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THE TRANSFORMATION OF DEVELOPING ECONOMIES IN THE PROCESS OF FINANCIALIZATION: A Discussion of Growth Constraints Based on the Mexican Economy*

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Developing Latin American economies underwent a profound transformation in their productive, commercial and financial sectors during the neoliberal period dominated by financial capital, without reaching a process of stable economic growth or external equilibria. There are two structural features that constrain economic growth in Latin America economies, particularly in Mexico – the economic dissociation between dynamic and indigenous productive sectors that limited the accumulation process of these economies and increased exports without reaching external equilibria; and these economies have not been able to transform external liquidity into finance for production and investment. In this paper it is argued that Latin American countries have been dominated by large corporations, operating at the margin of their domestic productive and financial markets. These conditions have disabled these economies to take advantage of the favorable external sector conditions.

Key words: financialization, developing economies, growth constraints
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1. INTRODUCTION

Developing countries, especially in Latin America, have experienced deep transformation during the financialization process. Like the rest of the capitalist economies, their financial systems were modified as soon as they were introduced into a global financial market that had become eminently credit-based, combined with an open productive sector that transferred processes to the global market within an environment of profound external disequilibria. In Latin American economies, the opening process was distinguished by dependence on raw materials and the absence of power to achieve balances in their external trade accounts or in their current accounts, which also included the countries that activated manufacturing exports (e.g. Mexico). This indicates that the dominant growth model was unsuccessful because it rested on growing debts that were highly volatile and dependent on international market conditions. From our perspective, a partial explanation may be found in a logic of accumulation and unsuccessful financing at the margin of the national economies, and the divorce between dynamic and traditional activities, which created parallel circuits of financing and production that unchained large enterprise from the rest of the national stakeholders and economic sectors.

Although explanations for the failed Mexican economic model have been addressed from different perspectives (Huerta 2014; Ros & Moreno-Brid 2010; Levy 2014; Ortiz 2014), the purpose of this paper is to analyze the limitations of the growth of the Mexican economy based on theories of financing, identifying two approaches. The first links financing to production and generates a direct relationship between banking, enterprise, the capital market and consumers, and the functional link between the financial and the productive sectors. The other relates it to the corporations' accumulation with capital markets and income concentration, and portrays the uneven development of productive factors.

Our hypothesis is that the opening of capital markets in developing countries modified their financial systems without generating enough financing for production and accumulation. This generated a decoupling between production and investment that had been dominated by large corporations operating at the margin of domestic and financial markets, based on the logic of appraisal from their head offices.

This paper is divided into five sections. The second contains a brief discussion of financial theories, which may be divided into two large groups for the purposes of this paper. The circuitist theory is based on the direct relationship between banks, enterprise and families, with limited capital market participation. Kalecki and Steindl's analysis follows, and highlights inequality in finance distribution, with special sections to discuss the different institutional arrangements. They emphasize the fact that financial deepening has not been successful in developing countries. The third section analyzes the financial opening process and financing production within the context of the Mexican economy, and demonstrates the strengthening of financial channels that do not serve small and medium-sized enterprises. The fourth section reviews the impact of strengthening large enterprise in production and exports, in which large corporations dominate. The fourth section presents the conclusions.

2. FINANCIAL THEORIES, INSTITUTIONAL SETTINGS AND THEIR EVOLUTION

The finance theories discussed in this paper are based on the assumption that investment generates its own savings and that real resources are not needed to provide financing. Great dissent exists about how resources are mobilized, and the deployment of dominant financial mechanisms forces an examination of dominant organizations and institutions, as well as their evolution.

2.1. Commercial banks as the dynamic axis of resource mobilization

This theoretical version assumes that banks are the main providers of financing, due to their capacity to generate liquidity by issuing liabilities against themselves. Based on this, they may accommodate the demand for financing by solvent stakeholders, thus generating a process to create liquidity that is destroyed by the execution of production (Rochon 1999, Gnoss and Rochon, 2007, Parguez and Seccareccia, 2000) and family savings (Bellofiore and Seccareccia, 1999). Financial structures are sustained by the connection between banking structures and enterprise, backed by the central bank, which accommodates the liquidity of the commercial banks and sets the interest rate, which is considered an administered variable. Enterprise and the families close the monetary circuit in such a manner that the debt issued by the bank creates income that is channeled toward the families, which execute the production or acquire financial instruments that re-circulate to enterprise.

The capital market takes on the function of brokering resources to return non-consumed income to enterprise (see Graziani 2003, chapter 6). This income does not operate based on Keynesian liquidity preference (1936, chapter 11). It implies that debts return to enterprise through consumption and financial savings and, in addition, enterprise profits are reinvested or are consumed by the capitalists (Graziani 2003; Kalecki 1933/1954). In this case, the capital market allows companies to recover the non-consumed income through savings that are voluntary (Graziani 2003, workers purchase financial securities) and forced (*ibid*, what is retained and spent by the capitalists). Under this system, economic surplus is allocated among business owners (borrowers) and lenders (banks and capital market), indicating that the liquidity for the payment of interests is part of the product surrendered to the companies (Bellofiore and Seccareccia 1999), or proceeding from net exports or government deficits.

One primary conclusion is that the banking structure is capable of mobilizing abundant resources to the solvent productive actors who, through consumption or savings, re-circulate it to enterprise, annul the debts and expand the process of accumulation.

2.2. Internal funds as a central element of financing and financial markets as a secondary provider

One alternative vision is that investment is financed through internal funds proceeding from past gains, in combination with the amount of external financing to enterprise (Kalecki (1939/1954a). The latter is involved when enterprise expenditure does not re-circulate as income, the result of capitalist savings (Kalecki 1939/1954a) that does not re-circulate back to enterprise, especially from the savings of the middle class (Steindl 1982); and companies face differentiated access to financing, explained as 'increasing risk', see Kalecki (1939/1954b).

