Globalization, Competitiveness And Foreign Direct Investment In North America

Elizabeth Gutiérrez Romero*

Among the most conspicuous and dynamic aspects of economic globalization are international capital and trade flows. Although this might seem like nothing new since throughout the history of capitalism, the integration of markets has been a constant, today, the productive, trade and financial internationalization carried out by the large multinational corporations meet with no national obstacles or barriers.

A central axis of economic liberalism in the transition and restructuring that the world economy is going through is the flow of foreign direct investment (FDI), which is redefining the concept of borders and that of national competitiveness in terms of a country's productive and trade performance.

Despite productive investments not amounting to even 10 percent of the world's financial flows given that speculative financial activities are very profitable, FDI has grown since the 1980s. Between 1983 and 1990, for example, FDI grew 34 percent annually, while trade in goods grew at 9 percent annually in the same period.[1]

Today, burgeoning international productive investment is a more significant stimulant than trade itself and contributes to the restructuring of world production. On the other hand, although FDI is concentrated particularly in manufacturing, trade in goods also fosters competition in services like advertising, insurance and banking, all needed for buyers and sellers to interact. Therefore, it brings with it increased economic activity and contributes to creating jobs, the use of new technology and of modern methods of organizing production.

The North American countries strive for competitiveness both regionally and globally even with their profound economic, social and political asymmetries derived from their different historical development.

For Mexico and Canada, productive and trade internationalization has been defined mainly in relation to the United States, hegemonic throughout a long process of economic interdependence. Regional trade conforms to the U.S. market's dynamic which represents the "international or globalized market" par excellence for Mexico and Canada. On the other hand, U.S. FDI has been crucial in the process of regional economic and productive integration. Historically, not only for geographic reasons, but for a series of cultural and political reasons as well, Canada was the country which captured the greatest amount of U.S. FDI until being replaced by Great Britain around 1990. According to Rolf Hackmann, in 1950 U.S. FDI was U.S.$12 billion, 69 percent of which went to Canada and Latin America (30 percent to Canada and only 3.5 percent to Mexico). However, the important thing is that U.S. FDI was distributed mainly in the Western Hemisphere. By 1990, U.S. FDI had reached U.S.$430 billion, but its distribution had changed: almost half went to Europe while Mexico and Canada received 2.4 percent and 16.1 percent respectively.

* Researcher in the CISAN Mexico-United States Studies Area.

At the same time, the U.S. economy had begun to be the target of FDI from other countries, which means that, by 1993, 14 percent of the value added in U.S. manufacturing, almost 25 percent of the exports of goods and 35 percent of imports is no longer in the hands of U.S. citizens.[2]

Industrial Restructuring And Integration in North America

Foreign direct investment, or productive capital, is cardinal for countries of medium development like Mexico given that it is usually considered a mechanism for transferring technology and expanding export capacity, in theory leading to greater potential for productive linkages, thus fostering domestic economic development.

As we know, trade has intensified and become concentrated in North America, as is the case in other economic blocs, and NAFTA has formalized the previously existing productive and trade interdependence commanded by the United States.

Both processes of integration tend to change the nature of trade in the region from interindustrial to greater intraindustrial and intrafirm trade. This means that trade among the region's countries, and especially between Mexico and the United States, is not only of products from different industrial sectors, but that there is increased exchange of products within the same industry. It is important to look at the nature of these transactions and not only volume because it relates to changes in the organizational structure of production and the market, which in turn influence the results of international competition.

Oligopolistic Competition

Today, the central element defining the structure and organization of production is that a few large companies compete oligopolistically. These companies try to cut costs by increasing volume or by relocating their plants geographically, making themselves more competitive than smaller firms. These strategies are important for Mexico since they have increased its intraindustrial trade in some sectors, like for example the autoparts industry, which between 1994 and 1998 boosted its intraindustrial trade from 58 percent to 93 percent. Between 1996 and 1998 alone, with the effects of NAFTA, intraindustrial trade in autoparts rose in internal combustion engines, engine parts, bodies equipped with engines and other accessories.[3]

Fragmentation of Productive Processes

The significance of intraindustrial trade for Mexico is that part of it may be within a single company, something that happens above all in companies that locate different parts of their production process in different countries. In fact, when a company divides its production among plants both inside and outside its country of origin, it results in a series of fragmented but linked processes, thus producing intrafirm trade. This mechanism has led to the development and spread of the maquiladora industry in Mexico and other countries. The fragmentation of productive processes by U.S. companies has been a particularly important phenomenon for the productive integration of Mexico and the United States for several decades given some U.S. industries' loss of competitiveness on both the international and domestic markets.

The lag in competitiveness, caused among other things by the decline in productivity growth rates and high labor costs, particularly in basic industries like auto and textiles, led these industries to change their production strategies.

With the fragmentation of their production, a series of sub-processes were transferred to Mexico, slashing their production costs —among them, labor costs— and contributing to the increase in these goods' competitiveness on international markets. Therefore, the development of the maquiladora industry in Mexico and the new forms of FDI such as contracting out and joint production, the accords for technology transfer, etc., have fostered intrafirm trade.[4]

As is well known, intraindustrial and intrafirm trade are now more intense worldwide. It should not surprise us, then, that around 40 percent of U.S. exports and imports come under this heading.

Repercussions for Mexico
The Maquiladoras

The maquiladora industry has played a significant part in Mexico's exports of manufactured goods: in the 1990s, nearly 50 percent of non-oil, manufactured exports came from the maquiladora industry, while only 29 percent of imports were destined for it.[5] This explains why the maquiladora trade balance was positive between 1990 and 1999. This kind of activity, associated with intrafirm trade, benefits both countries, although this does not mean that it should not be transformed. VM

Notes

1 Paul Hirst and Graham Thompson, *Globalization in Question* (Cambridge, U.K.: Polity Press, 1996), p. 55.

2 Rolf Hackmann, *U.S. Trade, FDI and Global Competitiveness* (New York: International Business Press, 1997), pp. 6-10 and 412-413.

3 I would like to thank Marcela Osnaya for gathering the statistics used in this section.

4 Jorge Mattar and Claudia Schatan, "El comercio intraindustrial e intrafirma México-Estados Unidos," *Comercio Exterior* 43, no. 2 (Mexico City), February 1993.

5 Data developed using information from the Banco de México (http://www.banxico.org.mx).