and municipal mayors are being elected through more democratic processes, rather than being appointed by officials occupying higher political or administrative positions.²⁵ As municipal boundaries typically extend to the surrounding rural areas, the newly invigorated local governments effectively give new voice to traditionally under-represented rural populations whose political representation in Mexico was co-opted by the corporatist Confederacion Nacional Campesina.²⁶ However, rural interests have traditionally seldom dominated or even strongly influenced the *municipio* unit of government in Latin America, the equivalent of a combined city/county government in the United States.²⁷

The development of sophisticated local government units will be slow. In the interim, local branches of multinational businesses will face the problems of large power imbalances. However, they will also enjoy the opportunity to participate in long-term institutional development of the public sector and to thereby increase social capability in the hustings far beyond the privileged political centers. In the long run, multinational enterprises are more likely to influence development at the local level, which needs almost any help that is tendered, than at the national level where company programs tend to get lost in the labyrinthine structures of government and politics. The prospect of such influence is all the more promising where the local subsidiary of a multinational business can interact with increasingly effective

DESAFIO (1996) (reporting alterations).

²⁴ See generally NICKSON, *supra* note 22; DECENTRALIZATION IN LATIN AMERICA: AN EVALUATION (Arthur Morris & Stella Lowder eds., 1992) [hereinafter DECENTRALIZATION IN LATIN AMERICA].

²⁵ See NICKSON, *supra* note 22, at 67 (noting that in the 1980s, "the long-standing tradition of central government interference through the appointment of executive heads was increasingly replaced by the democratic election of municipal authorities").

²⁶ See CAMP, *supra* note 13, at 112-27 (providing an authoritative discussion of the corporatist features of Mexican political organization); see generally VICTORIA E. RODRIGUEZ, DECENTRALIZATION IN MEXICO, FROM REFORMA MUNICIPAL TO SOLARIDAD TO NUEVO FEDERALISMO (1997) (setting forth the most current assessment of recent reforms).

²⁷ See NICKSON, *supra* note 22, at 33-34 (discussing the unwillingness of Latin American countries to restructure territories to better reflect demographic changes).

governmental agencies, local nongovernmental organizations, and other, nongovernmental or nonpolitical institutions of civil society.

There is a basic principle at work in the process of governmental decentralization, namely, the principle of subsidiarity. Many organizations, such as the regulatory agencies of the European Union, reflect this principle, which is very similar to the concept enunciated in the social Christian tradition.²⁸ Essentially, "the principle of subsidiarity calls for decisions to be made as close as possible to the issue, to the source of the problem, or to the opportunity."²⁹

3.2. *The Mexican Experience*

As might be expected, Mexico has participated in some of the foregoing trends and developments. The political system is much more competitive than it was two decades ago. Two solid opposition parties, the National Action Party ("PAN") and the Democratic Revolutionary Party ("PRD"), have emerged to challenge the hitherto uncontested rule of the Institutional Revolutionary Party ("PRI").³⁰

Consequently, opposition candidates have won important governorships and mayorships. Although the elections that brought President Salinas to office took place under widespread allegations of fraud,³¹ the subsequent national presidential contest

²⁸ The primary sources of this principle, of course, are the papal encyclicals and letters. See, e.g., POPE PIUS XI, QUADRAGESIMO ANNO (1931), *reprinted in* THE PAPAL ENCYCLICALS, 1903-1939, at 415 (Claudia Carlen ed. & trans., 1981); POPE JOHN XXIII, MATER ET MAGISTRA (1961), *reprinted in* THE PAPAL ENCYCLICALS, 1958 - 1981, at 58 (Claudia Carlen ed. & trans., 1981) [hereinafter ENCYCLICALS 1958-1981]; POPE JOHN XXIII, PACEM IN TERRIS (1963), *reprinted in* ENCYCLICALS 1958-1981, *supra*, at 107; see also MICHAEL E. ALLSOPP, THE NEW DICTIONARY OF CATHOLIC SOCIAL THOUGHT 927-29 (Judith A. Dwyer ed., 1994) (setting forth a general statement on subsidiarity); see generally JOSEPH GREMILLION, THE GOSPEL OF PEACE AND JUSTICE (1976) (providing a well-documented discussion of the many facets of subsidiarity).

