UNIVERSITY OF CALIFORNIA
Los Angeles

Politics of Late Industrialization: The Origins and Processes of Automobile Industry Policies in Mexico and South Korea

A dissertation submitted in partial satisfaction of the requirements for the degree Doctor of Philosophy in Political Science

by

Jong Gook Back

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1990

To My Father, Joo Sun Back,
Who has taught me to serve justice and truth

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LIST OF ABBREVIATIONS

AMG	American Military Government
AMIA	Asociación Mexicana de la Industria Automotriz
Automex	Fábricas Auto-Mex
Bancomex	Banco Nacional de Comercio Exterior
CANACINTRA	Cámara Nacional de Industria de Transformación
CKD	completely knocked down
CNC	Confederación Nacional de Campesinos
CNOP	Confederación Nacional de Organizaciones Populares
COPARMEX	Confederación Patronal de la República de México
CROC	Confederación Revolucionaria de Obreros y Campesinos
CTM	Confederación de Trabajadores Mexicanos
DINA	Diesel Nacional
DRP	the Korean Republican Party
EOI	Export-oriented Industrialization
EPB	Economic Planning Board
FF-car	Front-engine front-wheel-drive car
GM	General Motors
GMK	General Motor-Korea
HMC	Hyundai Motor Corporation
IMA	Implusora Mexicana Automotriz
ISI	Import Substitution Industrialization
KAICA	Korean Auto Industries Coop. Association
KCIA	Korean Central Intelligence Agency
KDP	the Korean Democratic Party
MNCs	Multinational Corporations
NAFIN	Nacional Financiera
NDP	the New Democratic Party
NICs	Newly Industrializing Countries
NOCHONG	Nodong chongyeonmaeng, or Korean Federation of Trade Unions
POSCO	Pohang Steel Corporation
PRI	Partido Revolucionario Institucional
R&D	Research and Development
SIC	Secretaria de Industria y Comercio
SKD	Semi-knocked down
UOI	Unidad Obrera Independiente
VAM	Vehiculos Automotores Mexicanos
VW	Volkswagen

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ABSTRACT OF THE DISSERTATION

Politics of Late Industrialization: The Origins and Processes of Automobile Industry Policies in Mexico and South Korea

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This study employs the ruling coalition analysis to explain the politics of automobile industrialization in South Korea and Mexico. The automobile industry policies of Mexico and South Korea constitute strategic choices for development made by their respective ruling coalitions as they respond to the prevailing domestic and international constraints and opportunities. This study examines the historical development of those development strategies and analyzes the interrelationship between those choices and the resulting industrial patterns.

The main argument presented here is that the greater the discrepancy between the ruling structure and the development strategy of a ruling coalition the less successful will the results be in late industrialization. For example, the state-centered ruling coalitions in both countries pursued the common goal of capitalist, rapid, balanced, and localized automobile industrialization through the creation of *national champions*. Both countries were confronted with the common problem of a scarcity in capital and technology that were necessary to built such auto firms.

However, the pragmatic ruling coalition in Korea, which developed effective institutional networks between the state and the industrialists, tended to maintain greater cohesion in policy-making and implementation to exploit the "advantages of late-comers" than the populist ruling coalition in Mexico, which manifested an uneasy relationship between the populist state and the private sector. Poor policy coordination and intra-coalitional struggles between the state and the industrialists contributed to the denationalization and low competitiveness of the Mexican automobile industry in the early stage of automobile industrialization.

This study also discusses the effects of the increasing challenges from anti-ruling coalition forces, "timing effects" in the stages of industrialization, and the implication of the results of this study on the relationship

among capitalist development, industrialization, and democratization in Third World countries.

Chapter I. Introduction

1. Research Problem

The causes of different development strategies and industrial patterns have been one of the major issues examined in recent development studies.[1] For example, not only in Third World countries in general, but also in the so-called New Industrializing Countries (NICs) that have achieved remarkable and relatively similar industrialization during the 1960s and the 1970s,[2] there are different paths of industrialization. Besides the popular comparison between import-substitution and export promotion strategies, there is a wide range of patterns of income distribution,

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1. Stephan Haggard, "The Newly Industrializing Countries in the International System," *World Politics* 38 (January 1986): 343-370. Peter Evans and John D. Stephens, "Studying Development Since the Sixties: The Emergence of a New Comparative Political Economy," *Theory and Society* 17 (1988/89): 713-745.
2. Usually including South Korea, Taiwan, Hong Kong, Singapore, Brazil and Mexico, NICs accounted for 62 percent of Third World manufactured exports in 1975. The first five achieved annual growth rates of GDP (at constant prices) of between 8 and 11 percent over the period 1965-85; their yearly increases in manufactured exports vary between 20 and 40 percent. This industrial expansion increased manufacturing employment in that period by between 4 and 8 percent yearly and produced real wage increases. S. Lall, "Exports of Manufacturers by Newly Industrializing Countries: A Survey of Recent Trends," *Economic and Political Weekly* 6 and 13 (December 1980); Hubert Schmitz, "Industrialization Strategies in Less Developed Countries: Some Lessons of Historical Experience," *Journal of Development Studies* 21 (October 1984), 8-9.

employment, foreign direct investment, public and private sectors, trade structure, and governmental policies that also need to be examined. A comparison of the industrial patterns between different regions, particularly emphasizing the importance of sectoral studies, has begun to draw a great deal of scholarly attention.[3]

The comparison of automobile industrialization in South Korea[4] and Mexico is a meaningful issue in the study of late industrialization because both countries have shown markedly different patterns of development in the industry even though they began their automobile manufacturing in a

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3. For example, Manfred Bienfeld and Martin Godfrey, eds., *The Struggle for Development: National Strategies in an International Context* (New York: John Wiley and Sons, 1982). Sylvia Ann Hewlett & Richard S. Weinert, eds., *Brazil and Mexico: Patterns in Late Development* (Philadelphia: ISHI, 1982). Bela Balassa, ed., *Development Strategies in Semi-industrial Economies* (Baltimore: The Johns Hopkins University Press, 1982). Stephan Haggard, "Pathways from the Periphery: The Newly Industrializing Countries in the International System," *Unpublished Ph.D. dissertation*, University of California, Berkeley, 1983. J.G. Ruggie, *The Antinomies of Interdependence: National Welfare and the International Division of Labor* (New York: Columbia University Press, 1983). David B. Yoffie, *Power and Protectionism: Strategies of the Newly Industrializing Countries* (New York: Columbia University Press, 1983). Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987). Peter L. Berger and Hsin-Huang Michael Hsiao, eds., *In Search of an East Asian Development Model* (New Brunswick: Transaction Books, 1988).
4. South Korea or Korea in this study means the Republic of Korea. With a few exceptions, this study follows the official romanization system of the Korean language and the customary rule of presenting Asian names with the surname first except in the footnotes.

similar period, pursued a similar goal, and confronted a similar international environment.[5]

The early efforts towards automobile manufacturing[6] in both countries were initiated in the 1960s, even though the introduction of automobile assembling occurred earlier in Mexico than in Korea. Since the 1960s, both countries have pursued the common goal of rapid, balanced, and national automobile industrialization under their respective capitalist-type economies. The practical aim in both cases was the creation of *national champions*,[7] similar to what Western countries and Japan had accomplished in previous decades. Both countries were confronted with the common problem of a scarcity in capital and technology necessary to build local, competitive auto firms. However, Mexico's automobile industry has been gradually denationalized and become less competitive, while Korea has developed competitive local auto firms.

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5. This issue will be discussed more fully in Chapters II and III.
6. "Automobile" or "auto" usually means passenger cars, while "motor vehicles" include all types of motor-driven vehicles such as passenger cars, buses, trucks, motorcycles, and special vehicles. Considering the absolute portion of passenger cars in the motor vehicle industry, the automobile industry in this study corresponds with the motor vehicle industry.
7. "National champions" in this study mean local auto manufacturers which achieve considerable economies of scale and international competitiveness. See Douglas C. Bennett and Kenneth E. Sharpe, *Transnational Corporations Versus the State: The Political Economy of the Mexican Auto Industry* (Princeton: Princeton University Press, 1985), 267.

The existence of the Korean case poses a really vexing problem for dependency theorists who have focused on Latin American cases.[8] There are two major theoretical responses by dependency theorists to the Korean case.[9] Rhys Jenkins argues that the Korean case is too exceptional to deserve his attention in the general pattern of Third World industrialization.[10] According to his explanation, the

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8. For example, Rich Kronish and Kenneth S. Mericle, eds., *The Political Economy of the Latin American Motor Vehicle Industry* (Cambridge: The MIT Press, 1984); Douglas C. Bennett and Kenneth E. Sharpe, *Transnational Corporations Versus the State: The Political Economy of the Mexican Auto Industry* (Princeton: Princeton University Press, 1985); John Humphrey, *Capitalist Control and Workers' Struggle in the Brazilian Auto Industry* (Princeton: Princeton University Press, 1982); Rhys Jenkins, *Transnational Corporations and the Latin American Automobile Industry* (Pittsburgh: University of Pittsburgh Press, 1987); Jenkins, *Dependent Industrialization in Latin America* (New York: Praeger, 1977); Rhys Jenkins, "Internationalization of Capital and the Semi-Industrialized Countries: The Case of the Motor Industry," *Review of Radical Political Economics* 17 (Spring & Summer 1985): 59-82; Ian Roxborough, *Unions and Politics in Mexico: The Case of the Automobile Industry* (Cambridge: Cambridge University Press, 1984).
9. In fact, there is one more response to the case: that from Korean leftists. Korean leftists regard their own case as an orthodox case of dependency, in spite of various empirical problems. For example, see Christian Institute for the Study of Justice and Development, *Han'gugeui sanyobhwawa dagugjeoggiyeob* (Industrialization and Transnational Corporations in Korea) (Seoul: CISJD, 1981), 65-73. Sang Sook Shin, "Han'gug jadongcha sanyeobeui jabonchugjeog syeonggyeg byeonhwae gwanhan yeon'gu (A Study on the Changing Pattern of Capital Accumulation in the Korean Automobile Industry)," *Unpublished M.A. Thesis*, Seoul National University, Department of Sociology, 1988.
10. Jenkins, "Internationalization of Capital and the Semi-Industrialized Countries: The Case of the Motor Industry," 64.

automobile policies in Third World countries are usually subjected to the overwhelming power of multinational corporations; thus, they cannot be considered as markedly different in substance.

In contrast, Douglas C. Bennett and Kenneth E. Sharpe regard the comparison between the Korean case and the Mexican case as a susbstantive one. According to their study, the making of national champions through industrial concentration can become a given goal of automobile industrialization among latecomers as well as among front runners. Bennett and Sharpe acknowledge that some East Asian countries such as Japan and Korea successfully established national champions while Mexico failed to do so.[11] However, they do not provide any explanation for why the differences in the patterns of automobile industrialization between Mexico and South Korea occurred.

This study employs the ruling coalition approach to explain the differences in the patterns of automobile industrialization between South Korea and Mexico. The automobile industry's policies in Mexico and South Korea

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11. Douglas C. Bennett and Kenneth E. Sharpe, *Transnational Corporations Versus the State: The Political Economy of the Mexican Auto Industry* (New Jersey: Princeton University Press, 1985), 101, 267-268. The term "failure" in the Mexican case should be understood in the context of the comparison with the Korean case. In fact, Mexico's automobile industry has exhibited a relatively high production technology, export promotion, and local content by the standards of Third World countries.

constitute strategic choices for development made by their respective ruling coalitions as they respond to the prevailing domestic and international constraints and opportunities. Applying ruling coalition analysis to the case of automobile industrialization, as a middle-range theory, this study examines the historical development of those strategic choices and analyzes the interrelationship between those choices and the resulting industrial patterns.

2. Discussion of Hypotheses

2.1. Automobile Industrialization as Development Strategy of Ruling Coalition

The ruling coalition analysis used here is borrowed from major exemplars of historical analysis (selected works by Albert O. Hirschman, Guillermo O'Donnell, Peter Gourevitch, Charles Noble, Thomas Ferguson and Frederic C. Deyo) that have applied ruling coalition analysis to various other topics.[12] A ruling coalition, as a historical

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12. Albert O. Hirschman, *Journeys Toward Progress* (New York: Norton, 1963); Guillermo O'Donnell, "State and Alliances in Argentina, 1956-1976," *Journal of Development Studies* 15 (October 1978): 3-33; Peter Gourevitch, *Politics in Hard Times* (Ithaca: Cornell University Press, 1986); Charles Noble, "Wilson's Choice: The Political Origins of the Modern American State," *Comparative Politics* 17 (April 1985): 313-336; Thomas Ferguson, "From Normalcy to New Deal," *International Organization* 38 (Winter 1984): 41-94; Frederic C. Deyo, "Coalitions, institutions, and linkage sequencing--toward a strategic capacity model of East Asian development," in *The Political Economy of*

alliance among dominant social actors, invariably encounters various structural conflicts such as intra-coalitional struggles and challenges from anti-ruling coalition forces.[13]

The outcome of political and economic conflicts in a specific time horizon determines who become members of the ruling coalition and how they are incorporated into a ruling coalition. For example, after the Mexican Revolution in 1910, Mexico's ruling coalition has evolved into a broad populist alliance among the state, business groups, the upper middle class, and labor leaders.[14] In contrast,

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the New Asian Industrialism, edited by F.C. Deyo, 227-247 (Ithaca: Cornell University Press, 1987). The other model can be called the rational choice model. The study of a governing coalition in a multiparty system has developed as a rational choice model of ruling coalition analysis, as exemplified in the works of W. Riker, W. Gamson, R. Axelrod, and B. Grofman. See Mark N. Franklin and Thomas T. Mackie, "Reassessing the Importance of Size and Ideology for the Formation of Governing Coalitions in Parliamentary Democracies," *American Journal of Political Science* 28 (November 1984): 671-692. If the formal party system reflects exactly the social forces, the historical model is identical to the rational choice model. As long as there are significant gaps between the actual social forces and the formal party system, however, the analytical direction of these two models also shows significant differences.

13. The concept of anti-ruling coalition, inferred from Charles Tilly's polity model, is the antithesis of ruling coalition and can be defined as an alliance of opposition groups and classes against the ruling coalition. Charles Tilly, *From Mobilization to Revolution* (Reading: Addison-Wesley, 1978), 53.

14. Major members of Mexico's ruling coalition will be discussed in Chapter V. On the "populist" nature of Mexico's ruling coalition, see Robert R. Kaufman, "Industrial Change and Authoritarian Rule in Latin America: A Concrete Review of the Bureaucratic-

since its independence in 1945, Korea's ruling coalition has evolved into a very exclusive and pragmatic alliance of the state and big businessmen with the support of a small portion of the upper middle class.[15]

As Eldon Kenworthy argues, "the units of analysis and developmental causation in the ruling coalition approach" are helpful for understanding the political economic behavior of major actors and the causal relationship between political variables and industrial patterns.[16] It provides meaningful causal explanations that some statist

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Authoritarian Model," in *The New Authoritarianism in Latin America*, edited by David Collier (Princeton: Princeton University Press, 1979), 250; Nora Hamilton, *The Limits of State Autonomy* (Princeton: Princeton University Press, 1982), 137-139; James D. Cockcroft, *Mexico* (New York: Monthly Review Press, 1983), 139-141.

15. Major members of Korea's ruling coalition will be discussed in Chapter IV. On the "pragmatic" nature of Korea's ruling coalition, see Nigel Harris, *The End of the Third World* (New York: Penguin Books, 1986), 44; Yung Whee Rhee, Bruce Ross-Larson, and Garry Pursell, *Korea's Competitive Edge: Managing the Entry into World Markets* (Baltimore: The Johns Hopkins University Press, 1984), 5.

16. According to Eldon Kenworthy's view, the ruling coalition analysis is particularly appropriate to explain the complexities in the politics of industrialization in Latin America, because the analysis correctly emphasizes "in whose existing interests is a particular change, who are their likely allies and enemies, and what resources they have to bring this change about" rather than what has to happen. Eldon Kenworthy, "Coalitions in The Political Development in Latin America," in *The Study of Coalition Behavior: Theoretical Perspectives And Cases From Four Continents*, edited by Sven Groennings, E.W. Kelley and Michael Leiserson (New York: Holt, Rinehart and Winston, 1970), 108.

explanations often miss.[17] In fact, the governments of Mexico and Korea have developed various interventionist measures in order to achieve the rapid and stable growth of an independent automobile industry through the establishment of local ownership and economies of scale.

But caution must be exercised in relating "government policies" to particular patterns of an industry. First, government policies frequently fail. According to the discussion of *policy failures*, governmental policies sometimes cannot be appropriately adopted in the form articulated by the proponents of those policies or the policies may have unsatisfactory effects even if they are adopted.[18] Various obstacles such as the lack of information, the shortage of personnel, scarce capital,

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17. For example, Mark Bennett, *Public Policy and Industrial Development: The Case of the Mexican Auto Parts Industry* (Boulder: Westview Press, 1986); Chul Heui Lee, *Han'gugeui jadongchagong'yeob* (Korean Motor Industry) (Seoul: KDI, 1980); Chuk Kyo Kim and Chul Heui Lee, "Ancillary Firm Development in the Korean Automobile Industry," in *The Motor Vehicle Industry in Asia: A Study of Ancillary Firm Development*, edited by Konosuke Odaka, 286-324 (Singapore: Singapore University Press, 1983); Yeong Bong Kim, *Jadongcha gong'yeob'eui baljeon banghyang'gwa jeongchaeg* (Policy Orientation of Korean Automobile Industry Development) (Seoul: KDI, 1981).
18. The issue of "policy failure" has been studied in the literature of public administration. See George C. Edwards, III, and Ira Sharkansky, *The Policy Predicament: Making and Implementing Public Policy* (San Francisco: W.H. Freeman and Co., 1978); Helen M. Ingram and Dean E. Mann, eds., *Why Policies Succeed or Fail* (Beverly Hills: Sage, 1980).

internal and external political pressures, and even corruption contribute to frequent *policy failures*.

Second, corporate strategies have been as important as government policies in the automobile industrialization of both countries. As long as these two countries choose the capitalist path of industrialization, the private sector will constantly be created, supported, and positioned at the center of industrialization efforts. In both countries, the state and major corporations are the two major members of the ruling coalitions. Government policies are sometimes the result of coalitional consensus or, sometimes, the beginning of coalitional bargain at the initiative of the state.[19] Richard Samuel's concept of "reciprocal consent," therefore, seems to be a more useful concept for analyzing the political economic reality than "state capitalism" or "bureaucratic dominance," not only in the Japanese case but also in the Mexican and Korean cases.[20]

Third, the demands and strategies of workers can also play an important role in the process of automobile

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19. Thus, even some statists like Stephan Haggard and Tun-jen Chen consider "dominant coalition" as one of the major political factors for governmental policy choices. Stephan Haggard and Tun-jen Cheng, "State and foreign capital in the East Asian NICs," in *The Political Economy of the New Asian Industrialism*, edited by F.C. Deyo (Ithaca: Cornell University Press, 1987), 102.
20. Richard J. Samuels, *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective* (Ithaca: Cornell University Press, 1987), x.

industrialization. As Rhys Jenkins points out, automobile production is not simply a technical process but also a social process.[21] Auto workers have struggled to achieve better wages and working conditions, while the state and entrepreneurs have tried to control the work force to serve their purposes.[22] Labor disputes waged by auto workers within auto plants often expand into political as well as economic crises that confront a regime when auto workers join the anti-ruling coalition forces with the aim of becoming more influential in the overall process of late industrialization.

The concept of "development strategy" should be clarified here as a collective choice of the ruling coalition for economic development, which includes governmental and corporate policies.[23] Development

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21. Jenkins, *Transnational Corporations and The Latin American Automobile Industry*, 8.
22. Apparently, there are significant sectoral differences in the extent of labor control and workers' demands. For classics on that topic, see Robert Blaunder, *Alienation and Freedom: The Factory Worker and His Industry* (Chicago: The University of Chicago Press, 1964); Paul Thompson, *The Nature of Work* (London: Macmillan, 1983).
23. As discussed earlier, development strategy as government policies is too narrow to explain the whole process of late industrialization. However, neoclassical economists prefer the term. For example, Bela Balassa defines the term as "governmental measures that affect the allocation of resources among economic activities and their orientation between foreign and domestic markets." See his "Incentive Measures: Concepts and Estimation," in *Development Strategies in Semi-industrial Economies*, edited by Bela Balassa

strategies are the outcome of conflicts, and in return influence the structure of the ruling coalitions.[24] This term is, as Timothy King suggests, not only an analytical concept but also an approach for economic development in itself.[25] For example, for Albert O. Hirschman, development strategy as public decision-making is not an automatic by-product of economic processes which are decided by the classic inputs of capital, labor and natural resources.[26] Development strategy not only is a product of complicated social dynamics including market functions and decision-makers' passions, but also plays an important role at all stages of the ensuing development process through various mechanisms.

When the ruling coalition begins automobile industrialization, its development strategy includes specific contents which are determined by various factors such as the nature of the industry and the historical structure of the ruling coalition. Thus, both South Korea and Mexico embraced the path of capitalist development, which means that the private sector is encouraged and allowed to play an important role in the process of

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(Baltimore: The Johns Hopkins University Press, 1982), 9.