Unequal access to financial resources is not limited to the banking sector; rather more relevantly, it applies to the capital market. Steindl (1945) argues that small and medium-sized enterprises only have access to bank financing (that is short term and more onerous), while large enterprises obtain liquidity from the capital market, which is characterized by being long term (profits tie with debts) and cheaper (risks are dispersed among securities holders and the business owners). The capital market is transformed into a mechanism to consolidate corporations through mergers and acquisitions, while small and medium-sized enterprises may only incur debt through banking institutions, and their debt-to-assets ratio is greater because their earnings are lower in terms of their assets. Steindl states:

> "Since small firms have to rely on short term finance, and since, on the other hand, they are the driver to borrow relatively much by the inadequacy of their own capital in comparison to the funds required for a reasonable efficient conduct of the business, their financial position is always rather insecure... This again increases the cost of borrowing" (Steindl 1945, 20).

A second conclusion is that financing is not equal for all actors, and the capital market deepens that inequality, increasing the size and yield of the largest enterprises and reducing the growth conditions for the smallest enterprises. In addition, this differentiation also demonstrates the inequality between developing and developed countries.

2.3. Financial institutions in developing and developed economies

The financial systems of industrialized countries were created based on an organization linked to the capital markets (Anglo-Saxon model). In contrast, the developing countries experienced an organization based on the banking market. In this system, bank loans served as instruments to "achieve development" brokered by strong government intervention, which deployed industrial policies, fiscal deficits and used banking organization to channel financial resources to key productive sectors, fundamental activities (productive investment) and sectors with less access to financing (small and medium-sized enterprises).

Within this context, industrialized countries witnessed the formation of public limited companies (large multinational corporations), whose internal funds were strengthened through their access to capital market funds (thus obtaining liquidity for their non-liquid assets). This became a mechanism for mergers and acquisitions that strengthened large corporations with large-scale economies, and which obtained higher profits than small and medium-sized enterprises. They also accessed yields through trade with financial securities and expanded their operations through direct foreign investment, which mobilized profits from lagging economies (e.g. utilities remittances).

On the other hand, the banking system dominated within developing countries, supported by strong government intervention that mobilized resources to the productive sector and intervened directly through productive investment. The absence of capital markets was replaced with legal reserve policies, *cajones de crédito* (a special credit mechanism), development banks and public trusts. The bank-company relationship (through loans) accelerated growth that nonetheless was characterized by weak technological nuclei (Fajnzylber 1983). This weakened the connection between business loans and salaries, causing reduced internal markets and high leakage of the income multiplier, impeding stable economic growth.

A third conclusion indicates that the financial system in developing countries was directed by commercial banks, with a high level of intervention from the public sector, and provided high volumes of financing at low cost, highly subsidized by the government. The great limitation is that the cost of accumulation was not incurred based on domestic technological innovation, limiting the internal multiplier.

2.4. Private and endogenous money in the international financial market: new mechanisms for resource mobilization

The new economic order, based on deregulation and the globalization of the capitalist system, did not only modify commercial and industrial activity, raising the barriers of trade and capital. It also transformed methods of generating liquidity. This process modified the organization of the financial system. [1]

A global market was imposed under the direction of the capital market organization, maintaining the duality and inequality of the financial system. On the one hand, the developed economies issue securities whose value signs operate as international reserves; consequently, their assets are highly negotiable, and have deep financial markets. In contrast, the other economies issue value signs that must become international reserves, which depend on the stability of the exchange rate, including their overvaluation, and the amount of reserves with an international value sign (variations and reserves in the central banks), and their capital markets are underdeveloped.

1 This analysis of the ordering of the international financial system is based on Toporowski (2013).

This imposes a purely credit-based market, in which liquidity is based on claims on banks or deposits in international trade banks.[2] With the demonetization of gold as a starting point, global money becomes endogenous and central banks cannot control the banking reserves. The trade bank issues liquidity based on financial innovations according to the degree of convertibility of the non-monetary assets in reserve securities. This largely depends on the degree to which these assets may be used as collateral for the debts "while the banks reject the debts that cannot be sold for the value of the loans […] rather, it depends on the banks' willingness to lend in relation to the assets" (Toporowski, 2013 p. 64).

Of additional note is that deregulation, globalization and financialization (the new method of generating liquidity) reduced government intervention in economic activity. The purpose of economic policy shifts from full employment to price stability, which implies the government's withdrawal from economic activity, as well as resource mobilization policies toward the productive sector. Specifically, the resources channeled toward production are now replaced by transfers to social sectors and strengthening the bond market to create attractive conditions for foreign capital flow.

A fourth conclusion is that financial markets in countries with value signs that are not international reserves are prevented from developing and deepening their financial markets. These are characterized by growing volatility because they offer valuation conditions that are higher than the international market, with overvalued exchange rates.

There is a double limitation to the growth of developing countries. Their financial markets are shallow and limited and consequently, the function of transforming non-financial assets into financial assets is more limited and reduces the circulation of savings. Meanwhile, large corporations and stakeholders with high amounts of income transfer their unspent resources to developed markets. Small and medium-sized enterprises are left without resources because governments stop mobilizing liquidity toward production.

2 Monetary credit theory dominates, in contrast to theories based on merchandise or on monetary theories of credit.

3. *THE MEXICAN FINANCIAL SYSTEM: DEEPER FINANCIAL MARKETS WITH FINANCE RESTRICTIONS*

This section will discuss the effects of the opening of the financial market in the Mexican economy, highlighting the greater availability of international reserve flows, and will review the trends and composition of the financial systems and their impact on financing with an emphasis on its destination.

