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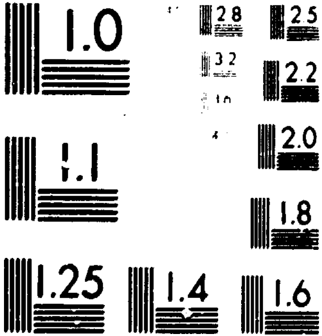


MICROCOPY RESOLUTION TEST CHART

11761

Distr.
LIMITED

ID/WG.315/4
29 November 1979

ENGLISH

United Nations Industrial Development Organization

Seminar on Forms and Impacts of Redeployment
of Industries to Developing Countries
Vienna, Austria, 20 - 21 September 1979

# REDEPLOYMENT FROM DEVELOPED TO DEVELOPING COUNTRIES: THE CASE OF MEXICO *

by

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id.79-9586

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Although the author is an officer of Nacional Financiera, S.A., the statements made in this paper are his sole responsibility.

## A. STRATEGIES FOR INDUSTRIALIZATION

The paramount economic and social policy of Mexico is to eradicate or substantially diminish unemployment, which is considered the most important and difficult problem. Industrialization, in general, and the development of healthy small industries, in particular, are part of the strategy to reach this goal.

The Mexican policies for industrialization have undergone substantial changes recently. One is the emphasis on production for exports vis-à-vis import substitution which for many years was the most important industrial development strategy. This does not mean, of course, that Mexico will cease making efforts to replace imports with local production. In fact, it is expected that the process of industrialization will bring about a continuous change in the structure of imports, from simple to very complex products, and that the total value of imports will increase, although many products are being incorporated into the local production.

The second stage in strategy is the heavy emphasis, now, on the manufacture of capital goods in order to make Mexico self-sufficient in many of them, at least those that are very important for the industrial growth, such as machinery for the industry, principally for the mechanical and petrochemical industries. Again, this does not mean softening the effort to produce more and better consumer goods, mainly basic goods for the population of lower income, such as food, clothing, shoes, furniture and home appliances.

Another recent strategical change is to stop considering vertical production integration as an important goal and even a requisite in the program of certain enterprises (car manufactures); and to demand instead balanced foreign exchange results as a whole. According to this, a firm may import any amount of parts, components or raw materials as long as it exports for an amount of foreign exchange equivalent to that of its imports.

Due to the advanced stage of development in Mexico now, the objective of using its own natural resources has been achieved. The important goal now is to exploit more intensively new discoveries both in oil and in minerals; and to continue exploring in order to find new sources of critical materials, such as oil, copper and phosphate rock. In general terms, it could be said that Mexico is generously endowed with natural resources and is using them well, as a basis for progress in its industrialization, in the sense that their processing goes down to the stage of final products, instead of semi-manufactured ones.

B. SECTORAL PRIORITIES FOR DEVELOPMENT AND FOREIGN PARTICIPATION

Last March the Ministry of Patrimony and Industrial Development (SEPAFIN) issued the new National Plan for Industrial Development 1979 - 1982 which embodies all the recent features of Mexican policy for industrial development, defines goals to achieve at medium and long terms, and establishes the instruments to reach them.

The Plan assigns sectoral priorities according to two general categories: category I comprises agroindustry, industrialization of inputs for agriculture and animal husbandry; capital goods in general, and for the development of agriculture and oil and petrochemical industries, in particular. Category II comprises, among many other products, textiles, clothing and shoes; cleansing agents; packaging materials; and a great assortment of durable consumer goods, notably furniture, domestic appliances, parts for vehicles, electronic equipment, and instruments and tools of different kinds. Within the same category, we find a wide range of intermediate products, mostly of petrochemical and chemical origin, as well as pharmaceuticals and construction materials. Aside from the division in these two categories, for which the Government has created different stimuli, there is no specific list of sectoral priorities.[1]

In view of the fact that the projections of the Industrial Plan still have only been stated in broad terms, and that Mexico is no longer interested in satisfying demand completely with its own products, it is not possible to express future self-sufficiency