24. Gourevitch, "The Second Image Reversed," 905.
25. Timothy King, "Development Strategy and Investment Criteria: Complementary or Competitive?" *Quarterly Journal of Economics* 80 (February 1966), 110.
26. Albert O. Hirschman, *Journeys Toward Progress* (New York: Norton, 1963, 1973), 4.

industrialization. In addition, local ownership and economies of scale are the common goals of the two countries' automobile policies in their efforts toward the establishment of *national champions*.[27]

However, the establishment of national champions cannot be achieved without entailing preferential and discriminating measures affecting the domestic and foreign candidates for the industry. These preferential and discriminating policies are major sources of intra-coalition conflicts.[28] Labor control becomes a major issue, because the latent power of the auto workers becomes stronger as the proportion of the automobile industry increases in the national economy.[29] Excessive repressive measures without labor reforms can lead labor to defect or join the ranks of the opposition, thereby fostering an increase in the forces of the anti-ruling coalition.[30] The increasing forces of

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27. The former is predetermined by the nationalism of the ruling coalitions, although this goal is in conflict with the need for foreign capital. The latter is required as an economic prerequisite for the efficient and rapid growth of such a capital-intensive industry in a country that has a small and underdeveloped domestic market.
28. Bennett and Sharpe, "Agenda Setting and Bargaining Power: the Mexican State Versus Transnational Automobile Corporations," 86.
29. Cf. Kyuhan Bae, *Automobile Workers in Korea*; Middlebrook, "International Implications of Labor Change."
30. Even authoritarian ruling coalitions have to make the "preemptive" reform measures against the demands of the anti-ruling coalition. For the "preemptive" measures of the Mexican state towards the automobile workers, see Roxborough, "Labor in the Mexican Motor Vehicle Industry," and see Kenneth M. Coleman and Charles L.

the anti-ruling coalition have led to serious attacks against the stability of the industry and, ultimately, the ruling coalition itself.

Even though the general possibility of structural conflicts arising from automobile industrialization always exists, the structural dilemma in a certain ruling coalition can contribute to amplifying the extent of these conflicts. Since the Mexican Revolution, the so-called "populist dilemma" of Mexico exemplifies such a historical tension between the Mexican populist ruling structure and its capitalist development strategy.[31] The historically sustained conflict between the political legitimacy inherited from the populist Mexican Revolution and the increasing power of the capitalists through capitalist development has attenuated the state's capacity to

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Davis, "Preemptive Reform and the Mexican Working Class," *Latin American Research Review* 18 (1983): 3-32. For a discussion of "labor aristocracy," see J.M. Barbalet, "The "Labor Aristocracy" in Contest," *Science & Society* 51 (Summer 1987): 133-153. For an example of major "preemptive reform" in Mexico, observe the case of Bank Nationalization in 1982. See Hamilton, "State-Class Alliances and Conflicts," 158-165.

31. This theme is a very old and popular theme in the literature of Mexico's development since Raymond Vernon suggested it in *The Dilemma of Mexico's Development*. See Raymond Vernon, *The Dilemma of Mexico's Development* (Cambridge: Harvard University Press, 1965). Also, see Roger D. Hansen's critique of Vernon's thesis. Roger D. Hansen, *The Politics of Mexican Development* (Baltimore: The Johns Hopkins University Press, 1971), 218-221. From a leftist perspective regarding the same problem, see Nora Hamilton, *The Limits of State Autonomy* (Princeton: Princeton University Press, 1982).

simultaneously maintain high economic growth and political stability.[32]

Therefore, chronic intra-coalition struggles and the recent strong challenges from the opposition forces in Mexico derive from Mexico's populist ruling structure. These factors together might force a ruling coalition not only to dilute the goals of its development strategies but also to impede the implementation of those strategies. As a result, there will be more derangements and confusion in development strategies if there are deeper structural conflicts.[33]

2.2. Stages of Automobile Industrialization

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32. This does not mean that Korea's ruling coalition is free of structural problems. The problems in such a highly polarized and exclusive regime as Park's and Chun's military dictatorships are aptly captured by Robert A. Dahl's phrase, "a self-fulfilling prophecy of destruction in a hegemonic regime." As long as the Korean military coalition suppresses political opposition, its political base will grow narrower and the anti-ruling coalition forces will increase. Robert A. Dahl, ed., *Regimes and Oppositions* (New Haven: Yale University Press, 1973), 13.
33. The Riker/Gamson proposition that a ruling coalition should be as small as possible might be partially helpful understanding the causal relationship between the extent of conflicts and the structural differences in both countries. A rational choice model of the ruling coalition analysis has been developed in this tradition of the Riker/Gamson model. William H. Riker, The Theory of Political Coalitions (New Haven: Yale University Press, 1962); William A. Gamson, "A Theory of Coalition Formation," American Sociological Review 26 (June 1961): 373-382; Franklin and Mackie, "Reassessing the Importance of Size and Ideology for the Formation of Governing Coalitions in Parliamentary Democracies."

The Gerschenkronian "timing factor" has been used to understand the process of late industrialization in recent development literature.[34] Vernon's product cycle theory is particularly useful for understanding the historical dynamics of automobile industrialization among latecomers.[35] According to Vernon's product cycle theory, the automobile industry is introduced into Mexico and South Korea during the standardized stage. This argument relates significantly to late industrialization because it implies the general possibility of Veblen's "advantages of late-coming" in the standardization phase by which latecomers could exploit the standardized technologies, experiences and trade regimes of the front runners.[36]

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34. For example, James Kurth has developed the Gerschenkronian logic into a hypothesis that major industrial stages are related with certain kinds of regime types. James R. Kurth, "The political consequences of the product cycle: industrial history and political outcomes," *International Organization* 33 (Winter 1979), 1-34. For the bureaucratic-authoritarianism thesis in the cases of Mexico and Korea, see José Serra, "Three Mistaken Theses Regarding the Connection between Industrialization and Authoritarian Regimes," in *The New Authoritarianism in Latin America*, edited by David Collier, 99-164 (Princeton: Princeton University Press, 1979); Hyug Baeg Im, "The Rise of Bureaucratic Authoritarianism in South Korea," *World Politics* 39 (January 1987): 256-257.
35. Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* 80 (May 1966): 190-207; *Sovereignty at Bay* (New York: Basic Books, 1971).
36. Thorstein Veblen, *Imperial Germany and the Industrial Revolution* (New York: Macmillan, 1915); Robert Gilpin,

However, the mechanistic life cycle of a product does not explain the different development strategies and industrial patterns in NICs. In reality, according to the World Bank's criteria, there are over fifty middle-income Third World countries that can be candidates for being new automobile producers but only a few of them have developed automobile industries.[37] This study therefore focuses upon only two comparable stages in the process of automobile industrialization in Mexico and South Korea: (a) the stage of introduction and (b) the stage of consolidation.

In the first stage, a ruling coalition introduces the automobile industry into a society by setting the goals for the automobile industry, encouraging local auto firms, changing the structure of the domestic market, and drawing capital from various domestic and foreign sources. Market structure, domestic ownership, and import of technology are important issues in this stage. This stage corresponds to the early 1950s-1969 in Mexico, and to the period of 1962-1973 in South Korea. Particular attention is given to shifts in the strategy of the ruling coalitions in the stage of introduction such as those related to the disputes between Hyundai and Ford in Korea and Automex and Ford in

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U.S. Power and the Multinational Corporation (New York: Basic Books, 1975), 57.

37. World Bank, *World Development Report 1987* (New York: Oxford University Press, 1987).

Mexico, because these are two crucial events in the process of *national champion* formation.

The stage of consolidation follows the first stage. In this stage, the rising emphasis upon export promotion as well as import substitution is inevitable because of the scale economies and balance-of-payment problems accruing in small domestic markets. A ruling coalition tends to consolidate the existing structure of the industry, intensify the competitiveness of the local auto firms in the international market, promulgate various measures to correct the balance-of-payments, and increase its control over the increasing demands and size of the labor force--a major source of comparative advantage. Therefore, the issue of labor control encompasses all issues of the automobile industry in this stage. Interestingly, both cases have their own particular cases of epoch-making labor disputes, e.g., the 1984 Daewoo Strike in Korea and the 1980 GM Strike in Mexico. The study will give particular attention to these cases of labor disputes.

This study emphasizes the importance of the introductory stage because the results of this stage produces a strong feedback effect upon the structure of the market and of the ruling coalition in the next stage. As discussed above, there were few vested interests in the stage of introduction. If the structure of the market, the technological level, and ownership are settled in the

first stage, however, the ruling coalition tends to accommodate itself to the new circumstances rather than risk the high cost of structural changes.

2.3. Summary

The causality between the ruling structure and the patterns of automobile industrialization is set out below in the form of hypotheses. The principal hypothesis is that the greater the discrepancy between the ruling structure and the development strategy of a ruling coalition, the less successful will be the results of late industrialization. Specifically, it is hypothesized that,

I: There will be greater structural discrepancy between the ruling structure and the development strategy in a populist ruling coalition than in a pragmatic ruling coalition, if the two ruling coalitions commonly pursue capitalist development. Therefore, the structural discrepancy will be observed more clearly in Mexico than in Korea.

II: The greater the structural discrepancy between the ruling structure and the development strategy, the more likely will be the failure of the ruling coalition's development strategy. Therefore, the failure of the ruling coalition's development strategy for automobile industrialization will be more pronounced in Mexico than in Korea.

III: The issue of structural conflicts changes according to the stages of industrialization. In the stage of introduction, the issue of capital formation dominates the conflicts and negotiations among major actors. In the stage of consolidation, labor control emerges as an important issue, while the issue of capital formation becomes latent.

These hypotheses have their counterpart null hypotheses. For example, a counter hypothesis of hypothesis I is that there are no discernible differences in the structural discrepancy between Mexico's populist ruling coalition and Korea's pragmatic ruling coalition, or more structural discrepancy in Korea than in Mexico. More to the point, whether empirical findings would support the logic of the dependency perspective--emphasizing the overwhelming influence of the multinational corporations on the different patterns of automobile industrialization in Mexico and Korea--or not will be one of the major concerns of this study.

3. Method and Data

This study has three interrelated steps for testing the above hypotheses. The first step involves the organization or reorganization of the cases through a literature survey. In order to organize or reorganize the two cases, a balanced and in-depth literature survey is undertaken. However, there are some differences in the literature survey regarding each case. There are only a few studies concerning the case of Korean automobile industrialization. Therefore, a great deal of primary sources such as government policy guidelines, memorandums and documents of

corporate officials, newspaper articles, and the reports of labor unions are examined and adopted in order to organize the case. Hyundai's corporate history is particularly helpful for organizing the Korean case because this voluminous book not only includes a comprehensive and detailed history of Hyundai's automobile manufacturing but also provides data on the major events in Korean automobile industrialization.[38]

In contrast, there are some excellent studies about the Mexican case. For example, Douglas C. Bennett and Kenneth E. Sharpe's study includes various materials and interviews relating to the failure to establish national champions in Mexico's automobile industry, and Ian Roxborough's study also provides comprehensive information about the automobile workers' movements in Mexico.[39] These prior studies contribute to the organization of many parts of the Mexican case. Recently, however, new evidence contained in primary sources from the Mexican government, auto firms, business organizations, and labor unions has become available that contradict those studies. This study utilizes the new data in order to reorganize the Mexican case.

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38. Hyundai Motor Corporation, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC) (Seoul: HMC, 1987). According to the author's experience, Hyundai's study is more reliable than the various governmental organizations' interpretations of the automobile industry such as the KDI's reports.
39. Bennett and Sharpe, *Transnational Corporations Versus the State*; Roxborough, *Unions and Politics in Mexico*.

As the second step, this study gathers a great deal of data from as many sources as possible: government institutions, corporations, labor unions, business organizations, international organizations, and individual researchers. These data are used as major indicators of the patterns of the automobile industry. Quantitative analysis of the basic correlation between those indicators, combined with an analysis of the general contour of the national economies, are supplemented where necessary.

In actuality, however, the data regarding production, labor, trade, and technology in the Third World countries are notorious for their distortion due to political and technical reasons, even if published by "public" organizations. For example, Francisco Zapata warns that Mexican official statistics on labor must be used with extreme caution because it was irregularly recorded, represented only the "legal" events, and subjected to different (federal and local) jurisdictions.[40] In any case, the validity of the data must be tested against the historical context of the case. As James W. Wilkie argues, data presented in time-series might provide a meaningful historical context for testing data in a particular year.[41]

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40. Francisco Zapata, "Afiliación y organización sindical en México," in *Tres Estudios sobre el Movimiento Obrero en México* (México, D.F.: El Colegio de México, 1976), 97; also, see Roxborough, *Unions and Politics in Mexico*, 28-29.
41. James W. Wilkie, *Statistics and National Policy* (Los Angeles: UCLA Latin American Center, 1974), 3-8.

For example, some illogical patterns of time-series data in particular years relating to Mexico's recent export data elicited the researcher's caution.[42]

The final step involves interviews that have been conducted in several field trips. Interviews are useful for locating additional information that is necessary but missed in the existing literature. Because of the relative lack of existing materials regarding the Korean case, I have allocated more time for interviews on the Korean part of the study that I conducted in the summer of 1987 and the fall of 1988. A similar field research was conducted in Mexico in the spring of 1989. This study includes approximately 50 interview sessions with more than 30 persons in each country. Because those visits were short and the interviews were focused on particular missing links of the research, the list of interviewees is not necessarily long. Moreover, there is no formal interview questionnaire because the interviews were very informally organized and open-ended in order to obtain more candid and intimate information.[43]

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42. There is one more problem in data management: comparability. In some cases, it was very difficult to get comparable--or, theoretically equivalent--data for the cases being investigated. The historical context of the overall automobile industrialization in both countries, at least, will help us to test the comparability of the given data.

43. I would like to extend my appreciation to particular individuals such as Choi Joo Wan (Daewoo), Kim Deok Joong (Daewoo), Gwon Gi Hyun (Ministry of Commerce and Industry), Lee Jong Yon (Hyundai), and Shin Hyun Dong (Hyundai) in the case of Korea; Gabriel Fernández Sayago (VAM), Javier Aguilar García (UNAM), Armando

This study consists of two parts. The first part includes Chapter I on the scope and method of this study, Chapter II on the opportunities and constraints of the international automobile regime for latecomers, and Chapter III on the major pattern variables and governmental policies of automobile industrialization in Mexico and South Korea. The second part includes Chapter IV and V on South Korea's automobile industrialization, Chapter VI and VII on Mexico's automobile industrialization, and Chapter VIII on a comparison between the two cases.

Rodriguez Zarate (SPP), and Alonso Ibañez y Duran (Industria Nacional de Autopartes) in the case of Mexico.

Chapter II: The Structure of World Automobile Industry and Late Industrialization

1. The Development of World Automobile Industry

The motor vehicle industry has played a key role in capitalist development for most of the twentieth century. It was the leading sector in the United States in the inter-war years, played the same role in Western Europe and Japan in the fifties and the sixties, and served as a crucial barometer of economic progress in Third World countries in the sixties and the seventies.[1]

The development of the motor industry not only involves the production of original equipment for motor vehicles but also contributes to the increasing demand for the products of a number of other industries such as iron and steel, aluminium, rubber, plastic and glass. It has led to the growth of a vast distribution and servicing network, while the increasing use of motor vehicles contributes to the expansion of the oil industry. Because of these deep backward and forward industrial linkages, K. Bhaskar estimated that there might have been as many as 135 million people worldwide whose jobs depended on the motor industry in the late 1970s.[2]

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1. Jenkins, *Transnational Corporations and The Latin American Automobile Industry*, 1.
2. K. Bhaskar, *The Future of the World Motor Industry* (London: Kogan Page, 1980), 6.

In addition to the economic effects, the development of vehicle production has meant radical changes in life-styles in the twentieth century. Geographical distances can be covered much more rapidly and at the individual's own convenience. It has led to substantial changes in urban patterns in the advanced capitalist countries as proximity to the workplace became a far less crucial factor. The rapid growth of road transport by cars, buses and trucks rendered production locations much more flexible than in the earlier period of railroad transportation. However, there have also been negative consequences such as increasing air pollution and traffic problems.

The automobile industry has also been a major economic sector in which many new labor processes and strategies of labor control have been developed.[3] As a subsystem within a national socio-political system, labor control in the industry constitutes a major part of the larger system of social control and provides a significant guide to understanding how a regime has managed its socio-political system and, specifically, its continuing struggles between businessmen and laborers.[4]

American Fordism, which is an expression associated with the conveyor belt and the "five-dollar-a-day" in

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3. Jenkins, *Transnational Corporations and the Latin American Automobile Industry*, 3.
4. Cf. Wilbert E. Moore, *Industrial Relations and The Social Order* (New York: Macmillan, 1951),

automobile factories, has become a major issue in the studies of labor process.[5] By comparison, Japanese auto firms use the "Just-in-Time" management system to increase their productivity. The rapid growth of the Japanese motor industry in the sixties and seventies accompanied by its relatively higher productivity than its Western counterparts have forced its competitors to follow its management system. Along with managerial efforts to secure profits, workers' movements in the industry have also acquired a reputation for militancy. In Argentina and Brazil, in particular, the militant working class plays a significant role not only in the industry but also in the national political process.[6]

Not surprisingly, in view of the role played by the motor industry in the overall industries, many latecomers in the Third World assigned it high priority in their industrialization after World War II, especially Latin America's NICs. In Brazil and Argentina, the industry accounted for about 12 percent and 8 percent, respectively, of the value added of the manufacturing sector in the seventies.[7] In Mexico, Taiwan, and Venezuela, the corresponding figure was

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5. See "from Bloody Taylorism to Peripheral Fordism" in South Korea, Alan Lipietz, "Imperialism or the Beast of the Apocalypse," *Capital and Class* 22 (Spring 1984), 102: *Mirages and Miracles*, trans. by David Macey (London: Verso, 1987), 131-187.
6. John Humphrey, *Capitalist Control and Workers' Struggle in the Brazilian Auto Industry* (Princeton: Princeton University Press, 1982).
7. Jenkins, *Transnational Corporations and the Latin American Automobile Industry*, 3.

around 6 per cent while it was 5 percent or less in the other developing countries with assembly operations.[8]

However, more than any other sector, it came to exemplify the constraints and opportunities of late-industrialization strategies. The world motor industry is dominated by a few multinational corporations that have previously exported to the less developed regions and now have extensive overseas subsidiaries. In general, these subsidiaries produce high-cost vehicles in small, inefficient plants whose output go to meet only the demand of a narrow upper income group.

There are numerous constraints in the international automobile market to the entry of new independent automobile corporations from Third World countries: the saturation of the domestic market in major producing countries, increasing competition, massive capital requirements for the development of new models, increasing automation, and intensive competition among latecomers to attract new capital investment through MNCs. Because of those constraints, it is very hard for the independent automobile corporations in developing countries to compete with the gigantic transnational corporations in the domestic and international markets. Those constraints for latecomers, however, are nothing new in the history of automobile

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8. Cf. Korea Institute for Economics and Technology (KIET), (Korean), *Problems and Solutions of Automobile Industry* (Seoul: KIET, 1987), 22-23.

industrialization. Many other front-runners have had to overcome their own constraints and solve their structural problems with their own means. There are different sets of problems for latecomers in different historical stages. Thus, it is necessary to briefly review the history of the world automobile industry in terms of how some successful latecomers have overcome their constraints and emerged as major competitors in the world market.

American auto industry as the first runner: The automobile industry was born in Germany and France in the mid-1880s.[9] The early models of cars were not designed as an industrial product for the masses but for the pleasure and amusement of the privileged class in those societies. Cars in that era were luxurious, large, heavy, elegant, and finely crafted. Because cars could serve military uses in the event of war, the European governments offered some incentives to the car-makers and consumers. By 1906, the French and German producers accounted for 58 percent of worldwide production and clearly were the leaders in high performance products.

In 1908, it was evident then that the American late-coming producers were less effective in producing elegant cars than their European counterparts. However, Henry Ford

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9. For the review of forerunners, see Alan Altshuler, et. al., *The Future of the Automobile* (Cambridge: The MIT Press, 1984), 14-45.

and his associates succeeded in combining the manufacturing idea of Ransom Olds and many others into a new production concept--an assembly line. This new technique of production was a combination of the interchangeability of automobile parts, the division of manufacturing skills, the routinization of complex work and a revolutionary "five-dollar-a-day" wage system. With this new system of social organization and production machinery, Ford could introduce the Model T to the American market and produce up to 300,000 vehicles in 1914 and up to 1.9 million in 1923. Because World War I had completely destroyed the European car makers, Ford produced about 44 percent of the world's output of automobiles in the latter year.

In contrast to Ford's success on a single model, William Durant and Alfred Sloan developed a new frontier for the American automobile market through the execution of vertical integration, variety of models, and diversification.[10] They organized General Motors by merging 25 companies and offered five completely different cars by the mid-1920s. Alfred Sloan also developed a dealer network supported by a GM-financed credit system (General Motors Acceptance Corporation: GMAC) to promote the sale of GM cars. This strategy proved to be very successful in the American automobile market. General

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10. Raymond J. Ziegler, *Business Policies & Decision Making* (New York: Appleton-Century-Crofts, 1966), 82-89.

Motors' share in the market soon exceeded that of Ford. With the success of Ford and GM, however, American automobile producers assumed 84 percent or higher of world automobile production and captured 35 percent of the world automobile market outside the United States.[11]

European auto industry as the second runner: Although the European auto industry invented the passenger car, the European countries could not effectively develop their automobile industries. Their productivity was lower and their markets were smaller and more fragmented than their American counterpart. However, it is interesting to examine the reasons why American car makers could not eliminate their European rivals and instead had to concentrate on the American market.

First, the American automobile industry did not have any compelling reason to expand its overseas market because the American market itself was still expanding. The American west was being developed and new roads were in construction. Economic boom in the early 1920s led people to buy cars which soon became a necessary consumer good. The American automobile market grew from 1 million cars in 1915 to 5.3 million in 1929, while major European countries had yet to recover from World War I.[12]

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11. Altshuler, et al, *The Future of the Automobile*, 16.
12. Cf. MVMA, *World Motor Vehicle Data* (Detroit: MVMA, 1983).