3.1. Opening up the capital market

One of the central arguments of the processes of deregulation and globalization of production, trade and the financial system is the structural deficit of the external account of the economies during the period of economic regulation. From 1960 to 1980, it reached a negative average of 3.8% in relation to the gross domestic product; this average combined with an average annual GDP growth rate of 6.5% (see Table 1). At the root of the crisis in 1982, the Mexican economy suffered a deregulation process and created the conditions to attract foreign capital. This strategy was based on the privatization of public enterprise, which increased direct foreign investment flows. This process culminated in financial globalization (1989), which attracted foreign portfolio investment. The objective was to deepen the financial market and to expand financing to the non-financial private sector, increase exports and reduce the current account deficit.

Results from the period 1981–2014 show that the proposed objectives were not attained. First, the current account did not balance from 1981 to 2014, except for the period from 1981 to 1988, which was the result of the stagnation of the gross domestic product (see Table 1). The current account deficit was restored during the decade between 1990 and 2000, which nonetheless were accompanied by lower GDP average growth rates.

Second, the opening of the capital market (1989) raised the total external assets of the Mexican economy considerably. This indicates that the entry of external capital was not related to the economy's financing requirements; rather, it operated based on its own logic, and responded to the needs of large corporations for short-term profits and government policy to stabilize the exchange rate. Within this context, we may understand the composition of external flows that exhibit liability contraction arising from bank indebtedness becoming positive (debt reduction), with great impact on the non-banking private and public sector, except for the period after the 2008 crisis (see Table 1).

Table 1. Mexican Balance of Payment Structure in terms of GDP

	1960-80	1981-88	1989-99*	2000-08	2009-14
GDP Annual average growth rate	6.5	0.06	3.1	2.15	1.88
Current Account	-3.8	-0.8	-3.3	-1.6	-1.4
Capital Account	**1.5**	**2.8**	**4.0**	**2.4**	**4.3**
Total Liabilities	2.2	4.1	4.5	3.7	7.0
Indebtedness	1.4	2.8	1.6	0.4	2.3
Banks	-1.0	1.5	0.4	-0.1	0.8
Non Bank Sectors	2.4	1.3	1.2	0.5	1.6
Indebtedness	**0.8**	**1.3**	**2.9**	**3.3**	**4.6**
Foreign Direct Investment	0.8	1.3	2.0	2.9	2.2
Foreign Portfolio Investment			0.9	0.3	2.4
Stock Market			0.8	0.0	0.2
Money Market			0.1	0.3	2.2
Total Assets	**-0.7**	**-1.3**	**-0.6**	**-1.2**	**-2.6**
In banks	-0.6	-1.0	-0.2	-0.6	-0.8
Mexican Foreign Direct Investment	0.0	0.0	0.0	-0.4	-1.2
Foreign Credit	0.0	-0.2			
Debt as guarantee	0.0	-0.1	-0.2	0.1	0.0
Other	0.0	-0.2	-0.1	-0.3	-0.6
Errors & Omissiones	2.5	-1.9	-0.1	-0.2	-1.3
Change of Net Reserves	0.2	0.2	0.5	0.7	1.6
Value Adjustment	0.0	-0.1	0.0	0.0	0.1

* In 1999 Stock market globalized
(-) capital outflow, deficit balances
(+) capital inflow, surplus balances
BoP = Current Account + Capital Account + Errors and Omissions – Changes of Net reserves + Value Adjustments

Source: Own calculation based on Bank of Mexico, Balance of Payment, old methodology; and IMF World Development Indicators; Average annual growth rate 1960–1980 and 1981–1988, calculated on National System Account; Global Supply and Demand; and annual GDP, 1980 constant prices, 1960–1993; 1989–99 and 2000–2008: Inegi, National System Account, Series that are not updated; total GDP and by great division; basic and market prices, constant prices 1993=100; 2000–2008: INEGI, Gross Domestic Product, quarterly, base 2002 2003, Original series, prices of 2003, series that are not longer updated; 2009–2014: INEGI, Gross domestic product, quarterly, base 2003; constant prices 2008=100.

A third, relevant element is the increase in foreign investment, initially under the guise of direct foreign investment, which implied the entrance of foreign capital through mergers with state companies, followed by an increase in fixed productive assets (see Garrido 2001). Fundamentally, this occurred because the NAFTA entered into force (1994) and, as shown below, introduced the strong presence of large transnational corporations in the Mexican economy.

Foreign portfolio investment is notable within the same category. It increased after the 2008 crisis, and became the fundamental channel of external income flows. This was related more to the valuation strategies used by large multinational corporations, which decoupled financial flows from investment and savings decisions and from the geographical space in which they operate, including in the monetary area. Specifically, after the 2008 crisis the subsidiaries of transnational companies in developing countries (e.g. Mexico) issued bonds in international markets in response to the monetary policy of quantitative easing (BIS, 2015, Avdiej, McCauley and Song Chin). This allowed the convertibility of the currencies of developing countries to increase, which is a partial explanation for the greater participation of Mexican currency in the currency distribution turnover (representing 2.5 of the total, reaching eighth place in the global ranking, see BIS 2013, Table 2).