²⁹ LEE A. TAVIS, POWER AND RESPONSIBILITY: MULTINATIONAL MANAGERS AND DEVELOPING COUNTRY CONCERNS 354-55 (1997) [hereinafter TAVIS, POWER AND RESPONSIBILITY].

³⁰ See CAMP, *supra* note 13, at 183-88 (discussing the historical development of these opposition parties and the increasing division of votes among the PRI, PAN, and PRD).

³¹ See *id.* at 176 (noting that although many believe that the PRI party engaged in fraudulent practices during the 1988 elections, most "believe that

and assorted other elections have generally improved on the standard practices of the past. The elections of 1997, in fact, resulted in the opposition parties gaining control of the lower house of Congress, the executive leadership of the huge Federal District, and the governorships of such important states as Jalisco, Nuevo Leon, Queretaro, Guanajuato, Chihuahua, and Baja California.³²

Ever mindful of the continuing capacity of the ruling party to bestow lucrative favors, the electorate has made disproportionate resources available to the PRI from both the public and private sectors.³³ As a consequence, while the political playing field is far from level, the recent elections have been a decided advance beyond the unconcealed manipulation of most elections during the twentieth century. In fairness, it must be recognized that for most of its sixty years, the PRI likely commanded the support of the overwhelming majority of the electorate. Whatever the niceties that were ignored, Mexico was long spared the dreadful electoral turbulence, the policy instability, the economic ups and downs, and the atrocious repression that afflicted so much of Latin America. Nevertheless, since the 1970s when the course of policy became more erratic and especially since 1982 when fifty years of uninterrupted aggregate growth came to an abrupt end, the PRI's real support base has steadily eroded, though not in a

Salinas actually did win — but that his percentage of the total vote was lower”).

³² As of fall 1997, the PAN, the older and more centrist of the two opposition parties, held six of the thirty-one state governorships: Baja California, Chihuahua, Guanajuato, Jalisco, Nuevo Leon, and Queretaro. See Enrique Krause, *Time Is Running Out for the Mexican PRIsaurus*, WALL ST. J., July 11, 1997, at A15 (summarizing the election outcomes). The PRD, the leftist/populist opposition party, had captured the leadership of the populous Federal District. Of the total national population of 91,158,00 in the 1995 census figures, some thirty-one percent (28,593,000) were in political units governed by the opposition: 8,489,000 by the PRD in the Federal District and 20,104,000 in the states governed by the PAN. Hence, the three most influential political units in the country which contain the three largest cities — the Federal District, Jalisco, and Nuevo Leon — were all in the hands of the opposition after the July elections of 1997.

³³ See generally MASS MEDIA AND FREE TRADE: NAFTA AND THE CULTURAL INDUSTRIES (Emile G. McNany & Kenton T. Wilkinson eds., 1996) (discussing the disparities in coverage given the different parties). Although the naked use of public resources to mobilize PRI supporters has long been widely noted, participants in the symposium that gave birth to the cited volume observed how television coverage, in particular, was heavily slanted to favor the ruling party. See *id.*

linear fashion.³⁴

The old regime in which the president selected the governors and the governors selected the mayors has faded into history. With its decline has come a decided fraying of the system of presidential rule, as opposition parties gain a stronger voice in the national legislature.³⁵ In the recent tumultuous party congress of the PRI, the party chieftains delivered one more blow to the accustomed presidential rule by changing the requirements for the party's next presidential nominee.³⁶ These changes effectively diminished the president's freedom to name his successor.