Second, the export of cars to European countries from the United States was hampered by the primitive shipping systems of the early twentieth century. Altshuler, et al. summarize it as follows:

> "Transportation of fully assembled automobiles entailed high costs for crating and for repair of damage en route, compared with even low-volume final assembly near the points of sale. Thus, in the same way that General Motors and Ford established a large number of regional assembly plants in the United States by the mid 1920s, they also established regional assembly plants in many foreign countries. By 1929, Ford was assembling cars in 21 countries while General Motors had assembly plants in 16."[13]

Finally, the most critical reason for the failure of American auto firms to dominate the world auto market exclusively was the reaction of European governments to the so-called American challenge. As Table 1 shows, the automobile tariff policy of the U.S. and European countries in the early days of the industry was clearly designed to protect their car makers and improve the international competitiveness of their automobile makers. Before World War I, European governments permitted nearly free trade in cars, while the U.S. government enacted a high tariff barrier. After World War I, however, this trend was reversed when a broad consensus arose in European countries to protect and promote their automobile industries.

During the 1920s, tariffs on completed cars and finished parts rose steeply and, as a result, the domestic

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13. Altshuler, et al., *The Future of the Automobile*, 16.

markets of European countries were largely protected from American imports. Those who wished to sell in European markets, therefore, had to establish full-scale manufacturing in each market. Ford and General Motors followed this strategy of foreign direct investment by opening a new plant or purchasing an old plant in Europe.

Table 2-1: Tariffs on Passenger Cars in Selected Countries, 1913-1983 (expressed in percent of custom value)

Year	U.S.	Japan	France	Germany	Italy	U.K.	Korea	Mexico
1913	45	n.d.	9-4	3	4-6	0		
1924	25-50	n.d.	45-180	13	6-11	33.3		
1929	10	50	45	20	6-11	33.3		
1932	10	n.d.	45-70	25	18-123	33.3		
1937	10	70	47-74	40	101-111	33.3		
1950	10	40	35	35	35	33.3		
1960	8.5	35-40	30	13-16	31.5-40.5	30		
1968	5.5	30	0/17.6	0/17.6	0/17.6	17.6		
1973	3	6.4	0/10.9	0/10.9	0/10.9	10.9		
1978	3	0	0/10.9	0/10.9	0/10.9	0/10.9		
1983	2.8	0	0/10.5	0/10.5	0/10.5	10.5	80	embargo
1987	2.5	0	0/10	0/10	0/10	0/10	0-60	"

Notes: (-) means the range of tariff varied by type of vehicle or reciprocally with foreign tariffs.
(/) means European Community's discriminatory tariff against non-European Community countries.

Sources: compiled from Alan Altshuler, et al., The Future of the Automobile (Cambridge: MIT Press, 1984), 17; KAICA, Handbook, 12; various other sources.

Even the access to domestic markets through direct investment by Ford and General Motors, however, was denied or resisted by the French and Italian governments. As the Depression set in, this trend towards protection increased

within the European automobile industry and led to the segmentation of the entire European market. Although the European auto makers could soon thereafter produce as many good cars as their American counterparts with the help of American direct investment, no European automobile manufacturers could get enough scale economies to compete with Ford and GM.

The dilemma between scale economies and nationalization of the automobile industry in Europe was solved by the concept of a European Common Market and the development of a diversified small cars market. After World War II, with the help of U.S. hegemony, European countries began to develop the concept of a European Common Market by eliminating the tariff wall within the Market; it has since then evolved into the European Community. Tariffs fell dramatically within the Market between 1950 and the present as shown in Table 2-1. As a result, many diversified small car makers could enjoy economies of scale and balanced competition within the Market.

However, the diversity of the European auto industry rather than the development of the Market better explains why the European manufacturers quickly took advantage of the post-war international market, especially the U.S. market. The Europeans produced fashionable products to suit the different national market conditions, which varied according to consumers' income and taste, governmental regulations,

and geography. Various European manufacturers experimented with many different technical solutions to the different design requirements. Front-wheel-rear-drive (FR) designs competed with front-wheel-front-drive (FF) designs. Unit bodies vied with chassis-on-frame designs. Both diesel and gas engines were also available. While American producers had maintained their standardized design of a large, 6- or 8-cylinder, chassis-on-frame, FR, and gas-fueled engine, European manufacturers could sell their specialized products in all the markets of Europe. They could not only get adequate scale economies but also meet with rapidly diversifying demands in the world market. It was the European version of Sloanism on a larger scale.

After the mid-1950s, the European manufacturers successfully increased their share of the American market, while their American counterparts could not get even 1 percent of the European market in the postwar era. European car makers cultivated the small car market in the U.S. that had been ignored by major American producers. The European share of the American market grew substantially, reaching a peak of 10.5 percent of the market in 1970.[14] However, this growth of the European penetration into the American market was soon checked and balanced by the unionized American auto workers and governmental mediation. Due to rising European wages and the dollar devaluation of 1971,

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14. *Ibid.*, 25.

major European car makers put greater emphasis upon the diversified luxury market of sporty performance cars and captured almost all sales in the price class above $20,000. Despite the recent small decline in sales by the European car manufacturers in the U.S. market, this development in the international automobile industry has led to a more "rebalanced competition."[15]

Japanese auto industry as the third runner: The introduction of the automobile in Japan was begun by American auto firms. Ford and General Motors set up Japanese assembly plants in 1924 and 1927. Until 1936, the Japanese automobile industry clearly exemplified a model of dependent development based upon the American dominance of the world auto industry. However, in addressing the foreign domination over a major industry on the eve of World War II, the Japanese government promulgated The Law Regarding Automobile Manufacturing Enterprise in 1936 and prohibited the assembly operation of foreign companies.

After the defeat in World War II, the Japanese government and car makers hardly believed in the feasibility of developing an independent auto industry. By the end of American rule in 1952, however, they had decided to include the automobile sector in the list of "target" industries for

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15. *Ibid.*, 26.

postwar Japanese economic growth.[16] With this strategy, the Japanese automobile industry was favored with low-cost bank credit, preferential tax treatment, and careful protection of the domestic market. The prewar regulations prohibiting foreign ownership in the automobile industry were reaffirmed. In order to make Japanese firms strong enough to compete abroad, the emergence of two major manufacturing centers around Nissan and Toyota was encouraged after 1961. By the early 1970s, these two groups accounted for 70 percent of domestic and 90 percent of export sales.[17]

To build an indigenous industry in a late-coming country is not as easy as it is usually described in the recent literature.[18] The Japanese car makers had to struggle with each other to obtain scarce foreign currency to buy foreign designs and tools. Although their production was oriented to the domestic market until the mid-1970s, they had to produce the product with the minimal standard of quality. In addition, there were severe labor disputes at some plants.[19]

Before long, however, an organizational model of the Japanese industrial system proved to be effective in

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16. *Ibid.*, 30.
17. Bennett and Sharpe, *Transnational Corporations Versus the State*, 60.
18. For example, Herman Kahn, *The Emerging Japanese Superstate: Challenge and Response* (Englewood Cliffs: Prentice-Hall, 1970).
19. Altshuler, et al., *The Future of the Automobile*, 30.

manufacturing cars that are of a relatively high standard of quality and comfort for international competition. This new organizational model emphasized the form of company-based unions, lifetime employment, workers' participation in production, and a new manufacturing philosophy based on the concepts of "just-in-time" and "total quality." Furthermore, the Japanese automakers that belong to big industrial groups could enjoy vertical integration of industrial and financial services.[20] Together, these developments showed that Japanese auto firms not only could produce cars of good quality at a low price but also were flexible enough to respond to external shocks and protectionism.

The role of the government in the rapid development of the Japanese automobile industry seems to be circumstantial rather than direct, despite the conventional perception of the Japanese "super-state" or "developmental" state.[21] In the 1950s and 1960s the officials of the Ministry of International Trade and Industry argued that Japanese producers could penetrate into the world market being the producers of low-priced cars on the basis of high volume and

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20. Iwao Nakatani, "The Economic Role of Financial Corporate Grouping," in *The Economic Analysis of The Japanese Firm*, edited by Masahiko Aoki, 227-258, (Amsterdam: North-Holland, 1984). See Taizo Yakushiji, "The Goverment in a Spiral Dilemma: Dynamic Policy Interventions Vis-a-Vis Auto Firms, C.1900-C.1960," in *ibid.*, 265-310.
21. Herman Kahn, *The Emerging Japanese Superstate*; Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford: Stanford University Press, 1981).

low wages.[22] However, the Japanese efforts around 1960 to export low-priced cars were unsuccessful. Japan's export success came later through her highly productive system that produces high-volume output with high quality and low labor content starting in the late 1960s.

These concerted efforts by the Japanese auto firms and the bureaucrats have proved to be very effective in the rapidly changing conditions of the international automobile market. There were two major historically favorable elements that bolstered Japanese car makers in the world market. First, there was a growing sense of openness among major Western countries.[23] From the experience of the pre-World War II period, Western countries acknowledged that international protectionism could hurt each other. Thus, the rate of tariff for automobile trade in major Western countries began to decline when the Japanese auto industry entered into the world market. Most of all, the United States encouraged the development of the Japanese economy and opened her market to Japanese products in order to integrate Japan into the Western world economy and lessen the attraction of markets controlled by the Communist

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22. Altshuler, et al., *The Future of the Automobile*, 31.
23. See Ruggie's discussion of post-war liberalism, "International regimes, transactions, and change: embedded liberalism in the postwar economic order," in *International Regimes*, edited by Stephen D. Krasner (Ithaca: Cornell University Press, 1983), 195-232.

bloc.[24] Second, the oil crises in the 1970s shifted the pattern of demand to small economy cars in which the Japanese auto firms have shown their major strength. Through the Arab-Israeli War and the Iranian Revolution, OPEC seized the opportunity presented by the substantial reductions in supply and strong upward pressures on spot market prices to double or triple the price of crude oil. American auto makers' inability to produce smaller and more fuel-efficient cars provided an opportunity for the Japanese and European small car producers to penetrate into the huge American market.[25] By the late 1970s, Japanese auto makers had exported 5 million cars to various countries and Japan's total production of cars exceeded that of the U.S.

However, coupled with economic slumps and stagnation in major Western economies in the 1970s, the U.S. and European governments asked Japanese auto firms to restrain their aggressive exports to their markets and lead no dramatic re-location of auto production. After 1973, through a series of "voluntary" negotiations with Western countries, Japanese auto makers accepted responsibility for controling their exports to moderate levels. Rather than resist the pressures against Japanese export from Western Europe and the U.S., Japanese auto manufacturers pursued the same

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24. Gilpin, *U.S. Power and the Multinational Corporation*, 109-111.
25. National Research Council, *The Competitive Status of the U.S. Auto Industry* (Washington, D.C.: National Academy Press, 1982), 11-13.

alternative of adaptation as their American and European counterparts have pursued--an "upgrading" of their products and foreign direct investment. As a result, Japan's aggressive export drive of cars has been balanced at around 30 percent of the world car market, as Table 2-2 shows.

Table 2-2: World Motor Vehicle Production, 1900-1985
(percent of world total production)

Year	U.S.	Western Europe	Japan	Eastern Europe	Third World	Total (thousands)
1900	44.1	55.9				9.5
1905	39.8	60.2				62.8
1910	73.4	26.6				254.8
1915	95.6	4.4				1014.9
1920	93.5	6.5				2382.6
1925	87.0	13.0				4900.7
1930	81.4	17.8		0.2		4133.4
1935	77.3	20.4				5134.3
1940	91.3	8.7		1.1		4941.9
*1946	79.2	17.7	0.4	2.7		3913.4
1950	75.7	20.0	0.3	3.7	0.3	10579.2
1955	69.6	25.4	0.5	4.0	0.5	13221.7
1960	48.3	41.6	2.9	4.5	2.7	16382.9
1965	45.3	40.2	7.6	3.9	3.0	24567.9
1970	27.9	45.0	17.8	5.0	4.2	29707.7
1975	27.0	37.6	20.8	8.5	6.1	33322.4
1980	20.6	35.5	28.4	8.7	6.7	38837.5
1985	26.1	33.5	27.5	7.5	5.4	44686.6

Note: * 1946, instead of 1945 (the end of World War II).

Source: MVMA, World Motor Vehicle Data, various years; SMMT, The Motor Industry of Great Britain, various years.

As this brief historical review of the world automobile industry shows, there are some patterns of late-coming automobile industrialization in the world political economy. First, latecomers have met with both constraints and

opportunities in automobile industrialization and international competition. Although they are weaker in capital formation and technological capability vis-a-vis the forerunners, they can exploit the ever-changing pattern of market demand with their rapid adaptation of low-wage labor, new technology, or organizations.

Second, the most basic issues for late industrialization relate to (a) who will control capital and technology and (b) how to attain a minimum economies of scale. The European and Japanese governments have consistently supported the domestic ownership of auto firms and the domestic control over technology. They have also helped their local firms to expand their markets not only within their borders but overseas. Economists argue that the motor industry needs a minimum production size of about 100,000 to 200,000 cars per year.[26] This minimum scale economy has been a major motive behind the European cooperation in the car market and the Japanese efforts to encourage two big companies: Toyota and Nissan.

Third, all successful auto firms have developed some managerial techniques to control or accommodate labor for their effective production. American and European car producers largely follow the route of Fordism. The Japanese manufacturers have developed a more dramatic form

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26. George Maxcy and Aubrey Silberston, *The Motor Industry* (London: George Allen & Unwin, 1959), 75-98.

of labor control called the "Kanban-Jidoka" system or worker-initiated quality control system.[27] These systems of labor control are significant because they cannot be separated from the general social control by ruling coalitions.

Fourth, there has been a clear limit upon the success of latecomers. In purely economic terms, the Western European and Japanese firms could challenge the U.S. hegemony over international automobile industry with their specific qualities: diversification and low wage in the European case, and high productivity and a historical contingency--the oil crisis--in the Japanese case. However, in each case, their challenges have ended in the governmental negotiation for "rebalanced competition."[28] The result of "rebalanced competition" is clearly reflected in Table 2 where the market shares of the U.S., Western Europe, and Japan in the world auto market have been balanced around 30% each for the 1980s.

Finally, the historical competition in the world automobile industry has been the competition among nation-states, in which the state, auto firms and labor interact for their own goals and interests. Throughout this

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27. National Research Council, *The Competitive Status of the U.S. Auto Industry*, 104-105.
28. The term "rebalanced competition" is a major theme in the report of the MIT's "Auto Program." See Altshuler, et al., *The Future of the Automobile*, 26, 145-180.

history, nationalism has played an important role not only in the formation of national firms but also in the survival of domestic firms in international competition. While some critiques of MNCs assume that MNCs have existed as they do from the early years of the world automobile industry, MNCs have actually been based on individual nation-states and have evolved into more internationalized forms only recently. As Adolf A. Berle correctly pointed out, a business corporation is a nonstatist but political institution after all.[29]

2. The Multinational Corporations as The Constraints and Opportunities for New Latecomers

The most conspicuous phenomenon in the recent structure of the world automobile industry, therefore, is that this "rebalanced competition" has been structured and strengthened by a network of Multinational Corporations (MNCs). The historical experience of not only the American automobile enterprises but also the European and Japanese auto makers shows that the internationalization of capital expressed by MNCs is one of the most efficient means for meeting with tough competition and international protectionism.

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29. Adolf A. Berle, Jr., *The Twentieth Century Capitalist Revolution* (New York: Harcourt, Brace, 1954), 60.

In the last decade, MNCs have been one of the most popular research objects among scholars in various countries and international organizations. While most of the research affirms that the profit maximization of corporations and tough competition in a protectionist world are the basic driving forces of MNCs, there are various hypotheses to explain the details about the nature and behavior of MNCs.[30] The best known among them are: 1) the theory of business organization and imperfect competition (Kindleberger, Hymer, Caves and other Keynesian critics of the neoclassical paradigm in economic theory)[31]; 2) the "product cycle" theory and the technological gap theory (Vernon, Hufbauer, Wells and others working with Schumpeter's theory of innovation in entrepreneurship)[32]; and 3) the Marxist theory of international capitalism (Hilferding, Lenin, Baran, Sweezy, Magdoff, Frank, Dos Santos, Cardoso, Wallerstein and others associated with the theories of dependency, neo-

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30. For a useful summary of hypotheses about MNCs, see Alberto Martinelli, "The Political and Social Impact of Transnational Corporations," in *The New International Economy*, edited by Harry Makler, Alberto Martinelli, and Neil Smelser (Beverly Hills: Sage, 1982), 79-115.
31. C.P. Kindleberger, *American Business Abroad* (New Haven: Yale University Press, 1969); S.H. Hymer, *The International Operations of National Firms: A Study of Direct Investment* (Cambridge: the MIT Press, 1976); R.E. Caves, "International Corporations: The Industrial Economies of Foreign Investment," *Economica* 38 (February 1971).
32. R. Vernon, *Sovereign at Bay* (New York: Basic Books, 1971); G. Haufbauer, "Theories of International Trade and Technological Progress," in *Technological and International Trade*, edited by R. Vernon (National Bureau Committee for Economic Research, 1970)

colonialism, and World System).[33] These theories together show the constraints and opportunities for latecomers by analyzing the structure of recent international political economy. Among them, dependency and neocolonialism theorists have long provided an intensive debate about the affects of MNCs upon the economic development of late-coming economies.

Theories of dependency and neocolonialism in the Marxist tradition tend to emphasize upon the overwhelming power of MNCs over their host countries in the modern capitalist world system. The power of MNCs is based on their control over the market and technology. Both inside and outside developing countries, these corporations control the flow of money and products through their various financial organizations and dealer networks, manipulate demand pattern with high-powered advertising and selling pressures, and exploit economic surplus in developing economies by means of transfer price or the selling of inappropriate technology. In some extreme cases, MNCs support military coup d'etats to subvert undesirable regimes and set up favorite governments in the host countries. Theories of dependency and neocolonialism regard the MNCs as a major part of an international capitalist hierarchical and

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33. For the review and critique of the Marxist theories of imperialism, see Benjamin J. Cohen, *The Question of Imperialism* (New York: Basic Books, 1973) and Tony Smith, *The Pattern of Imperialism* (London: Cambridge University Press, 1981).

exploitative system.[34] In their view, late-coming countries will be hindered from achieving substantive industrialization or economic development in general unless they break out of the network of the international capitalist system.

Even neoclassical economists acknowledge the superiority of the MNCs' over the latecomers' auto industries in both domestic and international competition. MNCs have already set up their scale economies, dealer networks, and automation. They could easily provide frequent model changes and increase their R&D expenditure for new models. In contrast, late-coming auto corporations can neither afford the high cost of model differentiation and technology nor massive capital requirement for a modern production system. Most of all, the international market is almost saturated and the entrance of any newcomer will only meet with an uphill battle.

Regarding MNCs as one of the constraints facing latecomers, however, a historical analysis of international automobile industrialization shows us that foreign direct investment (thus, MNCs) is nothing but a historical form of "responses to the historic tendency of advanced economies to decline industrially relative to their foreign competi-

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34. George Maxcy, *The Multinational Automobile Industry* (New York: St. Martin's Press, 1981), 18.

tors."[35] Some characteristics of the phenomenon of MNCs provide useful insights about the opportunities for latecomers in the recent structure of the international political economy.

First, the structure of the recent international automobile industry is increasingly homogeneous and open. In order to achieve cost-saving by world-sourcing, for example, GM and Ford developed the concept of a "world car," meaning a more standardized and integrated model. It is easier for latecomers to copy a standardized form and learn the technology by doing than developing a small-scale, specialized production from scratch. Moreover, the world car market is accessible to late-comers. After World War II, the Western countries and Japan agreed to maintain the relatively open trade system in order to secure mutual interests. Latecomers could get a free ride based on the norm of international liberalism and bring their products easily into the world car market.

Second, in contrast to their well-known aggressive expansionism, MNCs also behave pragmatically. The theory of "postimperialism" calls it "a corporate doctrine of domicile" in which the subsidiaries of MNCs are willing to respond to the requirements of the divergent and conflicting

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35. Robert Gilpin, *U.S. Power and The Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975), 44.

policies of their host countries.[36] Because the ultimate purpose of MNCs as economic actors is to maximize their global corporate profits, and they have the requisite organizational skills to adapt to new situations, they usually tend to seek the solution of mutual interests rather than a "head-on" conflict with the host governments.[37] The other side of the coin of pragmatism means that the host countries could have some leverage over the economic power of MNCs from case to case.

Third, late-industrializing countries could enjoy the so-called "advantage of backwardness."[38] They could learn the lessons from the trials and errors of the more advanced economies, utilize the most advanced and efficient technologies, and avoid the problem of "sunk" capital. Capitalizing on their low-wage labor, latecomers could manufacture cars qualified for international competition at a low cost. This is a distinct potentiality for every

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36. David G. Becker, Jeff Frieden, Sayre P. Schatz and Richard L. Sklar, *Postimperialism: International Capitalism and Development in the Late Twentieth Century*, 29.
37. Cf. William A. Dymsza, "Success and Failures of Joint Ventures in Developing Countries: Lessons from Experience," in *Cooperative Strategies in International Business*, edited by Farok J. Contractor and Peter Lorange, 403-424, (Lexington: Lexington Books, 1988); Stephen J. Kobrin, "Trends in Ownership of U.S. Manufacturing Subsidiaries in Developing Countries: An Interindustry Analysis," in *Cooperative Strategies in International Business*, 129-142.
38. See Veblen, *Imperial Germany and the Industrial Revolution*; Gerschenkron, *Economic Backwardness in Historical Perspective*; Gilpin, *U.S. Power and the Multinational Corporation*, 57.

late-comer. If MNCs were so powerful as to control every flow of capital and technology from advanced countries to developing countries, as some Marxists argue, this advantage could not be realized.