Table 2. Size and structure of the Mexican Financial Market

	1993-00	**2001-08**	**2009-14**
Li relation to GDP			
M4a	36.5	46.9	67.3
Bank Assets	19.1	11.3	11.3
Non-Bank Assets	9.8	25.3	41.2
Mia	7.6	10.3	14.8
Bank Loans	**33.9**	**32.8**	**37.8**
Total Bonds	**20.4**	**36.4**	**44.1**
Government Bonds	11.5	20.7	27.1
Financial Institution Bonds	7.4	12.8	13.5
Corporate Bonds	1.5	3.0	3.5
Stock Market	**20.8**	**35.4**	**41.6**
Size of Financial Market	75.2	104.6	123.4
Number of firms quoted in SM	198.0	147.0	129.0

* Information for the 1989–2013 period
M4a: Broad Monetary aggregates including public sector, SME: Mexican Stock Exchange
Source: Own calculations.

Size of financial market, calculation based on World Bank & Bank for International Settlements statistics. Available in: <<http://datos.bancomundial.org/>>and <<http://www.bis.org/statistics/>>, Accessed: March 2015. Number of Corporations, information based on World Development Indicators, last updated April 14th, 2015 and annual report of the Mexican Stock Exchange, 2013, available in <<http://www.bmv.com.mx/>>.

It is expressed as the high daily exchange amounts between the Mexican peso and the dollar in the global international currency market, as evidenced by the global foreign exchange market turnover by currency (BIS 2013, Table 3).

Table 3. Volume and composition of finance in terms of GDP to the non-financial private sector

	1994–00	**2008–08**	**2009–14**
	Total Finance		
ToNFPS	40.6	31.2	39.0
By institutional sources			
Banks	21.7	10.5	13.8
Alternative financing sources of the country	1.9	2.3	2.2
Non bank financial intermediaries (2)	8.9	12.4	15.7
FOVISSSTE+INFONAVIT	2.6	4.8	6.2
Non Bank Cards	0.5	0.4	0.3
Issue of shares and debt	6.1	7.1	9.1
Foreign	8.2	6.5	7.2
By allocation of expenditure			
Consumption	1.5	3.3	4.5
Banking	1.2	2.4	2.7
Non bank financial intermediaries (2)	0.1	0.5	1.4
Non Bank Cards	0.2	0.4	0.4
Housing	8.0	7.7	9.3
Banking	5.2	2.1	2.9
Non bank financial intermediaries (2)	0.2	0.9	0.2
FOVISSSTE* + INFONAVIT**	2.6	4.6	6.2
Corporations	31.2	20.3	25.2
Banking	15.3	5.8	8.2
Non bank financial intermediaries (2)	1.6	0.9	0.6
Non Banks Liabilities of firms in MSE & debt out of MSE(l)	6.1	7.0	9.1
Foreign Financing	8.2	6.6	7.2
Foreign Direct Financing (4)	4.8	4.4	3.3
Debt issued in foreign markets (5)	3.3	2.2	4.0

NFPS: Non-financial private sector, MSE: Mexican Stock Exchange

* Housing Fund of the Institute of Security and Social Services for State Workers (FOVISSSTE)
** Institute of National Housing Fund for Workers (INFONAVIT)
1) Debt issued at the at the MSE and outside the MSE
2) Includes factoring, leasing companies, credit unions, and Savings and Popular Credit
3) Non bank credit cards, FOVISSSTE and INFONAVIT non bank liabilities and debt issuance
4) Includes direct credit from foreign banks, foreign company providers and other creditors
5) Commercial paper, bonds and placements in foreign markets
Source: Bank of Mexico, Available in: <<www.banxico.org.mx>>, Statistics > Monetary policy and inflation > Financing and other financial information of financial intermediaries > Banking and alternative financing sources > Total Financing to the Non-Financial Private Sector. Data as of December each year. Accessed: April 29th, 2015.

A fourth element inherent to the development of the global credit market has been the net variation of the reserves, which tripled over the past 25 years, representing 0.2% of the GDP for the periods 1960–1980 and 1981–1988. It doubled during the decade of the nineties and the first decade of the twenty-first century (0.5% and 0.7% respectively), achieving 1.6% gross domestic product participation after the 2008 crisis (see Table 1).

3.2. Opening up of the capital market and the size of the financial system

The opening up of the capital market slowly deepened the intermediation of the Mexican financial system, accelerating this process during the first decade of the twenty-first century, especially after the 2008 crisis. As discussed above, the crisis responded to the higher convertibility conditions for Mexican currency (see Table 2).

For its part, as may be expected, the composition of the financial deepening changed. The banking instruments during the period of foreign bank domination (in the 2000s) reduced in a context of greater financial deepening, which does not respond to greater securitization activities from the Mexican bank that are tied to issuing credit (see Levy-Dominguez 2015). The increased participation in non-banking instruments in the total of the monetary aggregates reflected increased foreign portfolio investment (see Table 2).

In terms of the size and components of the Mexican financial system, we find the fall in bank loans are confirmed, something that became more evident after 2000. Second, participation in the bond market increased, in part explained due to the increase in public bonds, which is the only way to finance public spending and is the preferred governmental mechanism for stabilizing the exchange rate and performing sterilized transactions. We also observe an increase in the bonds issued by financial institutions. The explanation is based on the constitution of the institutional investors (pension funds, 1998) and the corporate bonds that would indicate the transfer of the financial system to foreign hands. This context highlights the low participation of foreign bonds, which would indicate the decoupling of large private corporations (domestic and foreign) with national financing sources. The share market (value of capitalization in relation to GDP) has a moderate increase, which may be understood based on the low number of companies registered in the securities market (see Table 2), which is even lower if we include the corporations with continuous activity.

We may note that increased liquidity did not generate an accelerated increase in the equity market and reduced (instead of increasing) the credit share of the economy. This indicates lower resources for non-financial entities that are unable to access either the domestic or foreign securities market.