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1/ Apart from sectoral priorities, the government has also set regional priorities to decentralise industry away from the Mexico City metropolitan area to cities of medium size with sufficient human and infrastructural resources for potential development. The National Plan is described in more detail in: Mexican policies and instruments for the development of the small and medium industry, [illegible], document [illegible]-I, Mexico City, 1979.

for any particular product. It is expected, however that most of the manufactures of simple design and construction will be completely of Mexican origin by 1982. It is worth repeating again that as Mexico advances in industrialization, it will need to import more products of a complex character, mostly those for which its own market is relatively small. Accordingly, it will look for opportunities to continue importing capital goods and certain industrial inputs, in order to avail itself of opportunities to export certain types of industrial goods, including some capital goods and some inputs of industry. The real goal in this regard is specialization and proficiency in a limited variety of goods.

C. OBSTACLES FOR INDUSTRIAL DEVELOPMENT

Mexico has a large internal market and it has been producing consumer goods for many years, so there are no important problems or obstacles connected with the development of consumer goods production for the internal market. The real problems are the access to foreign markets and the lack of know-how in marketing for export. As exporting is one of the vital strategies, these two obstacles can be considered of a crucial character. The same thing happens in relation to skilled workers, engineers and technicians. We have no problem in relation to the production of goods for internal consumption, but we do in connection with goods for export. With the exception of harbours, which certainly need improvement, there are no problems of infrastructure inasmuch as Mexico for many years devoted a great deal of effort to developing communication systems, water supply, electricity and social works. The harbours need rehabilitation and reorganisation.

Speaking in very general terms, Mexico does need an outside supply of funds for its general development. Fortunately, the country has been gaining the confidence of governments and bankers in the whole world, so there is no financial problem in that sense. However, some individual projects do require external financing not precisely because of lack of funds in the country as a whole, or foreign currency, but because of the interest in co-investors that may bring technical assistance and the use of foreign markets, which is better achieved when there is an active financial participation from the part of the foreign partners.

In co-investments and other types of associations between foreign and Mexican industrialists, there might be conflicting interests because often the foreigners want to adapt the characteristics of the projects to their own interests, and Mexico or the Mexican industrialists are very jealous of their independence, mostly in relation to transnational enterprises. One case that repeats itself often is that foreign investors do not want the Mexican joint-venture to export to other countries, because they have other arrangements in relation to this. This opposition contradicts the policy and strong desire of Mexico and the Mexican industrialists of exporting whatever they want or they can.

## D. PARTNER COUNTRIES FOR INDUSTRIAL CO-OPERATION AND FOR TRADE WITH MANUFACTURED COMMODITIES

The countries with which Mexico has industrial co-operation correspond very closely to those where there are strong commercial links, such as the United States, West Germany, Japan, United Kingdom and Italy, in this order of importance. Lately, there has been a growing stream of relationships with Spain (because of the re-establishment of diplomatic relations) and with countries of centrally controlled economies. In all cases, the most important imports are machinery, equipment and manufactured industrial inputs; and the most important exports are foodstuffs and minerals.

Mexico hopes to increase trade and industrial relationships with all the countries, and to establish new ones with those absent now in the statistics.

## E. STRATEGIES FOR INDUSTRIAL CO-OPERATION

Mexico can be classified as a mixed-economy country. However, an important industrial policy is to deposit the responsibility for most industrial promotions in the hands of private initiative, and to complement private initiative with state owned industrial enterprises, whenever the private sector is unable to cope with the needs for development either because the proposed business is not very attractive, or there is not enough private capital to take care of the investments. Actually, a large sector of the Mexican economy is made up of mixed enterprises in which both private and public capital are invested.

The Mexican government promotes redeployment through the action of specialized government agencies such as Nacional Financiera, S.A., and acts also through national policy measures which apply to foreign industries as well as industries with only national capital. There is intergovernmental action in the promotion of co-investments, and the government is willing to go into bilateral agreements, bilateral treaties or multilateral treaties, in order to secure the right type of co-investment, in which it is expected that the foreign partner will contribute with technical assistance, foreign markets and capital, in that order of importance.