Fourth, however, the history of the world automobile industry suggests that the growing and inevitable competition among MNCs will enable latecomers to seize their opportunities to obtain capital and technology in a moderate degree if they want them. The competition among auto MNCs is increasing along with the decline of the American hegemony, according to Robert Gilpin. Robert Gilpin argues that the supremacy of American multinational corporations is guaranteed as one of the foundations of the postwar American hegemony, with the strong dollar and nuclear supremacy.[39] According to his explanation, the supremacy of American multinational corporations was possible because Europe and Japan accepted the U.S. as a world banker and policeman who guaranteed their prosperity and security after World War II. As the world banker, the United States could print money almost freely and other nations were willing to hold the American dollar. Freed from a balance-of-payments constraint, the U.S. could deploy their army worldwide and purchase foreign assets. The supremacy of American MNCs as based on this overwhelming power of the U.S. is declining

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39. Gilpin, *U.S. Power and the Multinational Corporation*, 161-162.

because of the huge deficit of American federal budget, a weak dollar, and the defeat in the Vietnam War. It seems that the "supporters" of the American hegemony did not want to bring about a fundamental change in the American hegemonic world until now.[40] However, the rapidly growing power of the Japanese and European auto MNCs have enabled them to challenge the supremacy of the gigantic American auto corporations. This inevitable competition among MNCs provides a latecomer with some room for accessing technology and capital which they want at a relatively low cost.

However, these factors are necessary conditions at most and cannot explain why some latecomers are more successful than others. An open international economic system, the corporate doctrine of domicile, the logical advantage of backwardness, and the increasing competition among MNCs exist only as the opportunities for late industrialization. If there is a tool, we need a person to use it. Most theories of the international level fail to explain this crucial linkage between the necessary conditions and the outcomes. This study therefore focuses on the role of

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40. For the debate about the theory of hegemonic stability, see Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984). In particular, David Lake thoroughly deals with the relationship between supporters and a hegemon, "Beneath the Commerce of Nations: A Theory of International Economic Structures," *International Studies Quarterly* 28 (1984): 141-168.

the ruling coalition in the process of late industrialization because it is the ruling coalition in a country that accumulates capital, decides on the path of industrialization, and negotiates with MNCs and foreign governments.

This debate over the opportunities and constraints of late-coming automobile industrialization can thus be summarized as the issue of how the ruling coalitions of late-coming countries can successfully accomplish capital formation and labor control in the industry. The issue of capital formation includes the structure of market and ownership. The issue of labor control includes work-shop management and labor unionism. All these issues are critical for the success or failure of late industrialization in the late 20th century.

Chapter III: Patterns of Automobile Industrialization and Governmental Policies in South Korea and Mexico

1. Patterns of the Automobile Industry in Mexico and South Korea

1.1. Patterns of Industrialization

To begin with, there are some discernible patterns in the history of industrialization. For example, a country cannot begin its industrialization with such an advanced industry as the automobile industry. Similar to Kurth's theory of industrial stages, Hollis Chenery and Lance Taylor have used the terms early industries, middle industries and late industries to classify the conventional industrial patterns.[1] According to Chenery and Taylor, the automobile industry belongs to late industries because it can be produced only in more advanced countries where both percapita income and the level of technology are high. Usually, latecomers begin with early industries, then proceed to middle or late industries.

A study of one industry like this, however, involves taking other pattern variables within an industry for comparison. There are various ways to define the historical

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1. Hollis B. Chenery and Lance J. Taylor, "Development Patterns: Among Countries and Over Time," *Review of Economics and Statistics* (November 1968): 391-416.

patterns of an industry. For example, Bennett and Sharpe emphasize the market structure and ownership structure as major pattern variables.[2] Analyzing the Argentine auto industry, Jack Baranson enumerates the structure of terminal and supplier firms, manpower situation, comparative costs, balance-of-payment effects, and corporate earnings.[3] A popular method to investigate the historical pattern of an industry is to examine its inputs of economic factors and outputs of products.[4] As the neoclassical production function theories suggest, the growth of automobile production mainly consists of two sectoral inputs: capital and labor.[5] Thus, to investigate the patterns of the flows of capital and labor--capital formation and labor control in reality--is common in the studies of industrialization.[6]

Capital formation and labor control can be expressed by various indicators in a given period. The pattern of capital formation can be represented by such indicators as

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2. Bennett and Sharpe, *Transnational Corporations and the State*, 70.
3. Jack Baranson, *Automotive Industries in Developing Countries* (Baltimore: The Johns Hopkins University Press, 1969), Chapter VI.
4. For example, Edward F. Denison, *Why Growth Rates Differ* (Washington, D.C.: The Brookings Institution, 1967); Charles P. Kindleberger and Bruce Herrick, *Economic Development* (New York: McGraw-Hill, 1977).
5. Cf. Edward F. Denison, *Why Growth Rates Differ*.
6. The term capital formation in this study is used in a broad way. It does not only mean the accumulation of capital but also the formation of entrepreneurship and technological capacity which ensue the capital accumulation in production. See Kindleberger and Herrick, *Economic Development*, 157-159.

the number of firms, the extent of vertical integration, the degree of product differentiation, cost structure, ownership structure with domestic content and design, balance-of-trade, and profitability. Similarly, the labor control pattern can be delineated by assessing such measures as wages, workers' strikes, work hours, working conditions, the organizational structure of labor unions, and various control systems by corporations and the government.

This study will summarize these factors into five major pattern variables: market structure, ownership structure, trade structure in capital formation, wage structure, and union structure in labor control. In fact, the pattern variables as an aggregation of major indicators is not the sum of the parts but the analytical expression of an integrated production system.

1.2. Market Structure

Both Mexico and South Korea began their effort to promote the auto industry in the early 1960s.[7] From the early 1960s to the mid-1980s, the structure and production capabilities of the two countries' auto industry had rapidly developed. Both countries assembled tens of thousands of cars by 1962 when they promulgated their first auto industry

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7. It should be noted that Korea has not yet recovered from the destruction of the Korean War in 1950-1953.

decrees.[8] By 1985, the domestic firms of both countries could produce over 300,000 cars and trucks.[9] From 1960 to 1985, domestic cars in use increased nine times in Mexico and three times in Korea. Despite their remarkable performances in the industry, the auto industries of Mexico and Korea show some significant differences in their production trend and economies of scale.

Table 3-1 shows some interesting aspects of the two countries' motor vehicle production: 1) Mexico developed her auto industry much earlier than Korea. The latter reached the former's production level in 1960 only in 1976; 2) Korea has more rapidly developed her auto industry than Mexico since the mid-1970s. The average rate of production growth in Korea during the whole period is 119.2 percent per year, while that in Mexico is 7.0 percent per annum during the same period; 3) The lower average of the Mexican production growth is caused by the drop in production since 1982; and 4) Korea suffered a short but sharp disruption of production in the early 1980s.

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8. Most data come from Motor Vehicle Manufacturers Association of the United States, Inc., *World Motor Vehicle Data, 1987 Edition* (Detroit: MVMA, 1987), otherwise it will be noted.
9. Domestic cars in use in 1985 exceeded seven million in Mexico and one million in South Korea, while in 1960 it was 800,000 and 30,000, respectively.

Table 3-1: Motor Vehicles Production of South Korea and Mexico, 1960-1987

Year	South Korea A	B	Total	(dt)	Mexico A	B	Total	(dt)
1960	-	-	-	-	24800	25007	49807	-
1961	-	-	-	-	33400	29163	62563	25.6
1962	1710	67	1777	-	41200	25437	66637	6.5
1963	1063	191	1254	-29.4	49500	19635	69135	3.7
1964	216	33	249	-80.1	66400	24352	90752	31.3
1965	106	35	141	-43.4	67300	30095	97395	7.3
1966	3117	313	3430	2332.6	84800	29721	114521	17.6
1967	4983	1621	6604	92.5	86000	40991	126991	10.9
1968	11630	6027	17657	167.4	102700	44081	146781	15.6
1969	19494	11500	30994	75.5	113600	52211	165811	13.0
1970	14487	14332	28819	-7.0	133218	60048	193266	16.6
1971	12428	10574	23002	-20.2	153412	57981	211393	9.4
1972	9525	9123	18648	-18.9	163005	66843	229848	8.7
1973	12751	13563	26314	41.1	200147	85478	285625	24.3
1974	9069	21221	30290	15.1	248574	102373	350947	22.9
1975	18498	18781	37279	23.1	237118	119506	356624	1.6
1976	26701	22844	49545	32.9	212549	112430	324979	-8.9
1977	43981	41229	85210	72.0	187637	93176	280813	-13.6
1978	86823	72135	158958	86.5	242519	141609	384128	36.8
1979	113564	90883	204447	28.6	280049	164377	444426	15.7
1980	57225	65910	123135	-39.8	303056	186950	490006	10.3
1981	68760	65474	134234	9.0	355497	241621	597118	21.9
1982	94460	68130	162590	21.1	300579	172058	472637	-20.8
1983	121987	99032	221019	35.9	207137	78348	285485	-39.6
1984	158503	106858	265361	20.1	244704	98994	343698	20.4
1985	264458	113704	378162	42.5	246960	151232	398192	15.9
1986	457383	144163	601546	59.1	169567	102601	272168	-31.6
1987	793125	186614	979739	62.9	142436	90079	232515	-14.6
Average				119.2				7.0

Note: A - Passenger Cars, and B - Buses and Trucks; (dt) means the rate of growth over the last year (%).

Sources: Motor Vehicle Manufacturers Association of the United States, Inc., *World Motor Vehicle Data* (Detroit: Motor Vehicle Manufacturers Association of the United States, Inc., 1987); Korea Auto Industries Cooperative Association, *Korea Automobile & Autoparts '89-'90* (Seoul: KAICA, 1988); *Ward's Automotive Yearbook 1988* (Detroit: Ward, 1988).

Profitability is also related to the pattern of capital formation in various ways. As long as both countries choose the capitalist pattern of industrialization, relatively lower or negative profitability could pose a serious obstacle for the growth of industrial investment and, thus, capital accumulation. In reality, there are two major means to attract investment despite negative profits: multinational subsidiaries and public enterprises. As Jenkins argues, the profitability of multinational subsidiaries can hardly be assessed by the same criteria as that of domestic firms because the subsidiaries' profits are an integral part of the total profits under the control of a single decision center in the mother countries.[10] With various means such as "transfer prices," the profits declared by the subsidiary are not the profits of the firm but the results of multinational transactions throughout the firm.[11] The other possibility of public enterprises under capitalist development usually appears as the "last resort" of failing but important industries, as Bennett and Sharpe argue.[12] Tables 3-2 and 3-3 show the profitability of the

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10. Jenkins, *Transnational Corporations and The Latin American Automobile Industry*, 140.
11. See also George Maxcy, *The Multinational Automobile Industry* (New York: St. Martin's Press, 1981), 16.
12. Douglas C. Bennett and Kenneth Sharpe, "The State As Banker and As Entrepreneur: The Last Resort Character of the Mexican State's Economic Interventions, 1917-1976," *Comparative Politics* 12 (1980): 165-189.

Mexican and Korean firms, and reflect the nature of public firms and multinational subsidiaries in their profitability.

Table 3-2: Profitability of Selected Mexican Firms, 1966-1973 (percent)

Year	Local Firms	Foreign Firms		
		A	B	C
1966	11.5	4.9	7.1	17.8
1967	6.6	-5.0	-2.9	7.1
1968	6.7	5.2	7.6	18.5
1969	8.0	9.6	11.4	19.0
1970	-3.8	10.3	12.2	19.9
1971	-17.9	6.7	9.0	17.8
1972	-11.1	6.1	8.7	18.2
1973	-3.6	8.5	11.7	n.a.

Note: A = profits; B = profits + royalties; C = profits + royalties + 10% average overpricing.

Source: Rhys Owen Jenkins, *Dependent Industrialization in Latin America: The Automobile Industry in Argentina, Chile, and Mexico* (New York: Praeger, 1977), 110.

It is interesting to note that the Mexican domestic firms went into the red as of 1970, while the multinational subsidiaries kept their relatively high profits. The accumulated deficit in the late 1960s became one of the reasons why Automex collapsed and its equity was sold to Chrysler. Other ailing Mexican firms were sold to the government in the late 1960s. While the two major Korean firms show a moderate profitability since the mid-1980s, Daewoo (a joint venture with GM) has lost money for some

years. The moderate profits of the Korean domestic firms are reasonably guaranteed by their large scale economies.

Table 3-3: Profitability of Selected Korean Firms, 1972-1986 (percent)

Year	Hyundai	Daewoo
1972	2.6	-13.3
1975	8.2	3.5
1977	4.9	4.9
1980	-8.6	-17.6
1981	-5.5	-19.6
1982	2.6	-11.8
1983	4.5	3.6
1984	2.7	4.2
1985	2.8	2.4
1986	2.0	0.7

Note: After tax.

Source: Young-suk Hyun, "An Empirical Study on the Technological Development of Korean Automobile Industry: 1962-1986," unpublished Ph.D. dissertation, Department of Management Science, The Korean Institute for Science and Technology, 1988, 172.

The automobile industry is known as the most classic sector that requires a certain level of scale economies. The manufacture of a motor vehicle, as an extremely complex operation, includes a wide variety of raw materials, different levels of manufacturing processes, and a massive initial investment. The long-run average cost curve in the industry can move downward through the reduction of initial fixed costs per product by means of mass production,

economies of massed resources, greater specialization of labor, and economies of increased dimensions.

Table 3-4: Economies of Scale in Major Mexican and Korean Auto Firms in Selected Years.

Year	Mexico			Korea		
	A	B	C	A	B	C
1965	8	97395	12174.3	4	141	35.2
1970	7	193266	27609.4	5	28819	5763.8
1975	7	356624	50946.2	4	37279	9319.7
1980	7	490006	70000.8	4	123135	30783.7
1985	7	398192	56884.5	4	378162	94540.5
1987	7	232515	33216.4	4	979739	244934.7

Note: A = number of major firms, because the production of other small firms is insignificant; B = total production of vehicles; C = B/A.

Source: Table 3-1 and Figure 3-1.

There are numerous estimates about the economies of scale in the industry. A range of estimates of the level at which costs are minimized is from 62,000 to 300,000 vehicles for assembly and 360,000 to 2,000,000 units for integrated production.[13] According to George Maxcy and Aubrey Silverston' model, for example, the efficient use of the best assembly techniques was possible up to a production volume of 60,000 units per year, whereas significant economies in car assembly might be exhausted when production

13. See Rhys Own Jenkins, *Dependent Industrialization in Latin America: The Automotive Industry in Argentina, Chile, and Mexico* (New York: Praeger, 1977), Appendix A.

volume reached 100,000 vehicles per year in the late 1950s.[14]

According to Table 3-4, Mexico's automobile industry has barely achieved Maxcy and Silberston's minimum economies of scale for the late 1950s, while Korea's automobile industry achieved or surpassed it since the early 1980s. The cause of Mexico's low economies of scale is clear in Table 3-4: Mexico has a large number of auto firms while its automobile production is relatively fixed. In reality, the share of automobile production by firms could be different depending on the strength of each firm. As will be shown in the discussion of individual cases, Mexico's economies of scale by each firm is largely equal and balanced among major foreign subsidiaries in that period, while that of Korea is very unequal and unbalanced in that period. For example, Hyundai has assumed over 60 percent of total automobile production in Korea since the 1970s. In other words, Korea's automobile production has been dominated by a single national champion--Hyundai--while that of Mexico has been controlled by several foreign subsidiaries.

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14. George Maxcy and Aubrey Silberston, *The Motor Industry* (London: George Allen & Unwin, 1959), 79.

1.3. Ownership Structure

Local content and the domestic ownership of major automobile firms by latecomers have been a major concern of dependency theorists. The issue of nationalization--the establishment of "national champion" firms--is important because it is related with not only a country's nationalism but also economies of scale, development of national designs, vertical integration of the industry, and trade pattern. After the strenuous effort of several decades, the Mexican automobile industry achieved local contents of up to 60% in passenger cars, 70% in trucks, and 91% in buses in 1981. The record of the Korean automobile industry in the same year was 90%, 80%, and 80%, respectively.[15] In spite of few differences in local contents, however, the domestic ownership pattern of the two countries show significant differences.

As Figure 3-1 shows, domestic ownership of auto firms in the two countries has evolved since the early 1960s when both countries promulgated their own plan for automobile industrialization. Both countries possessed several domestically owned automobile manufacturers in the early 1960s.

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15. American Chamber of Commerce of Mexico, A.C., *Mexican Market Facts* (Mexico City: American Chamber of Commerce of Mexico, A.C., 1983), 121; Korean Institute for Economics & Technology, *Jadongcha gong'yeob'eui munjejeomgwa yugsungbang'an* (Seoul: KIET, 1987), 153.

Figure 3-1: Ownership Change in the Mexican and Korean Automobile Industries, 1960-1980

A) Mexico

Firms	1962	1970	1980
Chrysler (Automex)	67%(D)/33%(F: Chrysler)	55%(D)/45%(F: Chrysler,1968)	99%(F:Chrysler, 1971)
Ford	100%(F)	100%(F)	100%(F)
GM	100%(F)	100%(F)	100%(F)
Nissan	100%(F)	100%(F)	100%(F)
V.W.(Promexa)	100%(D)	100%(F:V.W., 1963)	100%(F)
VAM	100%(D)	60%(D)/40%(F: AMC, 1963)	94%(D)*
DINA	100%(D)	100%(F)	60%(D)*/40% (F:Renault,'78)
Planta Reo	100%(D)	Ceased(1963)	
Delta	100%(D)	Ceased(1964)	
IMA	100%(D)	Ceased(1969)	

B) Korea

Firms	1962	1976	1983
Hyundai	100%(D)#	100%(D)	90%(D)/10%(F: Mitsubishi,'82)
Kia	100%(D)	100%(D)	80%(D)/20%(F: Ford & Mazda)
Daewoo(Sinjin)	100%(D)	50%(D)/50%(F: GM, 1972)	50%(S:Daewoo)/ 50%(F:GM)
Dong-A	100%(D)	100%(D)	100%(D)
Asea	100%(D)#	(S:Kia)	
Saenara	100%(D)	(S:Sinjin,'66)	

Note: D = Domestic Ownership; F = Foreign Ownership; S = Sold to. * Mexican government ownership. # Hyundai was established in 1967, and Asea in 1965.

Source: For the Mexican case, compiled from Douglas C. Bennett and Kenneth E. Sharpe, *Transnational Corporations Versus the State* (Princeton: Princeton University Press, 1985), 119, 234; for the Korean case, compiled from various sources.

However, in the early 1980s, most Mexican firms were denationalized while Korean firms maintained their domestic ownership with only slight concessions to foreign ownership. In short, many Mexican firms collapsed in the early 1960s. Indeed, Automex, the largest Mexican firm, sold its equity to Chrysler in 1971. Thereafter, only state-run auto firms like DINA and VAM could survive under Mexican ownership until the early 1980s.[16] Major auto firms in South Korea had also negotiated their ownership with American multinational auto firms in the early 1970s--for example, Hyundai with Ford and Sinjin with GM. In the Korean case, however, there were no major changes of ownership except Sinjin's 50/50 joint venture with GM. Therefore, the negotiations in ownership of Hyundai and Automex in the early 1970s are the most notable examples of the nationalization process in late industrialization.

1.4. Trade Structure

According to the New International Division of Labor (NIDL) argument and the new dependency theories, multinational corporations have begun to transform the old international division of labor, in which Third World

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16. Even DINA was sold to Chrysler and Navistar in 1988. *Economist*, May 7, 1988, 65.

countries served as providers of cheap labor for labor intensive components, into a new one, in which they are willing to establish export bases in Third World countries by supplying not only components but also finished vehicles.[17] Whether these explanations are correct or not, this new development signals good news for the governments of Third World countries that are very concerned about their balance-of-payment. The Mexican and Korean governments also have been concerned about their balance-of-payment problems and tried to reduce their trade deficits. Since the mid-1970s, the automobile industry has been selected as a candidate that would contribute not only to the sector itself but also to the national balance-of-payments.

Table 3-5 shows that the Mexican and Korean efforts are largely successful from the early 1980s. Even though the two countries have long suffered a trade deficit in the automobile sector, this trend of automobile trade has been reversed in both countries since the early 1980s. The trade of vehicles and parts in Mexico shows an increasing trade surplus since 1983 and in Korea since 1980. In detail, however, the two countries show different patterns in the trade of vehicles and parts. While Mexico developed a balanced trade of vehicles and parts even before 1983, Korea has developed the export of vehicles rather than

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17. Kronish, "Latin America and the World Motor Vehicle Industry: The Turn to Exports," 75.

parts. As a result, Korea imports parts and exports vehicles. Following from their respective emphases upon the trading of parts and finished goods, the total volume and amount of trade surplus are getting larger in Korea than in Mexico.