The devolution of political authority from the chief executive to the party might appear to constitute a desirable move toward democratization, given the incumbent president's introduction of a primary system for the selection of party delegates and candidates. However, the ambiguities and nuances of the Mexican system of politics, wherein a whole nation seems to run in the subjunctive, by no means assure a more democratic outcome. The reason is simply that in the last three terms, a political elite has firmly held the commanding heights, so to speak, of the political/administrative structure.³⁷

These individuals are cosmopolitan and highly educated, generally born into the privileged upper echelons of political and administrative bureaucracy, and technocratic in orientation.³⁸ Surprisingly, this elite group, not the rank and file, has provided the impetus for political and electoral reform.³⁹ In contrast, the lower levels of the party structure are the preserve of the old-time

³⁴ See generally CAMP, *supra* note 13 (providing a reliable and thoroughly researched account of recent changes in the power of the PRI).

³⁵ See *id.* at 158-59.

³⁶ This change, which requires presidential nominees to have held previous elected office, was introduced at the last party congress. However, there are reasons to believe that it may have been challenged as the party moves toward the next national elections. Hitherto, the presidentialism that defines the Mexican political system has meant that each president could, presumably through a process of consultation that was lacking in transparency, designate his successor, thereby assuring that the office would be held by either the technocratic elite or the highest political bureaucracy.

³⁷ See CAMP, *supra* note 13, at 118-19 (noting that the credentials of President Zedillo mirror those of his cabinet members, who were selected from a generation of politicians known as *tecnicos*, or "technocrats").

³⁸ See *id.* (noting that most *tecnicos* come from middle-class or upper-class families in large cities and have studied abroad).

³⁹ See *id.* at 120.

party bosses, their machines, and their multitudinous hangers-on.⁴⁰ Popularly known as the “dinosaurs,” these lower level members sit like crows perched on branches waiting out the agitation of reform in order to sweep back into the fields for easy pickings.⁴¹

The Mexican system of governance has experienced decentralization as well. State governments have increasingly gained authority over segments of the educational system.⁴² Additionally, in some cases, administrative capacity at state and local levels has notably improved. The Salinas administration established the National Solidarity Program (“*PRONASOL*”),⁴³ perhaps the most conspicuous measure of decentralization, to distribute federal funds more widely among public works projects created and implemented at the community level.⁴⁴ Still, *PRONASOL* was essentially a decentralized federal program rather than one instituted by either state or local governments.⁴⁵

Despite increased revenue sharing, particularly in states, the basic centralized structure of public finance remains essentially undisturbed. The federal government still collects the vast majority of the taxes, which provide the fiscal resources for public investment programs. Indeed, the durable propensity in the revenue/expenditure pattern, the role of patronage, and the informal market in political and administrative favors combine to sustain the PRI’s power even in circles that are marginally more contestable. Thus, the political system has yet to realize the factors of responsiveness and accountability.

The North American Development Bank’s initiative to lend money for environmental projects in Mexican border communities reflects the limits on local autonomy and the time-consuming

⁴⁰ See *id.*

⁴¹ See *id.* at 121, 123 (noting that technocratic leaders have faced great criticism for their lack of political experience and suggesting that they will “face severe challenges”).

⁴² See Victoria E. Rodriguez, *Mexico’s Decentralization in the 1980’s: Promises, Promises, Promises . . .*, in *DECENTRALIZATION IN LATIN AMERICA*, *supra* note 24, at 132 (discussing the program to decentralize education).

⁴³ The popular name “*PRONASOL*” means “solidarity.” See *CAMP*, *supra* note 13, at 217.

⁴⁴ See *id.* (noting that the program provided loans to farmers and allowed communities to establish medical clinics, renovate schools, and award scholarships).

⁴⁵ See *id.*

difficulties of navigating the upper tiers of the bureaucracy. By early 1997, although massive funds were committed to this initiative, the Bank had only made four loans.⁴⁶

By and large, the government/party structures have used agricultural programs, and the control of "peasant" organizations more as a means to harvest votes rather than to respond effectively to rural needs.⁴⁷ Under these circumstances, it is hardly surprising that public investment programs have seldom, at least in recent decades, effectively addressed rural sector needs. And if public service delivery systems tend to be anemic at most municipal levels (where social capacity is limited), they are positively anorexic in the countryside. Thus, in a system that historically has been highly centralized, one cannot assume that the current program of decentralization from federal to state levels will find the requisite administrative capability at subnational levels of the public sector. This administrative shortfall may exist despite the improvement of goals and design of programs in furtherance of the formalities of devolution and deconcentration.