As instruments to contribute to industrial deployment in Mexico, Nacional Financiera has created a number of co-investment funds with several countries of Europe and Japan. 1/

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1/ Up to now, NAFINSA has signed six fiduciary agreements with several international insitutions, which have developed into six co-investment funds: the French-Mexican COFRAMEX, subscribed with Société Générale; the Italian-Mexican ITALMEX, with the Banca Commerciale Italiana; the British-Mexican BRINMEX, with Grindlay Brandts; the German-Mexican INGERMEX, subscribed with two German institutions, the German Development Company (DEG) and the German Bank for South America (DSB); the Spanish-Mexican HISPAMEX, with the Banco Hispano-Americano; and, lately, the Japanese-Mexican NIPOMEX, with the Industrial Bank of Japan. See also annex I.

The mechanism for this program is as follows: a foreign bank and Nacional Financiera deposit funds in trust in an appropriate financial institution, in the proportion of forty and sixty per cent of the total, respectively. The funds are available as risk capital to complement the investment requirements for any proposed bona fide project, in which it will participate with up to 33 per cent of the total capital. The rest of the capital will be shared between the foreign enterprise and the Mexican enterpreneurs, preferably on equal parts. In certain cases, Nacional Financiera can participate within the Mexican thirty three per cent, mostly when the project is of national interest, and it has been impossible to find interested Mexican partners.

The participation of the co-investment fund is of a temporary character and will always be considered, by law, as a Mexican investment, and therefore the funds brought by the foreign partner can actually exceed the limits imposed by the law. Each co-investment fund is managed through a technical committee composed of representatives of the participating bank, Nacional Financiera and the trust institution. Both the foreign and the national owners of the fund have the obligation of identifying projects susceptible of execution and for which there would be interested private investors. The foreign bank can assist its client in identifying new fields for co-investment in Mexico; and, in turn, Nacional Financiera can organise national groups of investors to participate in joint projects.

Another interesting Mexican tool to promote industrial redeployment is the organization of in-bond industries which work on the basis of temporary imports duly controlled at the site of the factory, with the condition that most of its production will be exported. By temporary imports are meant those that are introduced to the country for a determined length of time and which are under the approved program for inputs at the assembly plant, and which shall be returned abroad.

The Ministry of National Patrimony and Industrial Development will authorize programs for in-bond assembly operations only when (a) the manufacturer will employ temporarily imported machinery and, whatever the degree of their national integration, will export all of the products; (b) with an industrial plant already installed or to be installed, for the purpose of supplying the domestic market, will carry out temporary imports that allow it to dedicate itself partially or completely to export. In this case the products for export must contain at least twenty per cent national integration.

The Ministry shall authorize the location of new in-bond assembly plants and the expansion of those already in existence, anywhere in the Mexican Republic, except where a proposed location is considered unadvisable, due to concentrations of industry and population, or to pollution factors. The Ministry of the Interior (Secretaria de Gobernación) is authorized to permit the entry into Mexico of such foreign management personnel and technical specialists that are needed for the proper functioning of the in-bond assembly plants.

The in-bond assembly plants shall be permitted the temporary importation of the following products:

(a) raw materials and auxiliary materials necessary for carrying out the in-bond assembly plant operation in accordance with the approved program and the expansion thereof, if any;

(b) machinery apparatus, instruments and equipment for carrying out the assembly operation or utilized for the quality control of its products;

(c) spare parts for the items referred to in the preceding section;

(d) tools and accessory equipment employed in production and safety, work manuals, and industrial prints; and

(e) containers, packing materials, labels and brochures

The in-bond assembly plants have been located mostly along the border with the United States of America; but there is a trend towards redeploying some of them to more central locations inside of the Republic, in order to respond better to the new strategy for industrial location; and to enjoy subsidies and stimuli embodied in the National Plan for Industrial Development, once their present permits from the Federal Government expire.