3.3. The size and composition of the financial sector: the financing of production

The connection between the openness of the financial market, its size and the financing of the non-financial private sector contradicts the institutional changes in the Mexican economy (Powell 2013). Even though the total financing amount for the non-financial private sector was not drastically reduced, we observe a significant reduction in bank loans starting from the period in which bank control was transferred to foreign hands. This increased the availability of financing from alternative sources in the country, including those from the *non-bank banks* and, to a lesser degree, from issuing shares and debts (see Table 3).

In terms of the destination of financial resources, the benefiting sectors include consumption, which tripled the financing amount and, to a lesser degree, housing, without any of these variables achieving high financing volumes in terms of GDP, while the business sector faced a fall in financing (see Table 3). In this context, it is possible to infer that small and medium-sized enterprises are the most affected, because they do not have access to other financing sources.

Through the pairing of activities and institutions, we find that the bank concentrates on financing for consumption, which is the most expensive in terms of commissions and financial margins that are unrelated to risk (the yields remained high in spite of the lower rate of delinquency (see Levy and Dominguez 2015). Housing received financing from non-bank banks of tripartite origin (business owners, workers and government, à la Fannie Mae and Freddie Mac); while enterprise receives less bank financing that is partially neutralized through the issue of non-bank liabilities from companies listed on the Mexican Stock Exchange and external financing which, however, did not increase in an accelerated manner (see Table 3).

The analysis of non-financial sector financing (excluding micro-enterprise) through financial accounts reinforces the hypothesis that small and medium-sized enterprises are most affected in this new institutional environment. It reaffirms that enterprise has reduced access to external funds, increasing the participation of gross savings (profits from past periods), and bank loans contract their participation in net financing. It also expands the participation of shares and participations in investment funds, as well as by the other accounts payable that are becoming negative, implying reduced activity by business loans (it would appear that small and medium-sized enterprises are the recipients of these resources, see Table 4).

Based on the foregoing discussion, it may be stated that non-financial corporations have not tended to overcapitalize themselves, which is reflected in the reduced value of the assets, and they remain net debtors (see Table 4).[3] The amount of the liabilities is relatively constant, although their composition changes, especially the relatively high participation of bonds, the increase of debts (which is less than the bonds), and the participation of shares and investment funds (which increased prior to the 2008 crisis, and subsequently fell).

Therefore, in spite of not having long financing series based on company size, it may be argued that financing is channeled to large enterprise, marginalizing small and medium-sized enterprises. The concentration of large corporations within the Mexican economic system generates an oligopolistic competition that increases profit margins, compressing salaries. It operates in the most dynamic sectors (exports) without carrying small enterprises.

3 The analysis only covers from 2003–2013 because the National Institute of Statistics and Geography (INEGI) modified the methodology for recording assets and liabilities.

Table 4. Financial account of the Mexican non-financial enterprises

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
In terms of GDP											
Fixed investment	13.1	14.5	13.3	14.4	14.8	13.8	12.1	12.4	13.4	12.6	11.6
Lending (+)/ Indebtedness (-)	-5.4	-5.5	-5.7	-5.4	-5.1	-7.1	-2.8	-5.2	-4.7	-4.6	-6.1
Assets	1.8	3.8	3.1	6.8	1.6	2.6	5.2	1.4	2.5	-1.7	3.1
Cash flows (legal money and deposits)	0.4	0.1	-0.2	1.6	0.2	0.1	0.9	0.8	0.7	0.3	0.0
Value of Debt	0.3	1.2	3.2	1.9	1.6	1.1	1.8	-1.2	0.9	0.8	1.7
Lending	0.6	1.1	-1.6	0.6	0.2	0.6	0.2	1.6	1.5	0.6	1.5
Participation of capital and investment funds	0.5	1.3	1.5	2.8	-0.5	0.5	2.4	0.1	-0.7	-3.3	-0.1
Pension insurance and standardized guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Derivative, options over stocks assigned to employees	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0
Other accounts receivable/accounts payable	0.0	0.2	0.2	-0.1	0.1	0.3	-0.2	0.1	0.2	-0.1	0.0
Liabilities	7.2	9.3	8.8	12.2	6.7	9.7	8.0	6.7	7.2	2.9	9.2
Value of Debt	1.6	0.8	1.7	1.0	0.7	0.8	1.1	1.6	1.8	2.0	2.8
Lending	0.5	0.8	0.6	2.4	2.0	2.4	2.0	1.4	1.9	1.9	1.6
Participation of capital and investment funds	2.8	1.6	2.4	3.6	0.5	4.5	4.6	1.8	-1.6	-0.7	0.5
Pension insurance and standardized guarantees	0.8	0.6	0.4	0.9	0.8	1.2	1.6	1.5	1.1	1.2	1.3
Financial Derivative, options over stocks assigned to employees	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable/accounts payable	0.1	0.0	0.2	0.2	0.3	0.0	0.1	0.1	0.8	0.3	0.1
Statistical discrepancies	1.4	5.4	3.4	4.2	2.3	0.8	-1.4	0.2	3.3	-1.9	2.9

Source: INEGI. National Accounts System of Mexico. Accounts by institutional sector. S11 Non-financial corporations. Available in << http://www.inegi.org.mx/est/contenidos/proyectos/cn/si/>>. Accessed: April 30th, 2015.