Table 3-5: Trade Balance of Motor Vehicles and Parts in Mexico and Korea: 1976-1987 (millions, US $)

Year	Mexico			Korea		
	Vehicles	Parts	Total	Vehicles	Parts	Total
1976	-115.2	-560.4	-675.6	-20.0	-42.9	-62.9
1977	-60.5	-383.0	-443.4	5.6	-87.8	-82.2
1978	-143.0	-546.0	-689.0	-60.6	-163.5	-224.1
1979	-285.4	-659.8	-945.2	171.6	-185.7	-14.1
1980	-225.0	-1193.2	-1418.3	290.0	-102.4	187.6
1981	-211.6	-1624.8	-1836.4	373.1	-110.3	262.8
1982	-130.3	-590.9	-721.2	336.5	-97.6	238.9
1983	57.2	285.0	342.2	241.2	-128.5	112.8
1984	49.9	735.8	785.7	549.2	-119.6	429.5
1985	5.7	523.5	529.2	814.3	-78.0	736.3
1986	455.4	974.1	1429.4	1628.8	-199.3	1429.5
1987	1207.5	737.6	1945.1	3119.9	-355.0	2764.9

Notes: Vehicles means road vehicles, including cars, trucks, buses, and motorcycles.

Source: compiled from Bancomex, *Comercio Exterior*, various years, for Mexico; EPB, *Korea Statistical Yearbook*, various years, for Korea.

While recent studies of the automobile industries in both countries--whether according to the dependency or statist perspectives--agree as to the role of state policies and the changing strategies of the multinational corporations, this study will pay more attention to the structure of the trade patterns and the broader factors

which influence these patterns such as the development strategy of a ruling coalition. For example, we find an obvious causal direction of some of the factors and the patterns.

Table 3-6: Korean Motor Vehicle Exports by Company, 1976-1987 (units)

Year	Hyundai (units)	(%)	Kia (units)	(%)	Daewoo (units)	(%)	Others (units)	(%)	Total Units
1976	1042	77.7	117	8.7	177	13.2	5	0.4	1341
1977	7427	82.1	1540	17.0	68	0.8	1	0.0	9036
1978	18339	69.6	5104	19.4	2859	10.9	35	0.1	26337
1979	19540	62.0	6647	21.1	5013	15.9	286	0.9	31486
1980	16244	64.3	4735	18.8	4164	16.5	109	0.4	25252
1981	19201	73.0	2345	8.9	2389	9.1	2348	8.9	26283
1982	17546	87.0	868	4.3	514	2.6	1219	6.1	20147
1983	18501	75.4	600	2.4	357	1.5	5051	20.6	24509
1984	50379	96.3	1072	2.0	673	1.3	170	0.3	52294
1985	120041	97.5	1322	1.1	879	0.7	865	0.7	123107
1986	302134	98.6	1476	0.5	859	0.3	1900	0.6	306369
1987	403233	74.9	63577	11.8	71276	13.2	N.A.		538086
1988	407717	71.3	78340	13.7	85943	15.0	N.A.		572000

Note: "motor vehicle" includes passenger cars, buses, and trucks; N.A.= not available.

Source: HMC, *Hyundai jadongcha isipnyeonsa* (20 years of Hyundai Motor Corporation) (Seoul: HMC, 1987), Appendix. *Jung Ang Ilbo*, Thursday, March 2, 1989. This data is slightly different from those of *World Motor Vehicle Data*.

The Korean automobile export pattern in Table 3-6 shows that it is Hyundai that mostly contributes to the rapid growth of vehicle export in the Korean automobile industry. Since 1976, Hyundai has assumed over 60% of total Korean automobile exports while the share of other firms is

declining. With the help of American multinational corporations such as Ford and GM, Kia and Daewoo recently began to export vehicles. However, their share still is far behind that of Hyundai. The rapid expansion of Hyundai's vehicle export can be explained largely by the development of Pony--a national design--in the early 1970s.[18]

The development of Pony, which was strongly related with the negotiation between Hyundai and Ford in the early 1970s, was the concerted outcome of the state's policies, the changing international environment, and corporate strategy. Once again, therefore, the importance of particular cases such as Hyundai versus Ford in Korea and Automex versus Ford in Mexico--another possible but failed effort to form a "national champion" in Mexico--from the late 1960s to the early 1970s should be emphasized for understanding the overall development of the two countries' automobile industry.

1.5. Wage Structure

As a capital-intensive industry, the automobile industry does not rely heavily on labor. The share of labor cost is below 10% of the total manufacturing cost of

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18. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC) (Seoul: HMC, 1987), Part 3.

the vehicles in any automobile firm in most countries.[19] In Korean firms, it has never been over 7% since they began to manufacture motor vehicles.[20] Workers in the automobile industry, being workers in one of the most advanced industries, are so privileged that they enjoy better working conditions and wages than other manufacturing workers. In Argentina, Brazil, and Mexico, for example, the average wage in the automobile industry was at least two-fifths greater than that in the whole manufacturing sector.[21]

However, there are still significant differences in the wage system between Mexico and South Korea. Table 3-7 depicts the general trend of the Mexican and Korean wage levels. It is well known that the success of Korean industrialism is based on an excessive exploitation of labor that involves lower wages (lower than those of Singaporean and Taiwanese workers), riskier work (more accidents than in Hong Kong, Singapore, and even the Philippines) and longer hours (the longest in the world).[22] This Korean labor

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19. Baranson, *Automotive Industries in Developing Countries*, 40-41.
20. Chul Hee Lee, *Han'gugeui jadongcha gong'yeob* (the automobile industry in Korea) (Seoul: KDI, 1980), 38.
21. Jenkins, *Transnational Corporations and The Latin American Automobile Industry*, 76.
22. In 1983, the index of hourly wage (Korea=100) was: Japan (546.5), Taiwan (126.0), and Singapore (156.1); in 1982, the death rate of industrial accident was: Korea (0.17), Japan (0.02), Hong Kong (0.03), Singapore (0.02), and the Philippines (0.06); in 1983, the hours of work in a week was: Korea (54.3), Japan (41.1), Singapore (48.1), the U.S. (40.1), and Taiwan (48.1).

pattern is also identified in Table 3-7. In 1978, Korean auto workers earned two and one-half times less than Mexican auto workers and ten times less than American auto workers. The wages of Korean auto workers became worse in 1980. The wages of Korean auto workers were almost four times and fifteen times less than that of Mexican and American auto workers, respectively.

In 1980 the Korean automobile industry suffered a short but sharp disruption that was caused by the economic and political turmoil in 1979. However, this trend of a low-wage system in the Korean auto industry is not specific to 1980 but generalized over the entire period. For example, Kyuhan Bae reports that the hourly wage of Hyundai auto workers decreased to 734 Won (0.94 current US dollar) even in 1983 when Hyundai had completely recovered from its financial crisis of 1980 and had recorded steady profits.[23]

Despite its methodological limitations, Table 3-7 is important for the comparison of wages between Mexico and Korea because it is very hard to get a reliable comparison of wages in different countries in different periods. According to Table 3-7, the wages of Korean auto workers

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Gisa'yeon (the Christian Institute for the Study of Justice and Development), *Han'gugeui sahoejeong'eui jipyo* (Indicators of Social Justice in Korea) (Seoul: Minjoongsa, 1986).

23. Kyuhan Bae, *Automobile Workers in Korea* (Seoul: Seoul National University Press, 1987), 61. Korean Won is conversed in US Dollar with annual average of exchange rate (775.75 Won per Dollar); see World Bank, *World Tables* 1987.

have risen more rapidly than those of Mexican auto workers. For example, an auto worker's wage in Mexico was 2.7 times that in Korea in 1978. However, four years later, this wage gap had narrowed to less than 1.8 times.[24]

Table 3-7: Wages of Automobile Workers in Selected Countries, 1978, 1980, and 1982 (US $ per hour, Korea=100)

Country	1978		1980		1982		*Rate of
	Wage	Index	Wage	Index	Wage	Index	Increase
Korea	0.8	100.0	1.2	100.0	2.0	100.0	143.7
Japan	4.3	537.5	7.4	597.6	7.2	371.3	68.4
U.S.	8.7	1081.3	14.8	1204.1	19.4	993.3	123.9
W.Germany	5.7	706.3	15.0	1220.3	12.9	661.0	128.1
Mexico	2.1	256.2	4.7	380.5	3.5	181.0	72.2
Brazil	0.6	75.0	2.8	223.6	3.7	187.7	510.0

Note: * Rate of increase = (wage of 1982 - wage of 1978) / wage of 1978 x 100. Wage comparison between different periods seem less reliable than comparison of wages between countries in a period, because estimates of real wages in different periods come from different sources.

Source: Korea Institute For Economics & Technology, *Jadongcha gong'yeob'eui munjejeomgwa yugseongbanghyang* (Seoul: KIET, 1987), 509; Maria Helena Moreira Alves, *State and Opposition in Military Brazil* (Austin: University of Texas Press, 1988), 194; Scott Laing and Robert Rahn, *Foreign Outsourcing by U.S. Auto Manufactures* (London: The Economic Intelligence Unite Limited, 1983).

However, Korean auto workers' wage levels have been far lower than those of Mexican auto workers. Despite a solid

24. Alice H. Amsden calculates that Korea's real nonagricultural wage increase in 1984 to 1970 was 276 percent while that of Mexico was 83 percent. *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Presss, 1989), 196.

increase since 1978, Korean auto workers received about half that of Mexican auto workers' wages in 1982. However, this low level of wages in Third World auto industries seem general rather than specific to South Korea. The average wage in Mexico, Korea and Brazil was 4.3 times lower than that in Japan, United States and West Germany in 1982.

The solidly increasing but still lower wage in the Korean automobile industry than in that of Mexico does not coincide with a general pattern of the two countries' automobile industries, which is shown in this section. In connection with its rapidly rising productivity, substantial profitability, and "Fordist production system," wages in the Korean automobile industry are also expected to rise rapidly. The Korean case, as French regulation school theorists argue, exemplifies a pre-modern capitalist system in which there is no positive relation between the profitability of firms and the wage increase of workers except brutal exploitation.[25] In fact, not only in South Korea but also in Mexico, the wages of workers are not a function of the market but the result of power relationships between workers and managers.

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25. Alain Lipietz, a Marxist, characterizes the Korean system as "bloody Taylorism." *Mirages and Miracles: The Crises of Global Fordism* (London: Verso, 1987).

1.6. Union Structure

Even though direct labor costs are a relatively small proportion of the total manufacturing costs, a disciplined labor force is important in automobile manufacturing. Jenkins summarizes the importance of labor in a managerial and economic perspective: 1) with large-scale fixed capital in the form of expensive machinery, it is extremely costly to let them lie idle for lengthy periods of time; and 2) with the highly interdependent and integrated nature of production, a disruption in one specific area could easily lead to the stoppage of the whole production process.[26]

However, as some critics of capitalism argue, labor process is not limited to the economic sphere but interrelated with the whole capitalist "system."[27] For example, the decision of wage level in Hyundai Motor Corporation has been largely linked not only to managerial consideration but also to governmental guidelines and "general economic atmosphere."[28] Even in Mexico, labor demands are a part of the whole Mexican political economic system rather than merely the economic system. A labor

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26. Jenkins, *Transnational Corporations and The Latin American Automobile Industry*, 78-79.
27. Cf. Lipietz, *Mirages and Miracles: The Crises of Global Fordism*.
28. For example, Hyundai management referred to the "general economic atmosphere" as a major reason why not to satisfy the demands of workers, even though the demands are acceptable. *Dong-A Ilbo*, Friday, June 3, 1988.

union in both countries usually works not only as an organization which represents the economic demands of auto workers but also the political demands of auto workers as a major part of anti-ruling coalition forces. However, there are still some differences in the union structure as the managerial control structures between Korea and Mexico.

The history of Mexican workers' strikes is older than that of their Korean counterparts. But the former have regularly occurred and been well controlled by the labor union structure, while the latter occurred recently, violently and out of the control of the legal labor unions. Mexican automobile workers have been organized under the leadership of the legal labor unions such as CTM and CROC, which are powerful because of their affiliation with the government.[29] The Mexican auto workers' strikes have usually caused temporary halts to auto production but have been solved within the existing legal system. The Mexican labor unions play an important role in the solution of labor disputes. For example, there were 27 labor strikes in the automobile industry from 1970 to 1980. However, only three of them were declared as "non-existent"--i.e., illegal--by Mexican government.[30]

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29. CTM, as the largest labor union in Mexico, has been a major part of Mexico's ruling coalition. However, recently, CTM's influence is diminishing. See Chapter VII.
30. Ian Roxborough, *Unions and Politics in Mexico: The Case of the Automobile Industry* (Cambridge: Cambridge University Press, 1984), 48, 54, 156.

In contrast to their Mexican counterparts, the Korean automobile labor unions have not represented the workers and just obtained their legal status recently. Legal labor unions are regarded as "too loyal" to the Korean authoritarian regime to represent the demands of auto workers. These labor disputes occurred outside of the current legal system. Except in the Daewoo strike in 1971, Korean auto workers hardly engaged in even labor disputes until the second Daewoo strike in 1984 because of the harsh repression from the Korean government and companies.

However, since the late 1970s, there have been increasing labor disputes in both countries. In Mexico, there is an increasing trend towards independent unionism in their labor disputes.[31] The issue of labor disputes has grown broader and the means used in the disputes have become more intensive. The Korean auto workers' strikes in the mid-1980s such as the Daewoo and Hyundai auto workers' strikes have become a major part of the process of political transformation. "Illegal labor unions and strikes" that were organized by militant workers not only drew public attention regarding the conditions of workers in the

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31. Ian Roxborough, "Labor in the Mexican Motor Vehicle Industry," in *The Political Economy of the Latin American Motor Vehicle Industry*, edited by Rich Kronish and Kenneth S. Mericle (Cambridge: the MIT Press, 1984), 161-194.

industry but also contributed to the creation of a broad range of anti-ruling coalition forces in South Korea.[32]

In particular, the 1980 GM strike in Mexico and the 1984 Daewoo strike in Korea deserve more attention than other labor disputes. Also, both cases were the longest and the most intensive labor strikes until that time. Both cases are usually regarded as marking a major transition in the labor movements of their respective countries.[33] This study will later examine why such crucial cases as the 1980 GM strike and the 1984 Daewoo strike occurred in the early 1980s.

Labor dispute partly contributes to the structural transformation of the automobile industry in both countries. In Mexico, the change of automobile plant sites from the central region to the northern region reflects not only the border industrialization (maquiladora) policy of Mexico but also the auto firms' policies to preempt the strong unionism in the central region. These corporate policies, in turn, become a source of new labor disputes. In Korea, the Ministry of Commerce and Industry recently announced that Korea's automobile industry produced 30 percent less than it could because of severe labor disputes in all automobile

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32. Han'gug gidoggyeo sanyeob gaebal yeon'guwon (The Korean Christian Institute for Industrial Development), *Daewoo jadongcha payeob-nongsyeong* (The Strikes and Sit-ins in Daewoo Automobile Corporation) (Seoul: Wesley, 1985).
33. Discussions in detail will be given in following chapters.

plants in 1989.[34] The ministry also pointed out that auto firms had to increase workers' wages more rapidly than was originally expected. This rapid increase of labor cost will push auto firms to produce more expensive cars in the near future.

2. Governmental Automobile Policies in Mexico and South Korea.

2.1. The Mexican Automobile Policies

The Mexican motor vehicle industry has received special public policy attention in the form of four presidential decrees promulgated in 1962, 1972, 1977, and 1983. At the beginning, Mexican policymakers recognized the reality that the assembly of motor vehicles in Mexico would remain under the ownership and control of transnational corporations for a long time into the future. Thus, the primary purpose of the presidential decrees was to develop a strong, locally owned auto parts company and then a terminal firm.[35]

In 1962, the Mexican state cut the number of models assembled locally by half and required 60 percent of the direct costs of vehicles to be accounted for in Mexico within two years, while it prohibited the import of

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34. *Dong-A Ilbo*, April 14, 1989.
35. Bennett, *Public Policy and Industrial Development*, 27; *Comercio Exterior*, July, 1977, 771-775.

completed cars. In turn, firms which were set up under the programme were exempted from import duties on parts and machinery, and granted an 80 percent reduction in the federal assembly tax. With the decree, six national firms and four foreign subsidiaries were authorized to operate and receive the quota of the Mexican market, even though one of the major goals of the decree was to reduce the number of firms and nationalize them.

The second decree in October 1972 addressed the issue of export with higher local content.[36] The initial percentage compensation of exports for imports was set at 30% in 1972 and rose to 100% in 1979. Existing firms not in compliance with this requirement were prohibited from undertaking domestic market expansion and were ineligible for investment or export incentive programs. Fiscal incentive (up to 100% in import rights and indirect tax) was given to exporters of automobiles and parts. It also required that assembly firms match auto parts imports with auto-related exports. This decree required 60 percent local content in terminal firms and all new autoparts manufacturers. This local content could be lowered to 40% only for automobiles for exports. While the previous decrees did have some impact upon the domestic structure of the Mexican motor vehicle industry, they lacked enforcement mechanisms. Thus, the 1972 decree was promulgated to

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36. *Comercio Exterior*, November, 1972, 1022-1023.

establish a framework for administering and enforcing its provisions: the Intersecretarial Commission of the Automotive Industry was granted considerable discretionary power in addition to its administrative role.

The 1977 decree revised the local content requirements to provide incentives for export; the requirement was lowered to 50 percent for passenger cars and 65 percent for commercial vehicles, allowing some changes in its application.[37] The terminal firms, according to the decree, must arrange exports for the parts firms in an amount at least equal to their own exports. Then, the terminal firms would receive compensatory export credit for the total of their own exports and for the exports arranged for the parts industries. Moreover, only the firms that meet all the provisions of the decree would receive an exemption from import tariffs on machinery and equipment not produced in Mexico.

The 1983 decree, described as the "decree for the rationalization of the automobile industry," required higher local content, the reduction of models and makes, and fuel efficient engines.[38] Local content was projected to rise from 50 percent to 55 percent by 1986 and 60 percent by 1987 for all motor vehicles. The number of models and makes was targeted to be reduced to a single make and five models by

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37. *Comercio Exterior*, July, 1977, 771-775.
38 *Comercio Exterior*, November, 1983, 991-999.

1987. As long as a firm could export half its production and be self-sufficient in foreign exchange, however, it could produce an additional model. Moreover, automobiles and commercial trucks were prohibited from being equipped with eight-cylinder engines.

2.2. The Korean Automobile Policies

Soon after the 1961 military coup d'etat, in the case of Korea, Park's military junta set up a five-year automobile development plan as a part of the First Five-Year Development Plan in 1962. The first measure in this plan was the enactment of the Automobile Industry Protection Law for import substitution of automobiles.[39] According to this Law, the import of parts and components for assembly production was exempted from tariffs while the import of cars and auto parts not for assembly production was prohibited. Assemblers enjoyed various tax exemptions and monopoly of the domestic market. This plan also assigned small, medium and large assembly lines to each firm. As a new version of this plan, in 1963, the Plan for Automobile Industry Unification was issued to integrate all assemblers into one large assembler. However, this plan was cancelled in 1964.

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39. Kim and Lee, "Ancillary Firm Development in the Korean Automobile Industry," 289.

Under the 1964 Automobile Promotion Plan, for economies of scale, all assembly and parts firms were required to vertically integrate into one big firm: Sinjin Motor Corporation. Subsequently, however, the government allowed two other big firms--Asea and Hyundai--to enter into passenger car assembly production in order to promote competition in the automobile industry and speed up the localization program.[40] In 1967, instead of scale economies, the government ordered all terminal firms to meet governmental criteria for automobile manufacturers, Sinjin was the only firm that could meet these criteria.

The 1969 Automobile Industry Basic Promotion Plan emphasized the complete domestic manufacture of small passenger cars and vertical integration of all parts firms around three assemblers by the end of 1972. The government tried to implement this plan through granting permission for one large engine plant on the first-come-first-served basis. While it was concerned with high domestic content, this plan encouraged the joint venture of Korean firms and foreign firms for easy direct investment and technology transfer. In 1972, the government diversified engine plants and ordered the shutdown of all assemblers except the four largest ones.

After the palace coup of the so-called "Yusin" in 1972, the Korean Government announced the very nationalist Long-

40. *Ibid.*, 290.

Term Automobile Promotion Plan in 1973 and confirmed it as a policy in 1974. It was aimed at the production of the so-called "national cars" by three designated firms: Kia, Hyundai and GM-Korea. The size of engine (Kia:1,000cc; Hyundai:1,300cc; GMK:1,400cc), production volume (over 50,000 cars per year), number of models (one to each firm), local content (up to 95%), price (around $2,000), and production schedule of these firms (until 1975) would be more tightly supervised by the government than ever. The plan also designated the autoparts firms with respect to their specialization and ordered other parts firms horizontally merged into larger firms. In 1977, with the success of Hyundai's Pony not only in the domestic market but also in some overseas markets, the government declared the automobile industry as a major strategic industry for export, augmenting shipbuilding, textile, electronics and the petro-chemical industries.

In 1980, General Chun made a successful coup d'etat and his military junta promulgated the Order of Automobile Industry Unification that was aimed at economies of scale through the radical reorganization of the Korean automobile industry structure. It ordered the merger of the two largest terminal firms--Hyundai and Saehan (GM-Korea)--into one terminal firm--a new Hyundai--and allowed only that firm to produce passenger cars. The government designated two other terminal firms to specialize in commercial and

special-purpose cars. The 1980 Order, however, had to be replaced in 1981 with the Order of Automobile Industry Rationalization that allowed two major firms to produce passenger cars.

2.3. A Brief Comparison.

There are some distinctive features in the development of the governmental policies in the two countries: first of all, it is almost unnecessary to repeat the basic role of statism in the policies that the governments in both countries pursued. Both governments pursued a high degree of local content and export in the automobile industry. Even though there are some variations, both governments have long pursued economies of scale, vertical integration of terminal firms and auto parts firms, and the localization of ownership. The major goals of these policies, in summary, are the rapid and stable growth of an independent automobile industry through the establishment of local ownership and economies of scale.