The most important underlying strategy in the case of in-bond industries is the increase in opportunities for employment for the Mexicans, mostly along the border lines, where there is a great amount of temporal or permanent unemployment, on account of the irregularity and unreliability of the agriculture jobs which appear seasonally in the southern part of the United States. The second strategy is the possibility of replacing little by little some of the parts which are imported from the United States with parts manufactured in Mexico. In other words, although the in-bond factories are not meant for that, they constitute an excellent potential market for Mexican manufacturer. In every case, there will be first class technical assistance from the large corporations of the United States

F. FORMS OF INDUSTRIAL CO-OPERATION

Within the parameters established by the industrial laws Mexico is completely open to foreign capital, and treats it on equal terms with the national capital.

Mexico is interested in the purchase of patents, licences and know-how, but it would prefer to derive this technical baggage from the technical assistance that should accompany foreign investment. This assistance and the possibility of enjoying new markets for export products are the most important components sought in the agreements for co-investments. Subcontracting, both with and without foreign investment, will always be attractive for the industrial development of Mexico.

On the other hand, it has become a national practice to avoid the purchase of factories in the turnkey fashion. The reason is Mexico already has an advanced industrial development and wants to participate in new projects incorporating national products and engineering, which are already of a recognised quality and with competitive prices. A similar statement may be made in relation to the purchase of factories which include management, technical services and technology contracts. There can not be a general rule, but it is customary to try to employ Mexican technicians and Mexican consultant services, except when there are none in Mexico of the characteristics required. In a few words: Mexico wants technological self-determination rather than technological self-sufficiency.

Mexico is not interested in investments with high foreign equity participation; and it has strict restrictions in this regard (see annex II). However, it is not impossible to integrate an industrial enterprise with one hundred per cent foreign investment, if the project is very special and there is no other practical solution. In general, it can be stated that Mexico prefers joint ventures with minority equity participation of foreign firms. It will seek those that will bring much needed technical assistance and know-how and that will create the possibility of sharing foreign markets already established.

## G. INCENTIVES APPLIED AND PLANNED TO PROMOTE REDEPLOYMENT

Except for the programs to create co-investment firms and in-bond enterprises, Mexico does not have incentives or stimuli specially devoted to promote redeployment of industries from the developed countries. It treats all cases alike, but many of the general stimuli used in industrial promotion are strong enough to convince foreign manufacturers about deploying their operations partially or in full in Mexico.

One of the most important relative advantages of Mexico is its nearness to the single largest market in the world, the market of the United States. This situation is enhanced by the fact that the United States are no longer able from the economic point of view to perform certain industrial operations which are of a labor-intensive character; its technology too, is so advanced that it is no longer feasible to produce parts or components on a relative small scale, something which still can be done in countries like Mexico, where the relative importance of capital versus labour is completely different.

Mexico enjoys a very large internal market (the second largest among the Latin American republics: 70 million population), and it has access to the rest of Latin America, mostly because it belongs to the ALALC (Latin American Free-Trade Association).

The new National Plan for Industrial Development offers important incentives for the right type of industry to be located in the right place on Mexican territory.

CHARACTERISTICS OF THE ENTERPRISES ASSISTED BY MEXICO'S CO-INVESTMENT FUNDS*

| | | |
|---|---|---|
| NAME | Textil Moher Mexicana, S. A. | Renault de México, S. A. de C. V. |
| CO-INVESTMENT FUND | HISPAMEX | COFRAMEX |
| FOREIGN PARTNER | Trigame, S. A. (Spain) | Régie Nationale des Usines Renault (RNUF) (France) |
| DATE | 10 July, 1979 | 14 March, 1978 |
| LOCATION | Guadalajara, Jalisco | Ciudad Sahagún, Hgo. |
| TOTAL CAPITAL | 1.2 million pesos | 1,000 million pesos |
| FUND'S PARTICIPATION | 33% (400.000 pesos) | 200 million pesos (20%) |
| MEXICAN PRIVATE PARTICIPATION | 33% | DINA: 40% |
| FOREIGN PRIVATE PARTICIPATION | 33% | RNUF: 40% |
| PRODUCT | knitting machines | passenger cars and trucks |
| OBJECTIVE | import substitution (800 machines being imported per year), plus exports to Central America | increase percentage of national integration and maintain foreign exchange balance by exporting automotives parts. |
| REMARKS | | Renault Mexicana was created in 1966 for distributing DINA'S products. The capital was then 60% RNUR and 40% DINA. In March, 1978 both enterprises merged under the name of Renault de México, S. A. COFRAMEX supported this new operation, contributing 200.0 million pesos. |

* Direct information from the Office of the Director for Programming and Projects, Nacional Financiera, S. A., as of September, 1979.