4. MEXICAN ECONOMIC PERFORMANCE: EXTERNAL CURRENT ACCOUNT DEFICIT AND HIGH CONCENTRATION

The effect of financial deregulation on economic growth shows that large capital inflows have not generated vigorous economic growth. From our perspective, the deceleration in economic growth must be analyzed in the light of the current account deficit, which reflects two basic weaknesses in the Mexican economy. The first is related to the transfer of dynamic expenditure from the domestic market to the external market, and ventures into highly technological sectors, without deploying significant expenditure in investment. This reflects the adoption of a growth model that is invigorated by exports, and based on *maquilas*. Second, the massive and growing presence of foreign investment (direct and portfolio) did not only modify the manner in which the financial system operates; it generated a process of corporate concentration, which caused a large concentration in economic activity.

4.1. The basis for new accumulation processes: failed economic growth

The average annual growth rates for the decades following 1980 were very low in comparison to the period of economic regulation (see Table 5), with clear export leadership, values far higher than private consumption, and keeping the gross fixed capital formation low. The internal market that had always been depressed was reduced still more, due to the lower productive investment coefficient (see Table 5).

The averages for private consumption participation in GDP suffered an important deterioration during the recent eighties and nineties and experienced partial recovery during the first decade of the twenty-first century, without reaching the levels of the period of import substitution industrialization. This indicates that private consumption was not a growth driver in the Mexican economy, distancing itself from the dominant financialization model in the United States. Although gross capital formation reached an average that was higher in relation to the period of import substitution industrialization, it remained relatively reduced. Exports clearly dominated, and during the first decade of the twenty-first century, represented nearly one-third of the gross domestic product (see Table 5). Based on these indicators, it is possible to affirm that the accumulation model that developed in Mexico based on export leadership, failed because it did not achieve a surplus in the current account, except during the decade of the eighties. The latter may be explained by the substitution of internal for external consumption, or rather, economic paralysis, in which the average annual growth rate was only 1%.

Table 5. Growth rate and composition of the Mexican GDP

Annual average rate of growth				
	GDP	**Consumption**	**Fixed Investment**	**Exports**
1960/1980	6.6	-0.4	1.8	2.1
1981/90	1.1	0.1	-4.0	6.3
1991-00	3.4	-0.4	1.5	10.6
2001/08	2.7	0.7	1.9	1.3
2009-13	3.6	0.7	-0.6	5.2
In terms of GDP				
	Private Consumption	**Fixed Investment**	**Exports**	**Trade balance***
1960/80	67.1	19.3	4.2	-1.4
1981/90	62.2	17.7	9.1	3.5
1991-00	62.7	19.0	17.8	-1.3
2001/08	65.5	21.1	27.1	-1.0
2009-13	66.6	21.7	29.9	-0.2

* US dollars
* From bank of payment statistics
Source: INEGI, National Accounts System. Available in: <<www.inegi.org.mx/sistemas/bie/>>. Accessed: April 8th, 2015. Historical series, built with index 1988 = 100 for 1980 methodology and index 2003 = 100 for methodology 2003. Chained to 2008 prices.

4.2. Trade balance composition

The dynamic sector of the Mexican economy during the neoliberal period led by exports did not achieve a trade balance (see Figure 1) even during the period after the NAFTA entered into force, when the Mexican economy managed to obtain greater trade advantages in the United States economy. The sector responsible for keeping the external deficit low was the oil surplus, which also shrank, even during the period of the ascending cycle of oil prices.

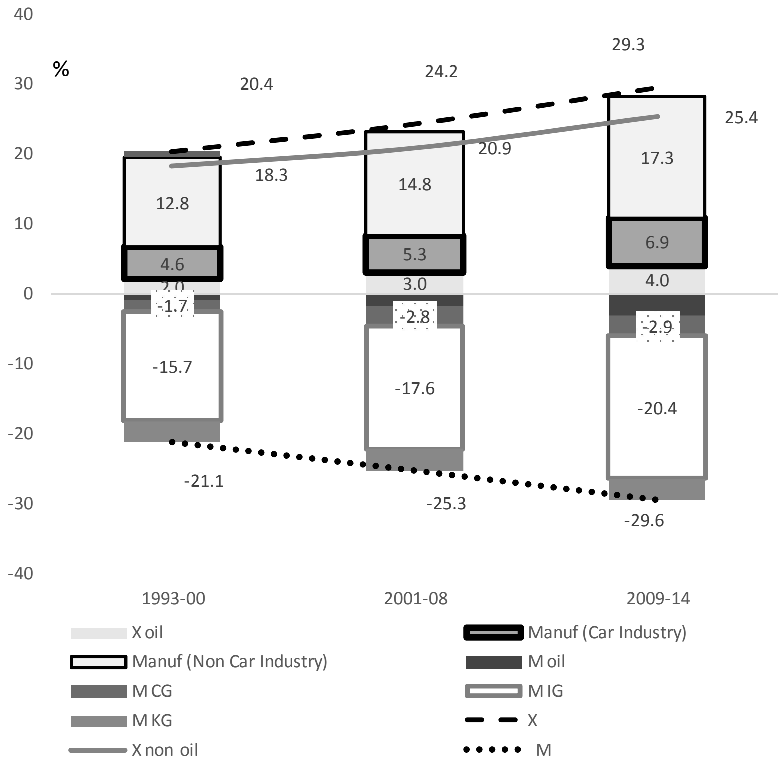


Figure 1. Balance of Payment composition (average in terms of GDP in each period)

X: exports, M: imports; CG: consumption goods, KG: capital goods; IG: intermediate goods

Source: Bank of Mexico, Balance of Payments. Available at <<http://www.banxico.org.mx/estadisticas/index.html>>. Accessed: June 9th, 2015.