The policy means are various but purposeful. From indirect incentives in tax and tariff to direct intervention of the market share and ownership, the Mexican and Korean governments have long used various means to implement their goals in their automobile industrialization process. These state policies involve protectionist measures that use

either high tariffs or an outright ban on imports of items competitive with local motor vehicle production, a requirement of local content over a significant period, and preferential tariffs for parts and components as well as imported capital goods. In addition to controlling trade measures, both Mexico and Korea provide direct subsidies and tax exemptions for their local automobile companies.

However, there also some fundamental differences between the two cases: 1) while the Mexican policies are relatively general, the Korean policies have been detailed--policies based on a case-by-case and firm-by-firm analysis; 2) contrary to the general perception about the two countries' development strategies, in the automobile sector, the Mexican government launched its export promotion policies earlier than the Korean government; and 3) the Korean government, interestingly, placed lesser emphasis on the localization of ownership than the Mexican government and encouraged foreign direct investment in some cases.

A common phenomenon in the two countries' automobile policies is their frequent "policy failures." The goals of both countries were largely too ambitious to be implemented in their given situation. Major goals of the Mexican and Korean automobile policies between 1960 and 1985 could not be fully implemented and even policies that were adopted had to be cancelled before implementation in some instances because of various internal and external problems. Despite

these setbacks, the overall effects of those policies should still be emphasized. On the other hand, there is perhaps not such a strong causal relation between the governmental policies and the patterns of automobile industrialization as some statists argue.[41]

Governmental policies are hardly specific to the performance of each auto firm in Mexico and South Korea, while industrial patterns are directly linked to the performance of each firm in Mexico and Korea. In most cases, the real source of competitiveness of each firm is its technological, managerial, and financial superiority over other firms. For example, the rapid growth of production and export in the Korean automobile industry is largely due to the superior performance of Hyundai over other firms, even though the Korean government also supported the other firms. The denationalization of the Mexican automobile industry was most clearly exemplified by the collapse of Automex in the late 1960s in spite of the strenuous localization effort of the Mexican government.

The changes in governmental policies mostly reflect the ruling coalition's interpretation of the changing structure

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41. For example, Stephan Haggard and Chung-in Moon assert, "Indeed, much of their economic success (Brazil, Mexico, Taiwan, and Singapore, as well as South Korea) appears attributable to such state strength." See their "The South Korean State in the International Economy: Economic Dependence and Corporatist Politics," in *The Antinomies of Interdependence*, edited by John G. Ruggie (New York: Columbia University Press, 1983), 140.

of the domestic market and the international environment. It is interesting to observe that both governments recently opted to "rationalize" their automobile industry in their respective contexts. "Rationalization," for example, means the establishment of scale economies and export promotion through government policies in Mexico, while it means the liberalization of government regulations on automobile manufacturing in Korea. An explanation of these differences requires a review of the perception of state elites, the interaction between state elites and private elites, and the external impacts upon them such as the pressures from multinationals and protectionism.

Chapter IV: Development of Automobile Industry in Korea (I)

1. The Emergence of a Pragmatic Ruling Coalition and the Korean Automobile Industry since 1945

1.1. The Formation of the Korean Postwar Ruling Coalition

"Independence" from Japanese colonialism in 1945, although most Koreans wanted to believe it, did not necessarily mean nation-building by the Korean people but rather another type of dependent and quasi-colonial rule by two superpowers--the United States and the Soviet Union--until the late 1940s. The 38th parallel, drawn for the military 'convenience' of the two superpowers dividing Korea and their subsequent military rule over the two Koreas, clearly exemplify the Korean tragedy.[1] The American Military Government (AMG) in South Korea was the true builder of the South Korean ruling coalition after 1945, although the coalition has been changed through land reforms, the Korean War, and the Military Coup d'etat of 1961.[2] In spite of continuing debates over the effects of

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1. Hak-Joon Kim, *The Unification Policy of South and North Korea: A Comparative Study* (Seoul: Seoul National University Press, 1977), 31-36.
2. Deog-Gyu Jin, "Mi'gunjeong'eui jeongchisa'jeog insig (A political interpretation of the American Military Government in Korea)" in *Haebang jeonhusaeui insig* (An interpretation of post-independence Korean history), edited by Geon Ho Song, et al. (Seoul: Han'gilsa, 1980), 33.

the AMG in South Korea, there are some converging views among Korean specialists.

First, the purpose of the AMG was to build a Korean state favorable to the U.S. and to secure American strategic interests in the southern part of the Korean peninsula. Because the occupation of the Korean peninsula was not a major part of the American postwar design and American strategists had little knowledge about Korea, the AMG had little interest in introducing basic reforms in South Korea except some small scale land reform, unlike the American occupation in postwar Japan. Moreover, industrialization was seen as an unreachable goal in resource-poor Korea. The South Korean economy was regarded as an ancillary part of the Japanese economy by American strategists.[3]

Second, the occupation policies of the AMG tended to secure the power of the colonial ruling elite who had cooperated with the Japanese colonizers, and to crush the local political organizations that emphasized political independence and the unification of South and North Korea.[4] Excluding indigenous institutional forces, the American

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3. Cumings, "The origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences," 59-65.
4. Arriving at South Korea, the AMG quickly illegalized all indigenous governing forces such as *Im-Jeong* (Koran Provisional Government) or *Geon-Jun* (Committee for the Preparation of Korean Independence), as well as workers and peasants' organizations such as *Jeon-Pyung* (National Council of Korean Labor Unions) and *Jeon-Nong* (National League of Peasant Unions).

military governor formed his own advisory committee and the Korean police under the supervision of the American military forces. This new ruling coalition expressed by the advisory committee and the local police of the AMG consisted of old colonial bureaucrats and military personnel who had survived the nationalist backlash after the Japanese retreat, colonial businessmen who helped the AMG to govern and purchased Japanese property from the AMG, and a few nationalist politicians who were willing to help the AMG.

Third, this post-Independence ruling structure was financed by American aid, as much as colonial Korea had been conditioned by Japanese capital. Until the substantial economic growth of the late 1960s, the Korean economy suffered the typical stagflation that was caused by low supply but high demand. This supply-demand gap and military expenses were paid for by U.S. aid and grants. In fact, South Korea was the third largest recepient of U.S. government aid during the period of 1945-1984, after Israel and Vietnam.[5]

There were, however, some basic differences between the Japanese colonial ruling coalition in the Korean peninsula

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5. The most important American aid receivers of post-World War II (1945-1984) are Israel (26.2 billions), Vietnam (23.5 billions), Korea (15.0 billions), Egypt (12.6 billions), Turkey (10.3 billions), and India (10.0 billions) in current U.S. dollars. Compiled from U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*, 1986 (Washington, D.C., 1986), 803-804.

and the new one under the AMG. First of all, a particular capitalist political economic structure was imposed on South Korea by the AMG. Although the new Korean economy was hardly the old Smithian "free market economy," the market price system and private property rights had been installed through the resale of Japanese properties and American economic support. Even though the Korean economy was underdeveloped and fragile, this capitalist system, bolstered by the ideological struggles against the North, has penetrated deeply and few political forces have dared to challenge the system since the period of the AMG.

Second, the power of the traditional landlord class almost disappeared within the new ruling coalition because of successive land reforms and the Korean War. The rest of the surviving landlords hurried to transform themselves into industrialists rather than remain on the losing side. This lack of a landlord class within the new ruling coalition has helped the formation of a quick consensus within the ruling coalition for industrialization and even export promotion policies of manufacturing goods, and reduced the possibility of political crises caused by the short-term conflicts of agricultural and industrial interests.[6]

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6. I am greatly indebted to my colleagues in the UCLA Korean Colloquium for this summary. Various observations about the Korean political economy emphasize the importance of land reform. For example, as a neoclassical summary of the issue, see Malcolm Gillis, Dwight H. Perkins, Michael Roemer, and

Third, in addition to the disappearance of landlord power, local businessmen received their momentum to accumulate capital through the purchase of Japanese properties and the sale of American grain under the PL 480 program. Under Japanese colonialism, the role of the local bourgeoisie was marginal and only showed the colonial occupation of local forces. However, after the AMG picked them as major partners to establish the new regime, the local businessmen expanded their influence in the Korean market. Small and medium businessmen got the opportunity to transform themselves into big capitalists. These local capitalists have been supported by successive Korean governments and have played the most important role in Korean development.

1.2. The Colonial Legacy and Late Industrialization

An important debate surrounding the origin of Korean industrialization and the origin of the Korean automobile industry is the debate over Korea's colonial legacy. There exists diverse discussions about the nature of the colonial legacy and its influence upon postwar Korean politics and economy. Often, the discussion of the colonial legacy as it relates to Korean politics is expressed as the cultural "national character" argument

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Donald R. Snodgrass, *Economics of Development*, Second Edition (New York: Norton, 1987), 89, 95.

among self-contemptuous Korean writers. The Korean national character, according to the cultural argument, is largely divisive, dependent (sadaejueuijeog), and non-pragmatic.[7] This character derives from the long historical experiences of the Yi dynasty and the oppressive Japanese colonialism. According to this "national character" argument, there will be hardly any political and economic development unless there is a change in the national character.

Recently, however, a more systematic argument of the colonial legacy in Korean industrialization has been formulated by Western scholars. For example, in "The origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences," Bruce Cummings argues that the colonial legacy of Korea is one of the most important factors that shaped the pattern of postwar Korean industrialization. Korea's industrial revolution began during the colonial period between 1935 and 1945 when Korean peasants were uprooted from the land, a working class emerged, population mobility increased, and urbanization occurred.[8] The Korean

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7. Han Gyo Kim, "Han'guge idseoeui ilbon sigminji tongchieui yusan" (The Legacy of Japanese Colonialism in Korea), in *Han'gugeui Jeontonggwa byoncheon* (Tradition and Transition of Korea), edited by The Institute of Asian Studies, Korea University (Seoul: The Institute of Asian Studies, Korea University, 1973).
8. Cummings, "The origins and development of the Northeast Asian political economy," 57; Korea in this study means

industrial revolution was possible because "Japan is among the very few imperial powers to have located modern heavy industry in its colonies: steel, chemicals, hydroelectric facilities in Korea and Manchuria, and automobile production for a time in the latter."[9]

According to Cummings, Korea is indebted to Japan not only for her industrial revolution but also for her industrial organization, i.e., through the introduction of the trio of state organization, central banking, and *zaibatsu* conglomerates. Like Taiwan, Korea also adopted this form of industrial organization. Indeed, Korea has built a stronger state and more oligopolistic conglomerates--*jaebol*, in the Korean case--than those existing during imperial Japan. Imperial Japan exported not only the form of industrial organization but also the ideology of incorporation "emphasizing a structural family principle and an ethical filiality," which would support the structure of industrial organization.[10] Korea, as a sincere student of Japan, followed the Japanese case by launching the so-called "Saemaeum (new spirit)" movement in the 1970s.

For Korea and Taiwan, according to Cummings, another important colonial legacy is a regional hegemonic system led by Japan. Before World War II, Japan set up an imperial

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South Korea, even though Korea before 1945 includes the northern part of Korea that is now under the control of the Communists.

9. *Ibid.*, 55.
10. *Ibid.*, 56.

hegemonic system in Northeast Asia with Korea and Taiwan as semiperiphery and China (Manchuria, in particular) as a hinterland. This pre-war Japanese hegemonic system was revived as a part of a broader American global hegemonic system after the defeat of Japanese imperialism. This new East Asian regional system, installed by American strategists, put Japan as a regional core state, Korea and Taiwan as semipheriphery, and Southeast Asia as a hinterland after the fall of mainland China into the hands of the Communists. Korea has enjoyed her position of being in the semiperiphery. Within the hegemonic system, a product cycle plays an important role for the pattern of Korea and Taiwan. "Taiwan and Korea have historically been receivable for declining Japanese industries."[11] Thus, Cummings asserts that with all these aspects of the colonial legacy the Korean industrial infrastructure was, by 1945, already one of the most developed countries in the Third World.[12]

This "colonial legacy" argument helps us understand the details of the industrialization process in Korea under Japanese colonialism. Indeed, we can add other important aspects of the colonial legacy to Cummings' list. For example, Korea has a considerable number of Japanese speaking people who were educated under Japanese imperialism

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11. *Ibid.*, 46.
12. *Ibid.*, 56.

as well as in ex-Japanese colonies. When these people assume major posts within the structure of the Korean ruling coalition, they copy with little revision what they have learnt from the Japanese for their own purposes.[13] Through their pro-Japanese orientation, the Japanese example is easily incorporated into their own development model.

Cummings' argument about the industrial legacy of Japanese colonialism in Korea is supported by additional factors. For example, after the outbreak of the Manchurian Incident in 1931, Japanese investment in heavy industry in the Korean peninsula rapidly increased. Manufacturing growth in Korea averaged 10 percent during the period of 1910-1940.[14] The industrial structure also changed during the period. The proportion of the manufacturing sector in relation to all commodity production increased from 17.7 percent in 1925 to 39 percent in 1939.[15]

However, Japanese industrialism in Korea should not be overemphasized in regards to the sector of the automobile

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13. The author's experience in a governmental institute shows that a Japanese speaking director strongly recommends that his researcher refer to a Japanese version of the future plan for the publication of a Korean version of the future plan. As Gerschenkron argues, the learning effect is one of the most important aspects of the late industrialization process. See Gillis, et al., *Economics of Development*, Second Edition, 31.
14. Cummings, "The origins and development of the Northeast Asian political economy," 45.
15. Ki-baik Lee, *A New History of Korea*, translated by Edward W. Wagner (Cambridge: Harvard University Press, 1984), 351.

industry. First, Japanese industrialism in colonial Korea was highly skewed to the production of military supply. As Japanese forces advanced into mainland China, Japan needed more industrial products for war. According to Lee Ki Baik, the chemical industry assumed 34% of total manufacturing output in 1939, while the metal industry 9% and the machinery industry 4%.[16] Therefore, Lee asserts that the Japanese emphasis upon the production of military materials caused a very skewed industrial pattern in Korea that hardly contributed to the spread of industrialism.

Second, in the primitive stage of industrialization such as that evidenced in the Korean case, caution needs to be exercised in interpreting the data. Because the divider of any given number is usually almost zero, a simple comparison of quantitative figures can misconstrue the real context of Korean industrialization. For example, the registration of motor vehicles in Korea had showed the annual growth of 102.6 percent during the Japanese colonial period because Korea had 2 cars in 1911 and 7386 cars in 1945.[17] Despite this rapid growth over a long period, however, Korean society can hardly be said to be motorized at the end of Japanese rule.

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16. *Ibid.*, 352.
17. Korea Auto Industries Cooperative Association, *Jadongcha johab isibnyeonsa* (Twenty Years of KAICA) (Seoul: KAICA, 1983), 104.

Third, the automobile industry was barely introduced into Korea by the end of Japanese rule in 1945, even though Cummings argues Japanese colonialism located the industry in the Korean peninsula. In 1936, the Japanese Government-General in Korea promulgated the Law for Motor Vehicle Manufacturing and encouraged the establishment of the Korean Association of Automobile Body Manufacturers in 1940.[18] However, this law and association did not mean the establishment of automobile manufacturing factories in Korea.[19] Instead, they served to create a market for Japanese cars, to establish the sales network for Japanese cars and to produce auto parts for those cars in Korea. The association was really a group of body shop owners rather than manufacturers. Despite the encouragement of the Japanese colonial state for the production of auto parts, there were no more than 6 auto part manufacturers mainly because of the scarcity of capital under the war economy.[20]

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18. Korea Auto Industries Cooperative Association, *Jadongcha johab isibnyeonsa* (Twenty Years of KAICA), 103.
19. It should be noted that even the major Japanese auto firms Nissan and Toyota were established in 1934 and 1937, respectively.
20. KAICA history shows six auto parts manufacturers: *Gugsanjadongcha* (spring), *Joseonjadongchagong'yeob* (sleeve, gear, bolt, and nut), *Jung'anggigye* (sleeve), *Gyeongseong Spring* (spring), *Joseon iyeon hanggonggijae heosa* (piston ring), *Joseon Bearing* (bearing); *Ibid.*, 103.

Finally, even the colonial legacy of auto parts manufacturing during the colonial period could not be inherited by Rhee's regime because of the division of Korea and the Korean War. The division of Korea by the superpowers deprived South Korea of major industries built by the Japanese. For example, 85 percent of production facilities for chemicals, 90 percent for hydroelectric power, and 95 percent for steel in Korea were left under the control of the Communists.[21] With the political and economic turmoils of post-independence, this sudden cutoff of electric power and steel supply from the industrial North caused serious problems in the operation of most colonial factories.

The Korean War of 1950-53 deprived South Korea of the material legacy of Japanese colonial industrialism. Even though there are many contending arguments about the origins of the Korean War, the result of the war was a disaster in Korean history. The human casualties were estimated at one million and the destruction of industries and infrastructure amounted to some 400 billion Korean *hwan* in 1953 prices, which was almost equal to Korea's 1953 Gross National Product.[22] This war has elicited significant scholarly attention. It had as enormous an effect upon Korean

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21. Lee, *A New History of Korea*, 376.
22. Paul W. Kuznets, *Economic Growth and Structure in the Republic of Korea* (New Haven: Yale University Press, 1977), 37-38.

society as a social revolution. The South Korean economic system had already lost its colonial industrial base in the North when Korea was divided. Now, the remaining industrial base in South Korea was also destroyed during the war. According to Suh Jae Jin, the total number of factories in South Korea was 2707 in 1945, regardless of their size.[23] Until 1953, 459 factories were closed. After the Korean War, however, only less than 50 factories survived.

The effect of the Korean War was not only economic but also political. Not any social group could claim its hegemony over Korean society simply in terms of its economic power. Post-war inflation swept the Korean economy. The Korean economy was barely managed by only one source: American aid. Social mobility also had greatly increased. Because of the loss of lives even within the ruling coalition, the ruling coalition was rapidly reorganized through the recruitment of new members. The entire population had to adjust and broaden its perspectives.

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23. Jae Jin Suh, "Han'gug sanyeobjabon'gaeui giweon (the social origins of Korean industrialists)" in *Hyeondae Han'gug jabonjueuiwa gyegeubeui munje* (Modern Korean capitalism and class problems), edited by the Korean Social History Studies Association (Seoul: Munhag'gwa jiseong, 1988), 33.

1.3. Rhee's Coalition and the Politics of a Primitive Capital Accumulation

Because of its character as well as the effect of the Korean War, therefore, the legacy of Japanese colonialism should not be overemphasized within the historical context of the industrialization process in Korea. Scholars frequently refer to two major variables in regard to the origins of modern Korean industrialization since 1945: the politics of Rhee's regime and the strategic interests of the U.S. in the Korean peninsula.

The politics of Rhee's regime played an important role in establishing the primitive accumulation of Korean capitalists since the Korean War. As Gregory Henderson points out, Syngman Rhee had no local power base when he returned to Korea in 1945.[24] His staunch anti-Communism alienated him from the center and center-left political forces in postwar Korean society. Thus, Rhee, who boasted of his anti-Japanese record, and the Korean Democratic Party (KDP), which consisted of pro-Japanese people, as Henderson argues, entered into a marriage of convenience to form a ruling coalition. The KDP needed Rhee's record of struggles for Korean independence and Rhee needed their

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24. Henderson, *Korea: The Politics of the Vortex*, 151-152; also see Deog Gyu Jin, "Haebang jighu jwa-u seryeogeui seong'gyeog (The Characteristics of Left-Right after the Independence)," in *Hyeondae Han'gug jeongchiron* (On Modern Korean Politics), edited by Chung Si Ahn (Seoul: Beobmunsa, 1987), 99.

institutional support to control the leadership of post-independent Korea.

During the period of 1945-1950, as Cumming describes in *The Origins of The Korean War*, the South Korean political system was largely divided and fragile. Most Korean people were frustrated by the division of Korea and the post-independence political economic crises. Rhee's coalition with the KDP, based on the realist doctrine of two Koreas, elicited broad resentment among major political leaders in Korea such as Kim Ku. Consequently, popular uprisings and guerrilla activities shook not only the countryside but also the urban areas.[25] For as long as political crises threatened the survival of the coalition of Rhee and the KDP, they cooperated closely in suppressing their political opponents and maintaining the hegemony of their coalition in Korea.

The massive American aid and the Korean War helped consolidate Rhee's regime in South Korea. From 1945 to 1955, Rhee received $1.4 billion in Grants and Credits from the United States.[26] South Korea was the largest aid receiver among Third World countries in that period. This vast amount of American aid was totally controlled by Rhee and his ruling coalition members. By exploiting this aid,

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25. Cf. Bruce Cummings, *The Origins of The Korean War* (Princeton: Princeton University Press, 1981).
26. U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*, 1986 (Washington, D.C.: USGPO, 1986), 803-804.

Rhee's ruling coalition consolidated its power base in Korean society and furthered its dependence upon the U.S. Rhee also exploited the ideological animosity caused by the war to consolidate his personal dictatorship. Persons suspected by the government of being communists were executed without due process. In fact, the war gave Rhee and his government a free hand to write their own national plan for Korean society.

In addition to economic aid, the United States army was stationed in South Korea to train the Korean military and to supply military equipment. With logistic help from the United States army, the Korean military and police barely managed to contain the national expansion of popular uprisings and leftist guerrilla warfare. The Korean War from 1950 to 1953, however, largely changed the structure of political forces in South Korea. Most leftists were killed; the remaining migrated to the North during the brutal War. The so-called "Cold War mentality" or anti-Communism among the Korean people, which was intensified by the War hardly allowed leftist and even centrist forces to exist in post-War Korea. The oppressive coalition of Rhee and the KDP, therefore, became consolidated with the help of American aid and the Korean War. In the period following the War, in fact, there were no organized political forces other than the extreme rightists such as Rhee's coalition.