ANNEX I

| | | |
|---|---|---|
| NAME | Telettra Industrial, S. A. | Compañia Mexicana de Radiologia, C. G. R., S. A. de C. V. |
| CO-INVESTMENT FUND | ITALMEX | COFRAMEX |
| FOREIGN PARTNER | Telettra Laboratori de Telefonia Elettronica | Compania General de Radiologia, S. A. |
| DATE | 19 July, 1978 | June, 1978 |
| LOCATION | Mexico City | Querétaro |
| TOTAL CAPITAL | 50 million pesos | 24 million pesos |
| FUND'S PARTICIPATION | 16.6 million pesos (33%) | 12.25% |
| MEXICAN PARTICIPATION | NAFIN: 12%; others 6% | Cia. General de Radiologia: 36.75%<br>Banco del Atlántico, S.A. 14%<br>Constructora Centro Querétaro, S. A.: 10%<br>Small investors: 3%<br>NAFINSA: 24% |
| FOREIGN PARTICIPATION | 49% (Telettra International, Luxemburg) | 36.75% |
| PRODUCT | equipment for telecommunication and telecontrol (television and telephone communications) | equipment for X-Rays, generators, and other medical supplies |
| OBJECTIVE | import substitution and exports (the branch has priority in the Program of Capital Goods) | Import substitution and exports of equipment |
| REMARKS | The company was founded at the end of 1973. Recently, ITALMEX and Nacional Financiera entered as partners in order to assist in the integration and expansion of the firm's manufacturing capacity. The firm has won bids to provide equipment for African countries. | COFRAMEX has participated in two increases of capital (1976 and 1978) in order to assist in the expansion of the firm's manufacturing programs. |

| | |
|---|---|
| NAME | I.C.L., S.A. |
| CO-INVESTMENT FUND | [illegible] |
| FOREIGN PARTNER | International Computers Limited (G.B.) |
| DATE | 23 September 1977 |
| LOCATION | Mexico City |
| TOTAL CAPITAL | 14.4 million pesos |
| FUND'S PARTICIPATION | 20% |
| MEXICAN PRIVATE PARTICIPATION | 31% |
| FOREIGN PRIVATE PARTICIPATION | 49% |
| PRODUCT | Computers and auxiliary equipment for computers, such as power units and housings. |
| OBJECTIVE | Import substitution and exports of small and large computers. |
| REMARKS | The firm imports software, some parts and programs for specific applications. |

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In process of organization as new co-investments there are: (a) a firm prefabricating piping for petrochemical and nucleo-chemical plants; and (b) a plant for pipes (welded and seamless) and cold-rolled steel, in association with a Spanish enterprise. Two large iron and steel projects are now in an advanced stage of development for co-investment with [illegible] and several other prospects are being studied for co-investments with Japanese manufacturers of telephonic, electronic, construction, petrochemical and electrical equipment. Nacional Financiera is evaluating five other projects as possible co-investments with French and British firms.

ANNEX II

## MEXICO'S JURIDICAL ENVIRONMENT

The Law to Promote Mexican Investment and to Regulate Foreign Investment answers clearly the frequent question as to whether Mexico wants or does not want partnership from other countries; facilitates the decision of foreign capital wishing to participate in Mexican enterprises; and, above all, directs foreign investment towards objectives of economic and social interest and national independence, set by the Government. The legislation reserves exclusively for the Estate the exploitation of petroleum and other hydrocarbons and radioactive minerals; the generation of nuclear energy; mining - in those cases referred to by the mining law -; electricity, railroad transportation, and telegraphic and wireless communications. Exclusively reserved to Mexican nationals or corporations with an exclusion-of-foreigners clause, are: radio and television, urban, interurban and highway transportation, domestic air and maritime transportation, exploitation of forest resources, gas distribution, and other activities established by specific law or regulations issued by the Federal Executive Power. Foreign investment holdings of no more than 49 per cent of the capital may be admitted in the exploitation and use of ordinary mineral concessions. In the case of special concessions, foreign holdings may not exceed 34 per cent. In no case the concessions themselves will be granted to foreign nationals or corporations.