Even these advances must be examined with a healthy dose of skepticism. There is no a priori reason for confidence that administrative devolution will lead to an increased voice in policy formation at either the national or subnational levels, particularly where rural populations are concerned. Thus, the substitution of the social organization of the *campesinado* and of non-governmental organizations for weak market constraints and for equally weak mechanisms for ensuring citizen sovereignty or for remedying market and public-sector failures, becomes a critical variable.

4. MULTINATIONAL CORPORATE DECISION DIFFUSION

The fundamental decisionmaking issue for multinational corporations involves balancing interests in network uniformity and local flexibility.⁴⁸ The global-local balance must be determined for every facet of operations. Organizationally, the trade-

⁴⁶ Memorandum from Alfredo Phillips, Former President of the North American Development Bank (Summer 1997) (on file with author).

⁴⁷ See, e.g., CLARISSA HARDY RASKOVAN, *EL ESTADO Y LOS CAMPESINOS: LA CONFEDERACION NACIONAL CAMPESINA (CNC)* (Centro de Estudios Economicos y Sociales del Tercer Mundo ed., 1984).

⁴⁸ See TAVIS, *POWER AND RESPONSIBILITY*, *supra* note 29, at 384-88 (discussing in depth the concept of multinational organizations as a network).

off is shifting in an international environment of dramatic change.

The role of the multinational corporate core in decisionmaking and control has substantially declined. Staff that once conducted intense monitoring and control has now been substantially reduced.⁴⁹ However, coordination across the network and among the elements is still critical to taking advantage of network synergies. With the drift of decisionmaking away from the core, multiple informational ties among the elements replace the narrow, bilateral relationships of the past.⁵⁰ Lateral network relationships necessarily become more dense as hierarchical relationships diminish. Multinational enterprises are thus changing to multilateral organizations where the focus of decisions is moving from the core to the stakeholder interfaces.⁵¹

Given the overall tendency toward diffusion, there is little uniformity within individual enterprise networks. Each subsidiary assumes a unique, specific role, according to the regions and communities they serve. Organizational standardization is a thing of the past. Various organizational network elements thus serve different functions in the enterprise network, particularly as they relate to strategic planning.⁵² Organizations lacking a uniform structure that fits the unique functions of the various constituent units have been described as "differentiated networks."⁵³

Multinationals are also spreading outward in network form from the multinational enterprise core and subsidiaries to joint ventures, strategic business alliances, and firms linked chiefly by agreements.⁵⁴ In this diffusion process, the new multiple decision

⁴⁹ See *id.* at 354.

⁵⁰ See Julian M. Birkinshaw & Allen J. Morrison, *Configurations of Strategy and Structure in Subsidiaries of Multinational Corporations*, 26 J. INT'L BUS. STUD. 729-53 (1995) (distinguishing between hierarchical and heterarchical models of multinational enterprise structure).

⁵¹ See TAVIS, POWER AND RESPONSIBILITY, *supra* note 29, at 353.

⁵² See Anil K. Gupta & Vijay Govindarajan, *Knowledge Flows and the Structure of Control Within Multinational Corporations*, 16 ACAD. MGMT. REV. 768-92 (1991) (categorizing subsidiaries relative to knowledge flows into categories of "global innovator," "integrated player," "implementor," and "local innovator").

⁵³ See CHRISTOPHER A. BARTLETT & SUMANTRA GHOSHAL, *MANAGING ACROSS BORDERS: THE TRANSNATIONAL SOLUTION* 62 (1991) (noting that "in such cases, headquarters relinquishes its lead role to the subsidiary — a key attribute of the transnational that contrasts sharply with the uniformity of organizational roles in more traditional companies").

⁵⁴ See TAVIS, POWER AND RESPONSIBILITY, *supra* note 29, at 354-56.

centers must remain an integral part of the enterprise organizational network. This is imperative if they are to tap into the contributions from other elements while themselves contributing to other elements and network synergies. In some respects, firms in the emerging business system resemble schools of fish swimming in concert.