When President Rhee consolidated his power and the War ended, however, this marriage of convenience began to collapse. First of all, the authoritarian Rhee did not want to share his power with the KDP that had a different ideological and historical background. In fact, the KDP had occupied major ministries in Rhee's government and had exercised considerable power particularly at the local level until the mid-1950s.[27] Land reform, for example, encouraged by the American Military Government in South Korea and the land reform in North Korea, was vital to the consolidation of Rhee's regime because it was one of a few reforms with which a hardly reformist regime led by Rhee could meet the demands of the Korean peasants. A Korean researcher, however, insists that the Korean land reform was only partly successful because the KDP--a coalition of landlords and politicians--was powerful enough to sabotage the effective implementation of the land reform.[28]

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27. For example, Je Won Kim, one of the early auto parts manufacturers in Korea, independently ran for a seat in the National Assembly in Gong Ju in 1950 but failed largely because the state organs controlled by the KDP heavily disturbed his campaign. See Byeong Wook Choi, *Jibnyeomeui eondeogeul neomeo* (Over the troubled waters) (Seoul: Munjosa, 1970), 116-138.
28. In Ho Yoo, "Haebang hu nongjigaehyeogeui jeon'gaegwajeong'gwa seonggyeog (The process and characteristics of land reform after Independence)," in *Haebang jeonhusaeui insig* (Understanding the History of Independent Korea), edited by Geon Ho Song (Seoul: Han'gilsa, 1980), 371-448. According to his data, only 21.6% of the land which was identified in 1945 as the land owned by landlords was distributed to peasants until 1957. The rest of the landlords' land were

When the KDP became a part of the anti-Rhee forces beginning in the late 1940s, the ruling coalition of Rhee and the KDP collapsed. Generally speaking, the KDP was being weakened by the Korean War and a partly successful land reform. However, the KDP incorporated some centrist forces and changed its name to the Democratic People's Party (DPP) in 1949. With the increasing power of the new party in the National Assembly, the new DPP campaigned for the revision of the Constitution from the presidential system to a cabinet system in the early 1950s. The purpose of this revision, of course, was to strip Rhee of political power.[29] In this context, Rhee hurriedly organized a political party--the Liberal Party--through governmental organizations. Son Bong Sook argues that the Liberal Party is important in Korean politics as a precursor of the Korean ruling parties.[30] While the KDP, as a voluntary association formed by power-seeking individuals, failed to control the state, the Liberal Party as a ruling party was formed by a power holder--or, the state, itself--as an institution to mobilize support for the state. This pattern of state-party institutionalization in South Korea has continued in Park's regime (the Democratic Republican Party) and Chun's regime

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already sold or concealed by the relatives of landlords. See, *ibid.* 422.

29. Bong Sook Son, "Jeilgonghwaguggwa jayudang (The First Republic and the Liberal Party)," in *Hyeondae Han'gug jeongchiron* (On Modern Korean Politics), edited by Chung Si Ahn (Seoul: Beobmunsa, 1987), 139.

30. *Ibid.*, 134.

(the Democratic Justice Party) all of which were formed by the military junta after their successful coup d'etats. This pattern largely explains why Korean politics did not develop as much as Samuel P. Huntington expected, even though he describes Park as "the effective builder of political institution."[31] Institutionalization in Korea does not preclude social frustration because its aims are not to increase political participation but to impose the will of the rulers over the people.

There are several important factors that contributed to Rhee's successful response to the KDP's challenge: the exclusion of leftist forces caused by the ongoing Korean War, the control of two major economic sources--Japanese properties in Korea and American aid--by the state, and the leadership of Rhee as discussed above. Rhee accelerated land reform to destroy the economic base of the KDP--the party of landlords--by giving Japanese properties in Korea to his loyal supporters, and distributing American aid for the reconstruction of Korea to a few businessmen who were willing to contribute political funds to the Liberal Party. For example, according to the trial reports of Park's military junta courts, Lee Gi Bung, the second man in the Liberal Party under Rhee's regime, participated in the construction of 29 factories, i.e., over 50% of total

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31. Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 261.

factory construction built with American economic aid.[32] In fact, as Stephen Haggard argues, the Liberal Party was a coalition of politicians and businessmen.[33]

Even though Rhee succeeded in political battles against the KDP coalition, he could hardly solve the post-war economic problems: the balance-of-payment problems caused by heavy military expenditure, war-time inflation, and the shortage of consumer products. On May 8, 1956, Rhee's government announced the "5.8 line" decree. According to the decree, only the replacement of motor vehicles was to be allowed after 1956. The main purpose of this decree was to restrict the increase of cars because the Korean economy could not afford it. The total registration of cars was tied up at around 30,000 cars. However, this simple and crude policy produced substantial economic gain for the owners of cars before 1956. The total registration of cars was 18,356 cars in 1955 but rapidly increased to 25,328 cars in 1956. Because of the 5.8 line, there were 28,086 cars in 1957 and 28,933 cars in 1958. The high demand and no supply of cars made car owners--most of them were

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32. Jae Jin Suh, "Han'gug sanyeobjabon'gaeui giweon (the social origins of Korean industrialists)" in *Hyeondae Han'gug jabonjueuiwa gyegeubeui munje* (Modern Korean capitalism and class problems), 32.
33. Stephan Haggard, *Pathways from the Periphery: The Newly Industrializing Countries in the International System* (Ann Arbor: University Microfilms International, 1983), 113.

affiliated with the state or the Liberal Party--collect high rents, just lending their car registrations to consumers.[34]

In the context of this retrogressive governmental policy towards the automobile industry, it is clear that only the massive import of American jeeps and trucks for the Korean War contributed to the actual beginning of the Korean automobile industry. Even though it was a small fraction of the total, the American military procurement in Korea provided an excellent market opportunity for the Korean auto parts industry to begin their operations after the War. Since the War, Korean auto parts manufacturers have provided about $3.7 million of their products to the American and Korean army.[35] However, this procurement soon stopped because the American army began to suspect the quality of those products. In general, the industry was too weak and small to receive its portion of the United Nations Korean Reconstruction Agency (UNKRA) aid. For example, UNKRA and other aid agencies allocated $4 million to the automobile industry until 1957. However, only two companies, "Sinjin Industry Co." and "Gugje Motors," received $200,000 and $470,000, respectively.[36]

In Korea, the automobile assembly was begun by Choi Mu Seong and his Sibal Motor Company in 1955. That company

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34. Korea Auto Industries Cooperative Association, *Jadongcha johab isibnyeonsa* (Twenty Years of KAICA), 111-112.
35. *Ibid.*, 110.
36. *Ibid.*, 109.

collected the parts of trucks and jeeps, and assembled them into the "Sibal Taxi." Because of the high demand for cars, the production of Sibal Taxi was very promising. However, the 5.8 line in 1956 prohibited the increase of automobiles in Korea and the Sibal Motor Company collapsed after it produced about 3,000 cars.[37]

2. The Failure of A Primitive Automobile Industrialization: the Saenara Era.

2.1. A Revision of the Korean Ruling Coalition in 1961: from a personal dictatorship to a military one

The critical change in the Korean economy came with the new strategy of export-promotion after the 1961 military coup d'etat led by General Park. The Korean economy under Rhee's and Chang's administrations was largely agricultural and aid-dependent. South Korea was separated from industrial North Korea after Word War II and devastated by the Korean War. The agricultural sector had contributed about 40% of GNP until the early 1960s. From 1953 to 1963, foreign savings (imports of goods and services less exports of goods and services financed mostly by foreign aid grants) averaged

37. *Ibid.*, 111-112.

9 percent of GNP and three-quarters of total investment was financed by foreign aid.[38]

Reconstruction and stabilization, as prime goals of Rhee's government, heavily influenced the underdevelopment of the Korean automobile industry. For example, high investment demands for necessary goods forced Rhee's government to restrict investment on economic sectors of low priority, such as the automobile industry, which was regarded as a luxury industry at that time. On May 8, 1956, Rhee's government announced the so-called "5.8 line" under which no new car could be registered but only the replacement of old cars would be permitted. It meant that the total number of cars in Korea was pegged down to 25,328 units in 1956 and that Korea had no need for any car assemblers for mass production.

The new military government led by General Park and his military colleagues was "forced" to develop an alternative strategy to develop the Korean economy.[39] For its survival, Park's government had to overcome some serious problems such as its uneasy relationship with the U.S. government, a political and economic patron of the postwar ruling coalition in South Korea, its legitimacy crisis, and

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38. Charles R. Frank, Kwang Suk Kim, and Larry Westphal, *South Korea* (New York: Columbia University Press, 1975), 2.
39. Stephen Haggard, *Pathways from the Periphery: The Newly Industrializing Countries in the International System*, 127.

its economic hardships. The institutionalization of a militarized ruling coalition and export-oriented industrialization were two major means Park and his military colleagues chose to overcome those crises. After the 1961 military coup, Park disbanded all the existing political organizations, including the National Assembly, and reshaped them along the guidelines established by his military junta.

The institutionalization of a militarized ruling coalition in Korea involved a triple alliance among the strong state bureaucracy,[40] the Democratic Republican Party, and businessmen associations such as Gyeongje'in Hyebhoe (Jeon'geongryeon after 1968). This basic coalitional structure has hardly changed even after the 1980 military coup of Chun and Roh. With the powerful Presidential Secretariat, the KCIA has played the most important role in Korean political economy since the Park era, "from intelligence gathering and secret police function to the implementation of economic policy and interbureaucratic coordination."[41] The EPB has wide responsibilities over the planning and coordination of economic policies and the control of the budget. *Gyeongje'in Hyeobhoe*, which twelve businessmen with "illicitly accumulated wealth" under the Rhee regime formed,

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40. It is comprised of the Korean Central Intelligence (KCIA), the Presidential Secretariat, and the Economic Planning Board (EPB).
41. Haggard and Moon, "South Korea in International Economy," 142.

became the center of Korean conglomerates (known as *Jaebol*), on whose ideas and cooperation political leaders and planners relied heavily.[42] The Democratic Republican Party (DRP) was created by the KCIA and worked as a political organization to coopt old and new politicians and mobilize mass support for the regime. Even though some influential Western observers such as Samuel P. Huntington were impressed by Park's "reformist" leadership of institutionalization centered on the party, the DRP hardly worked as the center of Park's institutionalization. Under the shadow of the KCIA, it worked as one of many organizations for the recruitment of new members for Park's exclusive ruling coalition just as the Liberal Party did for Rhee.

When Park seized power in 1961, he set up his "professional" party using the Communist-style "sealed education" and promulgated the unprecedented "five-years plan" for economic development in Korea. Park's party formation and planning cannot be understood without considering his socialist background in the 1950s, which had caused some concern with the American Government.[43] Park's elder brother was a Communist leader in the Daegu Uprising and

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42. Kyong-Dong Kim, "Political Factors in the Formation of the Entrepreneurial Elite in South Korea," *Asian Survey* 16 (May 1976): 465-477; Byeong Cheol Lee, *Hoam jajeon* (Seoul: Jung-Ang Daily, 1966), 119-125.
43. Hyung Wook Kim and Saul Park, *KCIA Chief's Testimony: Revolution and Idol, Three Volumes* (New York: The Korean Independent Monitor, 1984).

Park himself was indicted for his complicity with the Communists in the Yeo-Sun Revolt in 1948. Because of his complicity with the Revolt, he was expelled from the Korean Army but returned through the help of his powerful friends in the Korean Army. A few years later, after taking power, however, Park and his military and party colleagues used the "anti-Communist" campaign to suppress their political opponents.[44] Park and his ruling coalition also chose "modernization" and "export-led growth" as the slogans to mobilize support from major coalition members. However, he never dropped the issue of protection on domestic manufacturing sectors, preempting nationalism. This ideological back-and-forth shifting by the Korean ruling coalition shows its ideological pragmatism: the ruling coalition adopted whatever ideas or issues that contributed to its power consolidation such as import-substitution in major industries with an overall export-oriented industrialization, and capitalism with heavy control over property right, trade, and market. Nigel Harris succinctly suggests,

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44. It is well known that the two historical problems of legitimacy play a major role in this struggle. The colonial heritage and militarism of the ruling coalition provide strong proof of its illegitimacy to anti-coalition members who hardly share the benefits of growth as the case of the Korean anti-ruling coalition shows. Cf. Christian Institute for The Study of Justice and Development, *Gaehungwa minjoohwa woondong*.

> "The process was blind--success bred, with sufficient pragmatism, more success. Without such pragmatism, combined with gambles and the capacity to centralize resources, it is difficult to see how the state capitalism of South Korea, operating in a particular world context, could have achieved optimal market conditions."[45]

As Leroy P. Jones and Il Sakong point out, this Korean pragmatism is supported by an impressive institutional framework for economic decision-making and implementation between business and government.[46] In fact, the Korean economic system has a long list of incentives and institutional arrangements for the export promotion of domestic business. However, "to understand the operation of these mechanisms, it is necessary to have some idea of the synergistic partnership between government and business in Korea."[47] For example, as Rhee, Ross-Larson, and Pursell argue, the system of setting export targets and the practice of holding monthly national trade promotion meetings have provided the information for the selection of incentives, technology, markets, and necessary institutional

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45. Nigel Harris, *The End of the Third World: Newly Industrializing Countries and the Decline of an Ideology* (New York: Penguin Books, 1986), 44. World Bank also points out Korea's pragmatism as the basic ideology of industrial policies in general. World Bank, *Korea: Managing the Industrial Transition, Volume I: The Conduct of Industrial Policy* (Washington, D.C.: World Bank, 1987), xiv.
46. Leory P. Jones and Il Sakong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge: Harvard University Press, 1980).
47. Yung Whee Rhee, Bruce Ross-Larson, and Garry Pursell, *Korea's Competitive Edge: Managing the Entry into World Markets* (Baltimore: The Johns Hopkins University Press, 1984), 15.

arrangements. The Presidential Secretariat summarizes those selections and informs the President about the results. Sometimes, it directly and extralegally intervenes in the overall domestic affairs with the help of the KCIA and other governmental ministries.

Table 4-1. Effective Rate of Protection in Korea, All Sales

Sector	1968	1978	1982
Agriculture	18.5	57.1	74.3
Mining	4.0	-1.5	-1.7
Food	-18.2	31.7	28.2
Beverages, tobacco	-19.3	33.4	15.0
Construction materials	-11.5	11.8	51.1
Intermediate I	-25.5	37.6	61.9
Intermediate II	26.1	20.6	39.6
Nondurable consumer goods	-10.5	67.4	42.4
Consumer durable	64.4	242.9	52.5
Machinery	44.2	44.2	31.3
Transport equipment	163.5	326.6	123.9
Manufacturing Total	-1.4	31.7	28.2

Source: World Bank, *Korea: Managing the Industrial Transition, Volume I* (Washington, D.C.: World Bank, 1987), Table 2.2, 35.

The range for the choice of developmental strategies was very limited because there were few available domestic resources to substitute the American aid and support economic growth. As many studies about Korea's political economy concur, Park's regime rapidly recognized export-oriented industrialization as the most feasible alternative.[48] In contrast to most Third World countries,

48. Frank, Jr., Kim, and Westphal, *South Korea*; Hong Wontack and Anne O. Krueger, eds., *Trade and Development in Korea* (Seoul: Korea Development Institute, 1975).

most of the policy initiatives of Park's regime promoted exports. A wide variety of export incentive schemes were devised, and the exchange rate was adjusted frequently and dramatically.[49]

Although the general direction of Park's government was evolving toward the export-oriented industrialization strategy, however, the major goals of the motor vehicle industry sector were import-substitution through the import ban of motor vehicles, domestic assembly of knock-down kits, growth of domestic content and, finally, domestic production. Table 4-1 shows that the Korean government protected the consumer durable sector for the whole period of industrialization. Its effective rate of protection was 64.4 in 1968. This was increased to 242.9 when the sector was prepared for international competition in the mid-1970s. As a major consumer durable industry the automobile industry followed this trend.

2.2. The Saenara Scandal

The Saenara scandal in the early 1960s exemplifies clearly how a "strong" state could exploit its power and import-substitution policy, and what will happen in the absence of cooperation within a ruling coalition. Kim Jong Pil, a nephew-in-law of Park who was a retired lietenant

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49. Frank, Jr., Kim, and Westphal, *South Korea*, 2.

colonel in 1961 and oragnized the KCIA after the successful coup d'etat, established Saenara Motor Corporation in January 1962 with the help of a Korean Japanese businessman, Park No-Jeong. Along with the normalization of Korean-Japanese relationship and the beginning of an ambitious industrialization drive, Kim conceived that the automobile assembly might be very profitable and good as a major source of much needed political funds. After the establishment of the corporation, Kim promulgated the Five Years Plan for the Promotion of the Motor Vehicle Industry in April 1962 and the Protection of the Motor Vehicle Industry Law the following month. According to this plan and law: 1) the establishment of the motor vehicle corporation and the import of cars and parts had to be approved by the Ministry of Commerce and Industry; 2) until domestic production has taken hold, raw materials and plants for automobile industry could be imported duty-free; and 3) they would expire at the end of 1967.[50]

The corporation imported the semi-knockdown (SKD) kits of Nissan Bluebird from Japan duty-free and assembled them at its Bupyeong plant near Seoul. This operation was extremely profitable because there was no other domestic assembler to produce cars in spite of the small but substantial demand for cars. Before 1962, only Sibal Motor

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50. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 8.

Corporation renovated the jeeps of the American army into passenger cars known as "Sibal Taxi." This car, however, was too uncomfortable and primitive to compete with the Nissan Bluebird assembled by Saenara. Saenara imported a SKD kit for 130,000 won and sold a car for 250,000 won.[51] It had produced 2,773 cars before it closed in July 1963, as shown in Table 4-2.

Table 4-2: Production of Major Korean Motor Vehicle Manufacturers, 1962-1972

Year	Hyundai units	%	Kia* units	%	Saenara** units	%	Others units	%	Total Units
1962			67	3.8	1710	96.2			1777
1963			191	15.2	1063	84.7			1254
1964			33	13.3	216	86.7			249
1965			35	24.8	106	75.1			141
1966			313	9.1	3117	90.8			3430
1967			1294	19.6	5310	80.4			6604
1968	614	3.5	2688	15.2	14354	81.2			17656
1969	7832	25.3	4376	14.1	18786	60.6			30994
1970	4360	15.1	6121	21.2	16601	57.6	1737	6.0	28819
1971	3546	15.4	5912	25.7	10507	45.6	3037	13.2	23002
1972	4142	22.2	5672	30.4	6958	37.2	1888	10.1	18660

Note: * Kia produced three-wheelers and trucks until 1974. ** Saenara was sold to Sinjin in 1965. It became GMK ('72-'76), Saehan ('77-'82), and Daewoo ('82-).

Source: HMC, *Hyundai jadongcha isipnyeonsa* (20 years of Hyundai Motor Corporation) (Seoul: HMC, 1987), Appendix: 60.

Even though it was a very profitable operation with a monopoly of the Korean auto market, however, Saenara Motor Corporation collapsed in July 1963. First, its total

51. Hyung Wook Kim and Saul Park, *KCIA Chief's Testimony: Revolution and Idol, Part I* (Philadelphia: The Korean Independent Monitor, 1982), 196.

dependence of plants and SKD kits upon imports could not go on because of the shortage of foreign currency in the underdeveloped Korean economy. During its whole period of operation, Saenara spent $3.2 million for the import of SKD kits, at a time when the national trade deficit grew rapidly from $242 million in 1961 to $410 million in 1963.[52] Because automobiles were regarded as luxury goods in the early 1960s, the consumption of needed foreign currency for the import of SKD kits was heavily criticized by most Koreans. In particular, the Korean auto parts manufacturers, even though they were a few in number and underdeveloped, were very concerned over the import of advanced auto parts from Nissan and the rapid eradication of their small markets.[53]

Second, there was an increasing conflicts between Kim and Park over its operation. On the one hand, Kim was dissatisfied with Park because Park did not keep his promise of a 30% investment in Saenara Motor Corporation. Because Kim hoped to succeed in his operation politically and economically, he urged Park to invest more.[54] Park, on the other hand, complained about Kim's greed for profit. According to a political commentary, Park was very angry about Kim's monopoly of the profit of 12 million won in the

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52. *Sindong'a*, November 1984, 420.
53. KAICA, *Jadongcha johab isibnyeonsa*, 114.
54. *Dong-A Ilbo*, Thursday, March 16, 1989; HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 9.

initial stage of production. When Park filed a complaint about Kim's greed with the National Assembly in 1963, this operation suddenly ended and Park had to flee to Japan to escape from the hands of the powerful KCIA.[55]

This scandal, as one of the so-called "Four Scandals," created a serious political crisis for Park Chung Hee and Kim Jong Pil who wanted to maintain their power through a series of institutional processes. Not only did the opposition parties, whose civil rights had been violated and were only recently restored by the military junta, but also major members of the military junta, who had complained of Kim's monopoly of power through the KCIA, and the Democratic Republican Party, exploited this scandal to put Kim in exile and force Park to cancel his plan of running for the Korean Presidency, even though Park and Kim would recover their power sooner or later.[56]

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55. For a summary of the Saenara scandal, see Hyung Wook Kim and Saul Park, *KCIA Chief's Testimony: Revolution and Idol, Part I*, 195-197; for the testimony of Jeong Sun Seok, Kim's deputy who actually took charge of the operation, see *Sindong'a*, March 1989, 309-314. Seok's testimony, however, is largely illogical and no less dubious than Hyung Wook Kim's testimony. Seok testifies that the so-called "Four Scandals" were defined and rumored by Lee Hu Rak who wanted to reduce the power of Kim Jong Phil. This study is guided by the testimony of Kim Hyung Wook.
56. Samuel Huntington provides a different interpretation: Park's crises came from the conflict between his effort of institutionalization and the military junta's rejection of it, saying "Park's announcement of his candidacy in December 1962 precipitated an immediate reaction from those members of the military junta who believed that the army should continue in power without attempting to legitimate its rule through elections."