A more detailed analysis of the trade account shows strong export diversification, increasing the presence of the manufacturing sector, with the great disadvantage that once again, it specialized in a sector that did not base its production on domestic productive forces. This time, external demand became dependent on the automotive sector, which rose from 4.6% from 1993-2000 to 6.9% from 2009-2014. Another disadvantage is that imports of intermediate goods soared, with reduced levels of capital goods, which are the main suppliers of machinery and equipment to Mexican productive sectors (see Figure 1). In this context, it is evident that in spite of the dynamism of the manufacturing sector, following the steps of the neo-mercantilist process, it failed because it was based on *maquiladora* organization, in which the main contribution of domestic productive forces has been the labor force, whose objective is to assemble final goods at reduced salaries.

4.3. The centralization of the Mexican market

The change in the financial system and in productive structure introduced a large concentration of enterprise, repeating the centralization of productive capital that had occurred in other countries. A first indication is the large concentration of assets in relation to the GDP. The assets of the 500 largest companies between 1998 and 2014 reached an average relative value of 100% of the GDP, with sustained increase from 1998–2014, with minimums of nearly 50% of the GDP and maximums of nearly 140% (see Figure 2).

The 10 largest companies account for the average of nearly 30% of the assets measured in relation to the GDP, with minimums of 14% and maximums of 41% (in 2002 and 2008, respectively). Between the 11th and 25th largest companies, they contribute nearly 19% of assets in relation to the GDP, and the companies ranked 26th to 50th represent a similar amount. This implies that on average, the 50 largest companies in the Mexican economy represented more than 56% of assets in relation to the GDP, between 1998 and 2014. The 100 largest companies accumulated 80.6% of assets in relation to the GDP, while the companies ranked between 100 and 500 only represented 22.9% of assets measured in relation to GDP (see Figure 2).

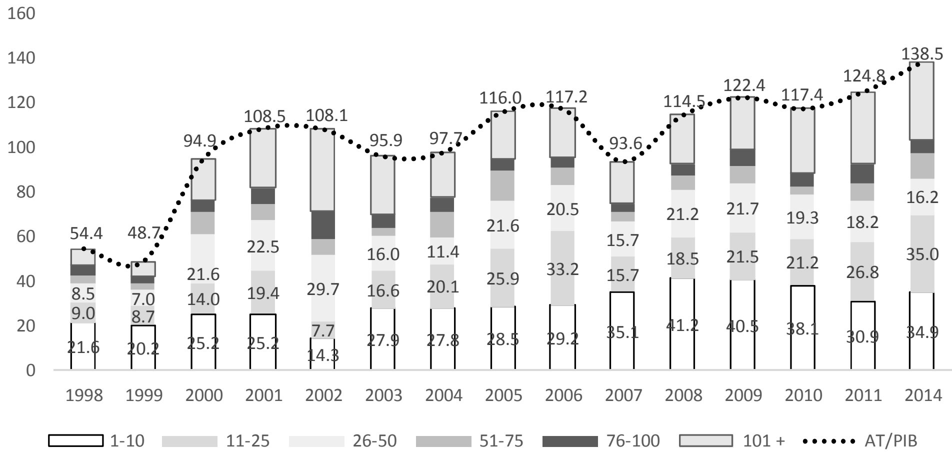
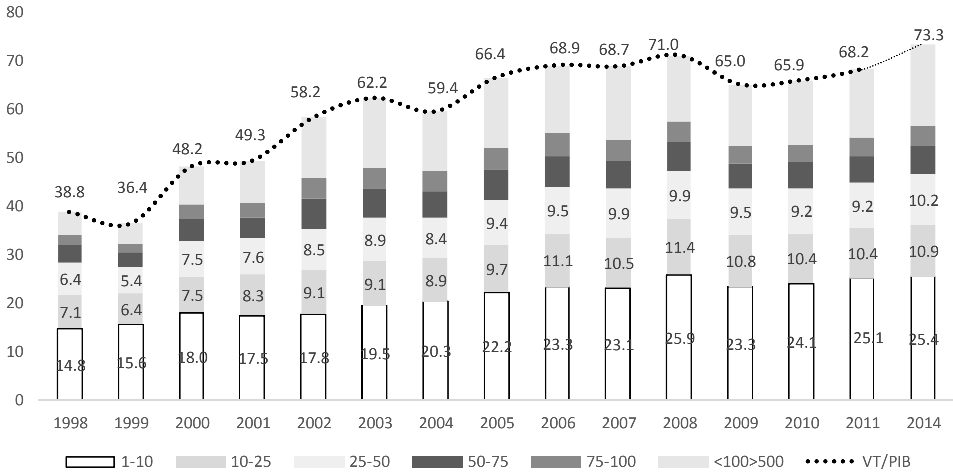


Figure 2. Assets in terms of GDP of the 500 biggest companies, grouped (%)

Sources: 1998–2006: CNN Expansion (many years), *Expansión 500. Las empresas más importantes de México (CD-ROOM).* Version 1.0. Mexico: Expansión S.A. de C.V. CD-ROOM. Accessed: December 2015; 2006-2014: CNN Expansion (2015), Interactive Ranking "Las empresas más importantes de México" on <<http://www.cnnexpansion.com/rankings/interactivo-las-500/2015>>.Accessed: December 2015.

More revealing data on business concentration are found in the sales of the 500 largest companies, which between 1998 and 2014, reached an average of around 60% of GDP, with amounts of 39% in 1998 and 74% in 2014. The ten largest companies established the rhythm of the concentration increase, by increasing their participation throughout the period by nearly 10 points in relation to the GDP that on average, reached 20% over that period. The 100 largest companies contributed 48% of the sales in terms of the GDP (80%), while the other 400 companies contributed around 11% of the total sales (20%). Based on this data, there is no doubt that large companies drove sales in the Mexican economy during that period (see Figure 3).