The trend toward multinational decision diffusion combined with the devolution of duties in host governments changes the way decisions are reached in a multinational enterprise as well as their location. Local multinational managers with more discretion and authority are negotiating with local governmental units, which are often inexperienced and unsure of their authority within the larger governmental structure. The advantage of information, experience, and hence power, is clearly on the side of the multinationals. This shift in power is exacerbated by the governmental abrogation of power associated with marketization.

5. AGRIBUSINESS DECISIONMAKING IN MEXICO

Mexican agricultural marketization has been associated with a substantial amount of both domestic and foreign investment that has led to mixed results. Notorious failures in terms of community disruption and business losses have accompanied the transition from small communal and independent farms to large agricultural operations. Nonetheless, other projects have survived and hold promise for the long run. The factors of marketization, decentralization, and decision diffusion influence all of these experiences.

Pilgrim's Pride, a foreign entrant into Mexican agriculture, is a prime example of the program described in this Article.⁵⁵ Pilgrim's Pride, an American poultry producer, was attracted to Mexico because of its geographical proximity to the United States and the size of the Mexican market. The company's Mexican experience reflects both the movement toward marketization and decentralization by the Mexican government, and keen managerial awareness of the need for collaboration with local components of the civil society.

In the early 1970s, the management of Pilgrim's Pride began

⁵⁵ All of the references in Section 5 to the Pilgrim's Pride model are taken from the same source. See Ronald W. Nicholas, *Agribusiness and Ejido Producers: A Grains and Poultry Case*, Address at the Conference on Agribusiness in the Mexican Countryside (April 21, 1989).

to look to Mexico for its initial venture into foreign markets. The Mexican market was large and growing rapidly, propelled for most of the decade by the oil boom. At that time, agriculture in Mexico was a protected industry and, as such, reflected the lagging productivity typically associated with protected markets. Pilgrim Pride's planning, begun in earnest in the late 1970s, involved extensive discussion with Mexican officials, a search for Mexican companies to acquire, and an analysis of financing alternatives. The investigation and arrangements continued for ten years, largely because of extended negotiations with the Mexican government. In January 1988, Pilgrim's Pride opened the first foreign-owned poultry operation in Mexico. Two Americans and 1,500 Mexicans staffed the new facility.

The history of Pilgrim's Pride de Mexico reflects the Mexican transition from government-led to market-led development. In the 1970s and early 1980s, the Mexican government was determined to control development in all sectors of the economy. The experienced Mexican technocrats, convinced they could manage development more efficiently than the marketplace, were still in place during the 1980s, even as Mexico began to gradually open her borders.⁵⁶

Under government-led development, all foreign entrants were subject to the Law on Foreign Investments.⁵⁷ This law reserved certain industries for governmental management, prohibited foreign capital in so-called "strategic industries," and limited foreign capital to a maximum of forty-nine percent ownership or control in the other areas of the economy.⁵⁸ Following the requirement for a majority Mexican controlling interest, however, the law went on to state: "[t]he National Commission on Foreign

⁵⁶ See Kenneth P. Jameson & Juan M. Rivera, *The Mexican Case: Communication Under State Capitalism*, in MULTINATIONAL MANAGERS AND HOST GOVERNMENT INTERACTIONS 221 (Lee A. Tavis ed., 1988) (analyzing Mexican regulation during that period).

⁵⁷ Several studies detail the Mexican stance toward foreign investment and of Mexican industrial policy at that time. See, e.g., Gary Gereffi, *The Renegotiation of Dependency and the Limits of State Autonomy in Mexico (1975-1982)*, in MULTINATIONAL CORPORATIONS: THE POLITICAL ECONOMY OF FOREIGN DIRECT INVESTMENT (Theodore Moran ed., 1985); Merilee Grindle, *Public Policy, Foreign Investment, and Implementation Style in Mexico*, in ECONOMIC ISSUES AND POLITICAL CONFLICT: U.S. LATIN AMERICAN RELATIONS (Jorge Dominguez ed., 1982).

⁵⁸ See Jameson & Rivera, *supra* note 56, at 220.