As regards the manufacturing industry, foreigners may hold up to 49 per cent of the capital of the business, provided they are not empowered, by any title, to determine the management of the enterprise. In fact, the Law establishes that the participation of the foreign partners in the administration of the enterprise may not exceed its participation in the capital. In the case of secondary petrochemicals, the limit of the holding is 4? per cent

Concurrently with the issuance of the Law, the Government created the National Commission on Foreign Investment, which may decide on the increase or reduction of the percentage of foreign participation in the capital of the enterprise when, in its judgement, it is in the interest of the country's economy. The Commission may establish the conditions under which foreign investment may be received in specific cases, adding therefore flexibility to the law and, in general, to the treatment of foreign capital. Inasmuch as the country is interested mainly in the creation of new industries, with the participation of foreign technology, the law prohibits foreigners from buying established businesses without permission from the Secretary or Department acting as the sector head. Acquisition is understood when it involves more than 25 per cent of the capital or over 49 per cent of the fixed assets of a business enterprise. The leasing of a business enterprise or of the essential assets required for its activities, shall be considered equivalent to the acquisition of the assets.

The National Registry of Foreign Investments is an agency, under the newly renamed Ministry of National Patrimony and Industrial Development, where foreign persons or corporate bodies that undertake investment under the Law shall be registered. In keeping with resolutions adopted at the third UNCTAD meeting in Santiago, Chile, the Mexican Government issued the Law on the Transfer of Technology and the Use and Exploitation of Patents and Trade Marks, which is closely related to the subject of foreign investment. The purpose of this law is to eliminate obstacles to Mexico's development and foreign trade, to adjust technology contracts to the guidelines of the Government's industrialisation policy, and to stimulate the creation of a local scientific and technological infrastructure that permits the adaption of foreign technology to the conditions and needs of the Mexican economy. In the foreword of this Law, it is stated that the Government has no desire to use this legislation as an instrument to limit the purchase of technology but rather as a means to help Mexican enterpreneurs obtain the best technology, under the most favourable market conditions. The most important implement of this law is the National Registry of the Transfer of Technology, established under the auspices of the Ministry of National Patrimony and Industrial Development. It is now obligatory to register all documents containing the actions, contracts or agreements to be implemented in the national territory, when their purpose is the concession or authorization to use or exploit trade marks, patented inventions, industrial models or designs, technical expertise, technical assistance, or company management and operation services. When, for a number of reasons stated in the Law, the Ministry regards a particular transfer of technology as inadvisable or harmful to the enterprise or to the country, it denies the registration, an action that makes it impossible to carry out the corresponding transaction or agreement with the foreign provider of the technology.

As a necessary complement to the Law on the Transfer of Technology, the Mexican Government issued also the Law on Inventions and Trade Marks, as a new instrument for economic and social development, aimed at stimulating the creativeness of the Mexican inventor or enterpreneur, instead of protecting only inventors or owners of trade marks, as it has always been with previous regulations. The new law deals with patents of invention and improvements, models and industrial drawings, trade marks, denominations of origin, advertisements and commercial names. The Law establishes the right of the Government to delimit the field covered by patents; and to declare as nonpatentable the developments related to food, health, energy, nuclear safety, and basic industries.

Salient features of the Law are: (a) the "certificates of invention" which do not grant the inventor the exclusive right to its use or development, but the right to demand a royalty from one or more users, for a period of ten years. The users negotiate with the inventor or the Ministry the non-exclusive right to use the invention; (b) the "linked trade marks", which means that a Mexican trade mark should be used together with the foreign trade mark; and (c) the obligation to use effectively the trade mark , in order to avoid the extinction of its rights.

These three laws and their corresponding administrative organizations combine harmoniously to form a juridical infrastructure for the treatment of the foreign private capital in Mexico, and serve as a basis for a healthy relationship in joint ventures.