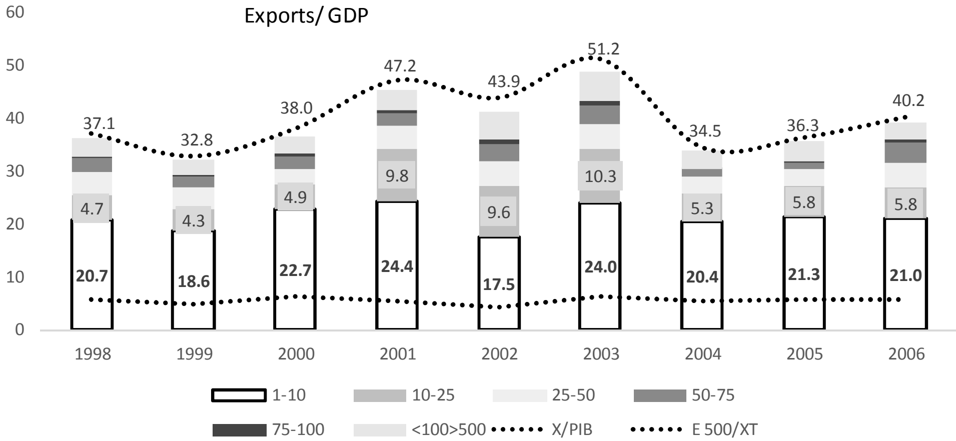
Figure 3. Total Sales in terms of GDP of the 500 biggest companies, grouped (%)



Sources: 1998–2006: CNN Expansion (many years), *Expansión 500. Las empresas más importantes de México (CD-ROOM).* Version 1.0. Mexico: Expansión S.A. de C.V. CD-ROOM. Accessed: December 2015; 2006-2014: CNN Expansion (2015), Interactive Ranking "Las empresas más importantes de México" on <<http://www.cnnexpansion.com/rankings/interactivo-las-500/2015>>. Accessed: December 2015.

Finally, the export sector also shows high levels of concentration. The 500 largest companies represented nearly 40% of total exports between 1998 and 2006 (more information is unavailable), and although they demonstrate variability in relation to the total amounts, they do not have large variations and, on average, represent nearly half of exports (see Figure 4).

Figure 4. Total Exports in terms of GDP of the 500 biggest companies, grouped (%)



Source: 1998–2006: CNN Expansion (many years), *Expansión 500. Las empresas más importantes de México (CD-ROOM).* Version 1.0. Mexico: Expansión S.A. de C.V. CD-ROOM. Accessed: December 2015.

5. CONCLUSIONS

Financial systems have the capacity to create adequate financing if the financial institutions are functional and there is a balanced productive sector that demands financial resources, generates income and pays off debts, with financial institutions that are able to re-circulate savings to the companies.

Developing countries deployed a financial system without robust financial institutions, and therefore savings were not concentrated in non-financial institutions through internal funds, which re-circulated unconsumed income back to production. Thus, the financial system organized on the basis of the banking structure was functional, with strong support from government policies in the creation and destruction of financial resources. In Latin America, the major limitation to economic growth during the period of regulation was the productive disequilibria that did not depend on a process of accumulation accompanied by productive investment and profit generation. The final fixed capital goods were imported, leading to a high income multiplier leakages, with limited domestic markets.

The period of financialization added two elements that depressed economic growth. First, the state withdrew from channeling income to the productive sector, specifically to the sectors with reduced access to financing – small and medium-sized industry – while public investment expenditure was reduced. Second, productive disequilibria increased, with the establishment of large corporations that failed to transfer technology or with expansion of the domestic market.

Therefore, the financial system deepens by deploying the great paradox of high volumes of financial assets in international account units, which, on the one hand, deepened and diversified the financial system, but did not generate financing for production because government support for small and medium-sized enterprises was annulled. On the other hand, it deploys a structure based on the capital markets that could not deepen or expand, because domestic non-monetary assets were reduced. Within this context, the concentration of the productive structure increased, dominated by transnational corporations that neither demanded resources from developing countries nor generate investment expenditure in these economies. The export sector dominated economic activity, based on raw materials, with reduced connections with the domestic market. In the case of Mexico, which promoted manufacturing exports, this process took place with reduced investment expenditure, basing itself on *maquilas*, that is, with reduced aggregate value.

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Rezime:
Transformacija zemalja u razvoju tokom procesa finansijalizacije: diskusija o ograničenjima privrednog rasta zasnovana na meksičkoj ekonomiji

Zemlje u razvoju iz Južne Amerike prošle su kroz proces dubokih promena svog proizvodnog, trgovinskog i finansijskog sektora tokom neoliberalnog perioda koji odlikuje dominacija finansijskog kapitala bez prateće stabilizacije privrednog rasta ili postizanja eksterne ravnoteže. Dve strukturalne odlike koje ograničavaju privredni rast u Južnoj Americi i posebno u Meksiku jesu raskidanje veze između dinamičnih proizvodnih sektora i domaćih proizvodnih sektora, što je ugrozilo proces akumulacije u ovim privredama i rastući izvoz bez istovremenog postizanja eksterne ravnoteže; ove privrede nisu uspele da transformišu eksternu likvidnost u finansiranje proizvodnje i investicija. U ovom radu se stoji na stanovištu da privredama Južne Amerike dominiraju velike korporacije koje operišu na margini njihovih domaćih proizvodnih i finansijskih tržišta. Ovakvi uslovi su onesposobili ove privrede da iskoriste povoljnosti koje je generisao eksterni sektor.

Ključne reči: finansijalizacija, zemlje u razvoju, ograničenja privrednog rasta

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