Investment may decide on the increase or reduction of the percentage when it judges this to be in the interest of the country's economy, and it may establish the conditions under which foreign investment will be accepted in specific cases."⁵⁹ This clause effectively gave complete discretion to the regulator in choosing whether to follow the ownership guideline.⁶⁰ Evaluating the impact of this provision, Jameson and Rivera note that:

[i]t is this paragraph which defines the interaction between the MNCs and the Mexican government. The reality is that 'anything is negotiable.' The law is simply a starting point. Any final outcome will be a result of a negotiating process between the National Investment Commission, as a representative of Mexico, and the MNC.⁶¹

Throughout negotiations with Mexico that would last a decade, Pilgrim's Pride fought to maintain sole ownership of its venture. In doing this, it followed the footsteps of IBM, likewise insistent on maintaining 100% control of its Mexican affiliates and making a number of concessions to Mexican authorities to do so.⁶² In exchange for government approval to enter Mexico with full ownership, Pilgrim's Pride made commitments relating to investment growth, employment, and education. Management agreed to double production and employment within the first five years of operation, to share the technology being introduced into Mexico, and to stress the education of employees.⁶³

Pilgrim's Pride has met these negotiated targets. Production increased from 450,000 birds processed per week to over two million per week. Employment at the plant has grown from 1,500 to 3,000. All profits generated by the Mexican operation were reinvested to a total investment of over \$150 million. Transferred technology, including the use of cardboard boxes,

⁵⁹ *Id.* at 221.

⁶⁰ *See id.* at 209 (noting that "so much flexibility is written into the law that the authorities' case-by-case application is the key to the actual communication").

⁶¹ *Id.* at 221.

⁶² *See id.* at 222 (discussing the process of expansion of IBM investment into Mexico).

⁶³ IBM made similar commitments. *See id.*

then plastic tubs, and finally refrigerated trucks rather than beds of ice to ship chickens, has improved both sanitation and handling. Education, a top priority, includes on-the-job training focused on learning production procedures with a continuing strong emphasis on total quality management. Other educational efforts allow access to formal education through "open education programs" where Pilgrim's Pride sponsors employee primary and secondary education.

Pilgrim's Pride de Mexico is now a fully integrated poultry operation that includes hatcheries, farms, feed mills, and processing plants. In addition to its own facilities, Pilgrim's Pride contracts about forty percent of its chicken production to outsiders. These subcontracting poultry producers are provided with birds, feed, and chicken-growing technology. Payment is based upon the conversion of feed to meat, the survival rate of the birds, and the capability of the poultry producers to meet other Pilgrim's Pride requirements. Pilgrim's Pride's management has worked with these subcontracting poultry producers to improve and update their facilities, has helped them obtain loans and equipment, and has provided guidance in the installation of that equipment. Three of these subcontracting producers are *ejidos* — small farmers forced into community landholdings by the 1917 Mexican constitution.

At the time of Pilgrim's Pride's entry in 1988, the Mexican poultry industry had been in decline. Despite substantial overcapacity, there was insufficient market pressure to force the introduction of new technology or to enhance productivity. Many of the 400 existing companies had not maintained their facilities. Employees had not been kept current on advances in production procedures. These factors, combined with market price swings of up to thirty-five percent, led to an unstable poultry industry. At that time, the Mexican countryside was littered with small, failed poultry operations.

Since 1988, the industry has seen substantial change. Of the 400 initial producers, about fifty have turned to the production of other products, primarily vegetables, and another fifty have merged with larger producers. While on schedule with learning curves and cost reductions, Pilgrim's Pride has nevertheless found that the market has not supported its revenue targets. Prices continue to fluctuate within the thirty to thirty-five percent range.

Moreover, the Mexican poultry industry has yet to experience

the full challenge and opportunity associated with NAFTA. To prepare for the completely open borders among NAFTA members, poultry received an allowance of ten years and a nonlinear reduction of tariffs on imports over the authorized quota under the treaty. For example, in NAFTA Year Three, the Mexican tariff on imported poultry was still over 200%. Pilgrim's Pride de Mexico has only six more years to sharpen its Mexican productivity to compete with U.S. production.⁶⁴

Closely associated with Pilgrim's Pride's governmental negotiations were its discussions with Mexican producers. Entering Mexico was very different from stepping into an openly competitive market. In the protected Mexican markets, with strong but flexible governmental controls, the foreign entrant had to convince local industry of its potential contribution to existing producers. This was a challenging task.

The four Mexican companies initially acquired by Pilgrim's Pride were purchased through a debt/equity swap with the Mexican government. In this process, Mexican sovereign debt was purchased in the international debt markets at a deep discount. The Mexican government, for a fee, traded this debt for the right to acquire equity in the Mexican firms. The net result was a price discount on the cost of these companies. Of the four firms acquired by Pilgrim's Pride, three were operating at below-installed-capacity levels and one had ceased production altogether. Negotiations for these acquisitions reflected the same need for legal and cultural flexibility as that required for governmental approval. Signed legal agreements were not binding and cycled over and over. Again, the necessity of local flexibility and decision diffusion for the local business unit was recognized.

The starts and stops of Mexican governmental decentralization outlined above have paralleled the transition from government-led to market-led development. This has exacerbated the transfer of power in foreign direct investments from pre-investment to post-investment. In the pre-investment stage, the foreign direct investor has the option and power to withhold investment. However, once the investor commits assets, particularly in a controlled economy, a major part of this power shifts to regulato-

⁶⁴ U.S. production will likely flow into at least a part of Mexico due to anticipated lower overall pricing of U.S. poultry items when all tariffs and quotas are removed.

ry agencies. The locus of interaction between the government and the multinational also changes. While pre-entry operating negotiations take place at the national level, post-entry operating negotiations involve more local issues.⁶⁵

With marketization, much of the role of national governmental agencies is transferred to the marketplace. At the state and local levels, different forms of regulation are less affected by marketization. In contrast, decentralization permits a good part of the remaining national governmental power to shift gradually to state and local officials. Therefore, the net result of both the natural process of commitment of assets by foreign direct investors and of governmental decentralization is the assignment of greater importance to on-site regulators.

As noted, the Mexican project was the first foreign venture for Pilgrim's Pride. Throughout its talks with the Mexican government and local companies, the Pilgrim's Pride negotiating team needed the same kind of flexibility that Mexican officials and managers of Mexican firms possessed. This was the first step in the diffusion of decisionmaking for Pilgrim's Pride. Indeed, latitude in negotiation was critical in coping with the exceptional volatility of the Mexican economy and the groundbreaking national policies of that decade.

Since its entry, Pilgrim's Pride's interaction with local employees and their communities has reflected the company's continuing decisionmaking diffusion. As noted above, any foreign direct investor faces a delicate balance between the uniform maintenance of standards by the company and the need to staunchly respect certain dimensions of the local culture.⁶⁶ For Pilgrim's Pride, its simultaneous attempts to create change in the workplace and to fit into the community reflect this balance. In the workplace, Pilgrim's Pride imposes production procedures and modifies employee work habits through training. Emphasis is on output rather than on hours spent, and the organization continually stresses principles of total quality management.

⁶⁵ The regulation of corporate operations, such as industrial zoning requirements, water use permits, or environmental controls, are local issues.

⁶⁶ This parallels the uniformity versus relativism debate in the literature of ethics. See TAVIS, *POWER AND RESPONSIBILITY*, *supra* note 29, at 384-88 (noting that multinationals must determine "where the uniformity of corporate culture will overrule the spontaneity of response within the diversity of local cultures").

Within the community, Pilgrim's Pride attempts to minimize the disruption associated with the arrival of foreign agribusiness. Its policy is to reach out to community organizations and attempt to acculturate. In an effort to understand local conditions, Pilgrim's Pride has commissioned a number of community surveys, a project undertaken by the University of Queretaro. As the University researchers noted, "the company learned a lot and did not always like what it heard."⁶⁷ As part of its community harmonization program, Pilgrim's Pride has built community centers, donated products, money, and time, and sponsored local scholarships, internship programs, and athletic teams. The company is conscious of maintaining or exceeding pay standards, and it provides employee access to hospitalization, life insurance, and savings plans. And, to convince the local communities of Pilgrim's commitment, Pilgrim's Pride de Mexico has a policy of retaining all cash generated in its Mexican operations.

In sum, the experience of Pilgrim's Pride de Mexico reflects the Mexican government's efforts toward marketization and decentralization, as well as the trend toward corporate decision diffusion. Upon Pilgrim's Pride's entry, the Mexican government granted a waiver of the 100% ownership restriction, hoping that the company's presence would stimulate productivity in the Mexican poultry industry. Also, the fledgling efforts of the Mexican government to decentralize its regulation and bureaucracy continue to exacerbate the shift from national to local governmental regulation of foreign corporate entry. As a consequence, parties must now chart new territory in defining their working relationships. Thus, in the case of Pilgrim's Pride, a compelling need for local flexibility in the fluid governmental, agribusiness, and economic conditions of Mexican agriculture has forced decision diffusion.

6. CONCLUSION

Marketization is creating dramatic change in the Mexican countryside. While there is promise for enhancing agricultural productivity, segments of Mexican society are being left behind in the process. As with all modernization, the people who do not

⁶⁷ Mark Martinez & Gaspar Real, *Agribusiness and Ejido Producers: A Grains and Poultry Case*, Address at the Conference on Agribusiness in the Mexican Countryside (April 21, 1989).

have access to the means for self-advancement are increasingly marginalized. Unfortunately, in the case of Mexican agriculture, higher productivity has yet to be achieved on a broad basis. While a few agribusinesses are prospering, large numbers of individuals, families, and communities are experiencing massive dislocation. Still, the devolution of government and corporate decisions to the local level provides opportunities for innovative collaboration among these groups and other local components of the civil society. This can lead to real insight and focused efforts that national programs or distant business decision makers cannot attain. Thus, local catalysts need to, and will, emerge.

One attempt to tap this local potential is the seminar program, "Agribusiness in the Mexican Countryside," being undertaken jointly by the Universidad Autonoma de Queretaro, the University of Notre Dame, and Michigan State University.⁶⁸ This seminar is taking place in the adjacent Mexican states of Queretaro and Guanajuato, which have long figured prominently in Mexican history. These states are in the midst of political, administrative, and economic transformations that appear to be harbingers of the changes that will affect the entire nation over the coming years. Attempts at government decentralization are clearly evident in the two states. Each state currently has governorships held by the political opposition.⁶⁹ Hence, what happens in Queretaro and Guanajuato will be part of the showcase the Partido de Accion Nacional presents to the national electorate three years down the road.

More importantly, the project explores how business and nongovernmental organizations can work with state and local governments to enhance employment opportunities for the peasantry within an evolving framework of national policies

⁶⁸ The first meeting of the seminar sponsored by the Notre Dame Program on Multinational Managers and Developing Country Concerns and the Michigan State University Center for Latin American and Caribbean Studies was held at the University of Notre Dame on April 21-23, 1996. The urgency of the situation moved Notre Dame and Michigan State to join with the Universidad Autonoma de Queretaro to hold a second meeting in Queretaro, Mexico on October 19-21, 1997 to assess experience and evaluate possible approaches. Those attending the Queretaro conference observed that an open and frank discussion among such a diverse set of participants had not, to their collective knowledge, ever taken place in Mexico. The study group is now moving to a research phase in preparation for a third meeting in Mexico.

⁶⁹ See *supra* note 32.

designed to improve productivity and incomes. The seminar process involves intensive interaction among Mexican and U.S. agribusiness executives, Mexican national and state governmental officials from Queretaro and Guanajuato, local *campesino* groups, *ejidatarios* (small *ejido* farmers), academics, and international and Mexican non-governmental organizations active in the local area.

With appropriate social organizational strategies, there is at least a chance that this cradle of Mexican independence in the early nineteenth century can again lead the way into the twenty-first century, finally realizing the vision that once spurred on the efforts of Moralos and Hidalgo, the fathers of modern Mexico.