In order to quell the Saenara scandal and reshape the industry, the military junta announced the Plan for Unification of the Motor Vehicle Industry in December 1963. Following the collapse of Saenara, there were too many weak assemblers and parts producers to accomplish economies of scale. In fact, they were criticized for wasting economic resources for such an "unnecessary and luxury" consumer durable as the automobile.[57] The purpose of this plan was to create a unified assembler which would produce a whole range of motor vehicles and parts.[58] According to this plan, Saenara Motor Corporation and nine other small and medium assemblers would be merged into Korean Machinery Corporation (Han'gug Gigye) as a mother firm. However, this plan failed to be implemented because the major assemblers could hardly agree on the estimation of their assets even though they agreed on the goal of the plan.

The episode of the plan is significant for understanding the further development of business-government relationship in the automobile industry. As the responses from assemblers to the plan show, the businessmen did not voice disagreement with the state in reshaping the

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See his *Political Order in Changing Societies*, 259; see also Hyung Wook Kim and Saul Park, *The KCIA Chief's Testimony: Revolution & Idol, Part I*, 244-271.

57. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 27.

58. Korea Institute for Economics & Technology, *Jadongcha jong'yeob'eui munjejeomgwa yugsungbang'an* (Problems and Direction of Motor Vehicle Industry) (Seoul: KIET, 1987), 288.

Korean automobile industry. Instead, they disagreed as to who would be the beneficiaries of the plan and how the values of their factory inventories would be assessed. The problem with any governmental plans and policies is that the benefits of a plan will not be same for every businessman. It is natural that most businessmen lobbied to get better outcomes from the plan than planners of the plan expected. In general, the Korean state was autonomous from the pressures of societal forces during the whole of Park's era as Haggard and Moon argue.[59] However, this state autonomy did not guarantee the success of the governmental policies.

In the Korean case, therefore, there are three factors which explain policy failures: the state's capacity to perceive the complexity of the issue, inter-coalitional struggles, and the nature of the agenda. First, the state's capacity is at stake when governmental policies cannot dictate technical solutions to the issue even when the issue seems less important. For example, non-standardized facilities and parts simply could not be integrated as governmental orders required. If the government selected one of them, the majority of the other different facilities would just be wasted. In this case, the economic opportunity cost of those governmental orders

59. Cf. Haggard and Moon, "The South Korean State in the International Economy: Liberal, Dependent, or Mercantile?"

would have been too great and thus the orders could not be implemented.

Second, even though Park's military junta was strong enough to suppress most of the formal protests from the businessmen, the latter also had political and economic assets that could influence the decisions of the junta. The episode of the sale of Saenara to Sinjin is a good example of how businessmen used their political connections with powerful junta members to influence governmental decisions.

Finally, the close relationship between the characteristics of a ruling coalition's decision-making process and the nature of the issue should be mentioned.[60] In the stage of introduction, the issue of the automobile industry policy's could not be a national one because products of the industry (cars) were mainly for exclusive members of the upper class. The share of the industry in national production also was so small that major interest groups hardly paid attention to the direction of the policies. Furthermore, the small number of workers could not organize themselves as an effective voice.

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60. Pat McGowan and Stephen G. Walker, "Radical and Conventional Models of U.S. Foreign Economic Policy Making," *World Politics* 33 (April 1981), 366; Cf. William Zimmerman, "Issue Area and Foreign-Policy Process: A Research Note in Search of a General Theory," *American Political Science Review* 67 (December 1973): 1204-12, and Theodore Lowi, "American Business, Public Policy, Case-Studies, and Political Theory," *World Politics* 16 (July 1964): 677-715.

Therefore, the process of decision-making in the Korean automobile industry in the early 1960s was highly exclusive and politicized only within the small faction of the ruling coalition who understood the high profitability of the industry.

2.3. The Structural Change of Domestic Market as a Source of Government Policy Change

The Plan for Unification of the Motor Vehicle Industry was revised as The Plan for Promotion of Motor Vehicle Industry in August 1964. While the previous plan aimed to create one corporation which produced cars and parts, the purpose of the new plan was to create a vertical integration of one terminal firm with 75 parts producers, and also to produce a Korean car with full domestic contents within 5 years.[61] According to governmental guidelines, the purchaser of the collapsed Saenara Motor Corporation would be nominated as the terminal firm. In spite of its underdeveloped domestic market, this policy for the motor vehicle industry would be critical for car-manufacturing hopefuls, if implemented. At first, it was Sammisa with its connection with Kim Jong Rak, a brother of Kim Jong Pil,

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61. Haggard and Moon, "The South Korean State in the International Economy: Liberal, Dependent, or Mercantile?" 288.

that bought Saenara at its public auction. However, it was cancelled overnight by Park and Saenara was then resold to Sinjin Motor Corporation that had connection with Lee Hu Rak, who was competing with Kim Jong Pil.[62] Until Sinjin's purchase of Saenara, the politics of the automobile industry was largely personal power struggles between competing power elites within the military junta in alliance with a couple of businessmen.

However, since the late 1960s, the trend in the automobile industry has rapidly changed. First of all, with the success of the First Five Years Plan of Economic Development, the Korean economy has rapidly industrialized. During the whole period of 1962-66, the annual GNP growth rate was over 8.5% led by an annual growth rate of 15% in the manufacturing sector. The rapid growth of industrial output created a rapid increase of demand for transportation equipment. Table 5-3 shows that cars in use had increased about 3 times during the period of 1965-70. As the Korean economy expanded, the investment in the social infrastructure such as ports, roads, railroads, electricity, and industrial sites also expanded. In particular, Park emphasized the importance of road construction, having been

62. *Sindong'a*, November 1984, 420-421; *Sindong'a*, March 1989, 309-314.

Table 4-3: Motor Vehicles in Use in Korea
(thousands)

Year	A	B	Total	dT(%)
1960	12.8	18.6	31.4	
1961	9.8	19.4	29.2	-7.5
1962	11.1	19.7	30.8	5.2
1963	12.7	21.6	34.3	10.2
1964	14.6	23.2	37.8	9.3
1965	16.3	25.2	41.5	8.9
1966	17.5	31.6	49.1	15.5
1967	23.2	37.5	60.7	19.1
1968	33.1	44.4	77.5	21.7
1969	50.3	54.4	104.7	26.0
1970	60.7	64.7	125.4	16.5
1971	67.6	69.6	137.2	8.6
1972	70.2	72.7	142.9	4.0
1973	78.3	83.5	161.8	11.7
1974	76.5	96.9	173.4	6.7
1975	106.3	87.6	193.9	10.6
1976	129.4	89.5	218.9	11.4
1977	125.6	99.8	225.4	2.9
1978	184.9	192.5	377.4	40.3
1979	241.4	244.5	485.9	22.3
1980	249.1	269.4	518.5	6.3
1981	267.6	304.2	571.8	9.3
1982	305.8	341.2	647.0	11.6
1983	381.0	404.3	785.3	17.6
1984	465.1	483.2	948.3	17.2
1985	556.7	556.7	1113.4	14.8
1986	664.2	645.2	1309.4	15.0
1987	844.4	767.0	1611.4	18.7

Note: A - Passenger cars; B - Commercial cars; dT(%): rate of increase over the last year (%).

Source: United Nations, *International Trade Statistics Yearbook* (New York: United Nations, various years): 1960-80. Motor Vehicle Manufacturers Association of the United States, Inc., *World Motor Vehicle Data* (Detroit: Motor Vehicle Manufacturers Association of the United States, Inc., 1987): 1981-1985. Korea Auto Industries Cooperative Association, *Korea Automobile & Autoparts '89-'90* (Seoul: KAICA, 1988).

impressed with German Autoban during his visit on West Germany in 1964 and encouraged by World Bank in 1966.[63] In 1967, Park announced the construction of the *Gyeongbu Highway*, which later contributed not only to industrial mobility but also to the growth of the automobile industry in particular.

The rapidly increasing demand for motor vehicles increased industrialists' pressure upon the government toward the diversification of automobile manufacturing. In 1966, Sinjin Motor Corporation was the only assembler to produce the Toyota Corona with the technical help of Toyota. As Table 2 shows, Sinjin's operation was very successful. Sinjin produced over 80% of the cars and trucks in the late 1960s. However, its monopoly, high profit, but excessive dependence upon Toyota drew strong criticism from other industrial groups over the government's policies to restrict the entry of other assemblers into the car market. They argued that, in spite of high protection and various incentives for new investment, Sinjin was too dependent upon Toyota's capital and technology to ultimately produce a Korean car of high domestic contents, too inefficient to cope with the increasing demand and, thus, other firms should be allowed to enter into the car market.[64]

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63. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 23.
64. Domestic content of Corona assembled by Sinjin was 21%. *Ibid.*, 28-29.

3. The Political Economy of *Pony*: Bargaining among the Korean State, Hyundai, and Ford

3.1. The Rise of Hyundai

If the Saenara scandal and Sinjin's purchase of Saenara exemplify the power struggle of the military junta led by Park in the early stage of the Korean automobile industry, the establishment of Hyundai Motor Corporation shows how the negotiation among the state, local bourgeoisie, and the multinational corporations shapes the pattern of the automobile industry in a latecomer. In April 1967, the Ministry of Commerce and Industry announced the Guideline for Permission of Motor Vehicle Manufacturers, which allowed any qualified Korean firms to enter into the automobile market. This guideline required any hopefuls to be equipped with a plant exceeding $7 million plant, technological cooperation with foreign firms, and a plant site of about 250 acres.[65] This policy was not only a governmental inducement for domestic firms to participate in the automobile industry but also a response to major firms' pressures upon the government.

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65. Korea Institute for Economics & Technology, *Jadongcha gong'yeob'eui munjejeomgwa yugsungbang'an* (Problems and Direction of Motor Vehicle Industry), 288-299.

Spurred by governmental protection and high demand, the automobile industry became a highly profitable sector after the early 1960s. Increasingly, hopefuls lobbied for the governmental authorization of additional automobile manufacturers. Because major policymakers and planners believed that automobile industrialization was highly improbable in the Korean economy, the Korean government was reluctant to authorize the entry of many manufacturers. However, with the increasing demand for cars and the lobbying efforts of the hopeful firms, the Korean government allowed Asea Motor Corporation to participate in the automobile industry in 1965. Therefore, the 1967 policy was a response to Hyundai's initiative. Chung Joo Young, a founder of Hyundai, was one of a few early industrialists who had some experience in the automobile industry since 1940 and had longed for participation in the industry. During the economic boom of the late 1960s, Hyundai accumulated large amounts of capital through construction and cement export. Thus, Hyundai decided to participate in the automobile industry in early 1967 and looked to foreign automobile corporations to transfer technology to Hyundai.[66]

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66. Chung ordered the Department of Planning in Hyundai Construction Corporation to investigate the prospects of the Korean automobile industry in early 1967. For the report of the Department, see HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 32-33.

Besides a structural change in the Korean economy, competition among multinational automobile corporations was a major factor that helped Hyundai to participate in the automobile industry as an independent firm. In the late 1960s, major American automobile corporations such as GM and Ford were trying to expand their overseas operation and thus looked for Korean partners for the Korean market. As Vernon's product cycle theory shows, the competitive advantage of the American automobile corporations through innovation was rapidly decreasing and challenged by the Japanese and European small car makers. Thus, Ford dispatched a delegation to investigate the situation of the Korean automobile industry and market, and informed Park Choong Hun, the Minister of Commerce and Industry, of its desire to create an assembly plant in Korea in February 1967.[67] In 1967, Ford picked Hyundai as its local assembler in Korea and provided CKD kits and technology for assembly.

3.2. The First Phase of Hyundai versus Ford

Various problems arose in the joint venture between Ford and Hyundai. There were two phases in which there were different agendas and structures in the negotiation for the joint venture between Hyundai and Ford. The first

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67. *Seoul Gyeongje*, March 15, 1967.

phase (May 1967 - June 1970) involved the assembly of Ford's CKD kits by Hyundai in Korea. In this phase, the issues of management, investment, plant and parts, and domestic contents were dominant. There was little disagreement about some technical issues such as plant and parts, and domestic contents. The most important issue was who controls the assembly firm. Interestingly, the result of the negotiation was favorable to Hyundai. On the one hand, it might be explained that because Chung's demand for the full control of management even in the joint venture with a stronger partner was so vehement, it sacrificed other issues.[68] On the other hand, it is quite reasonable to assume that Ford did not need to strongly pursue full control of management in such a small market as Korea and, thus, could participate in investment without the control of management. Instead of management, Ford inserted some "unequal" clauses in its Overseas Assembler Agreement with Hyundai such as the "no claim" clause, by which Hyundai could not claim for damages in the event of a delay in the supply of CKD kits by Ford.[69]

In December 1967, one week after Hyundai filed its plan with the governmental authorities, the Korean state gave Hyundai permission to manufacture automobiles. The role of

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68. Chung argues, "Without full control of management, we cannot make what we want to make and cannot sell what we want to sell." See HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 38.
69. *Ibid.*, 46.

the state in the Hyundai and Ford joint venture was more prominent in the first phase than in the second phase. While the Ministry of Commerce and Industry announced that with the exception of Sinjin, Asea and Hyundai no more firms would be allowed to participate in the industry except Sinjin, Asea and Hyundai, in January 1968, it also forced Ford and Hyundai to follow the governmental terms of the agreement. The Korean state asked Ford and Hyundai to separate the terms of technology transfer from the terms of investment, about which the state was more concerned than the former. In the first phase of negotiation, both Hyundai and the Korean state were concerned about the control of management and preferred Ford's minority share of investment. The clauses which reserved the possibility of Ford's purchase of Hyundai's equity in the original contract, therefore, were slowly eliminated through the revision of the contract under the government's supervision.[70]

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70. For example, the original contract includes a clause which allowed Ford to purchase 50% of Hyundai's equity within a year when the domestic content of any model would grow up to 60%. However, this clause was changed to a new clause which was subject to the approval of Economic Planning Board. *Ibid.*, 44, 48.

3.3. The Second Phase of Hyundai versus Ford

The second phase of the Hyundai and Ford negotiation (July 1970 - January 1973) shows some significant changes in agenda and interests by the major actors, even though this second phase largely overlapps the first one. While the first phase was about an assembly plant, the second one was about the engine plant. In December 1969, the Ministry of Commerce and Industry announced the Basic Plan for the Promotion of the Automobile Industry. According to this plan, a Korean car with 100% domestic contents should be manufactured by 1976. For this goal and economies of scale, only one engine plant would be allowed to the first firm that could meet the government's criteria.[71] The new policy, therefore, emphasized domestic contents rather than domestic ownership. Moreover, the issue of domestic contents gradually faded from the government's agenda when, in 1971, the government changed major parts of the plan from a Korean car with 100% domestic contents to export-promotion of cars produced by Korean manufacturers. Therefore, it was the rapid growth in export in the automobile industry and not domestic contents and ownership that were of major concern to the Korean state for the period between 1971-

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71. Korea Institute for Economics & Technology, *Jadongcha jong'yeob'eui munjejeomgwa yugsungbang'an* (Problems and Direction of the Motor Vehicle Industry), 289-290.

1974, even though the export of Korean cars was regarded as a very remote goal.

Hyundai had long been interested in its own engine plant. It had already set up a corporate-level plan for an engine plant with the help of Ford in 1969. The 1969 Basic Plan, however, pushed Hyundai to energetically persuade Ford to get involved in a joint venture for an engine plan. One engine producer with many assemblers means the hegemony of the engine producer over the Korean automobile industry. Even though the Korean market was small, Ford was interested in regaining its control over management of a new joint venture and preparing for the future of this rapidly growing market when Hyundai proposed a joint venture for an engine plant. Ford's proposal for a new joint venture was to create a new company with Ford having over 50% equity share, and thus control over the overall process of automobile manufacturing.[72] Ford was successful in persuading Hyundai to accept its major terms of the joint venture. Both companies signed an agreement for a new company with 50:50 equity which could produce 20,925 units of gasoline engines and 32,400 units of Diesel engines a year. The Korean state approved this joint venture in December 1970. If Ford invested its share into the new company within 18 months, the new company would begin to operate.

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72. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 117.

However, this joint venture and its governmental approval was cancelled in January 1973. In the history of the corporation, Hyundai Motor Corporation's experience characterizes the three major problems which were determinant in the failure of this joint venture: the problems of working capital, export market, and world resourcing.[73]

The problem of working capital was raised by Ford's initiative in requiring Hyundai to reserve working capital for credit sales. According to Hyundai, working capital for credit sales would be over $10 million in 1971 if a full credit system were implemented. But even the entire liquid assets of HMC were far below the amount that Ford required HMC to reserve.

The problem of export market was seriously considered by leaders of Hyundai because the main purpose of Hyundai's joint venture with Ford was to promote the former's export in the world market. However, Ford was not interested in Hyundai's export proposal which called for Hyundai to produce cars with Ford's technology and capital and to export them through Ford's dealer network. Even though it was realized one decade later, in the mid-1980s, when Kia exported its Festiva to America through Ford's dealer network, Ford simply rejected Hyundai's export proposal at

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73. A comprehensive discussion of these issues is required. In this paper, I will summarize them as they are reflected in HMC's history. See *ibid.*, 161-165.

that time, arguing that Ford's world market could not be shared with the new company.

The problem of world resourcing was the most critical issue that forced the Chung brothers of Hyundai to cancel their venture with Ford. At the outset, Ford was less interested in a new car manufacturer than in an engine plant in the context of world sourcing. Ford's idea of a large scale engine firm which would depend upon the international division of labor within Ford's world system was hardly compatible with Hyundai's idea of an automobile manufacturer that exported completed cars with the help of Ford's advanced technology and abundant capital.

In 1972, when Ford's board of directors asked Hyundai to reduce the size of the new plant and focus on the domestic market, the emergent joint venture between Hyundai and Ford was doomed. The Korean state was generally neutral in the negotiation of the joint venture and, rather, encouraged Hyundai to cooperate with Ford in the joint venture. When Hyundai asked the government to postpone the deadline for the joint venture, the state extended it by six months. However, Ford did not act to invest in the new company until the end of 1972. In January 1973, Tae Wan Son, the Minister of the Economic Planning Board, informed Hyundai that its permission for engine plant was cancelled.

3.4. The Politics of GM's Advance into South Korea

While Ford failed to establish its subsidiary through a joint venture with Hyundai because of Hyundai's rejection of its major requests, GM easily extended its business into Korea with the help of Toyota's withdrawal and a joint venture with Sinjin. Sinjin had assembled Toyota's CKD kits at its Bupyeong plant since 1966. Through governmental policies and the high competitiveness of Toyota's cars, Sinjin had almost monopolized the Korean automobile market in the 1960s. However, in the period when the Korean automobile industry was being reshaped, when market size was increasing and the government announced its plan to establish an engine plant, Toyota decided to withdraw from the Korean market. This event should be understood mainly in the context of the strategy of a multinational corporation.

Until March 1970, Toyota had agreed with Sinjin about establishing an engine plant of 200,000 units per year and had filed their joint venture plan with the Economic Planning Board. However, after April 1970, when Chou En-lai in China announced the so-called "Chou's Four Principles," which prohibited Japanese firms that had connections with South Korea and Taiwan from operating on Chinese soil, Toyota suddenly withdrew from the Korean market in order to prepare its advance into the Chinese

market.[74] In a panic, Kim Chang Won of Sinjin looked to the United States for another partner for a joint venture. GM was the most desirable partner for Kim not only for economic reasons but also for political reasons. First of all, the Korean government encouraged Kim to succeed in a joint venture with GM because of the security of South Korea. The Nixon Doctrine of 1970 and the withdrawal of the Japanese firms from Korea left the Korean government with a sense of insecurity. Therefore, the Korean government regarded the presence of GM as the presence of American interests in South Korea, which further implied the American involvement in the security of South Korea.[75]

Likewise, GM was interested in South Korea for various reasons. Before the joint venture with Sinjin, GM had already dispatched a delegation of engineers to investigate the Korean market and industry for the potential advance of GM. First, as a major aspect of its global strategy, it could exploit the low wage labor in South Korea to compete with the Japanese and European cars manufacturers. Second, a Korean subsidiary would serve as a beachhead for the advance into Japan, China, and Southeast Asia. Third, the Korean government encouraged its presence in South Korea and

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74. *Chosun Ilbo*, April 21, 1970.
75. For example, Kim Jong Pil said, "The presence of the American GM equals the presence of one division of the American field army in South Korea." HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 159.

provided a favorable environment.[76] Finally, GM managed to get many safety clauses in a joint venture agreement with Sinjin that Ford could not get from Hyundai. These clauses included GM's control over finance, a royalty of 3% of total sales in addition to the conventional return for investment and interest for loans, and the management fee of $750,000 a year from the new firm.[77] These clauses were largely unfair to Sinjin but the hurried Kim of Sinjin accepted them in order to quickly reach an agreement with GM.

In June 1972, GM and Sinjin announced their 50:50 joint venture by each investing $24 million in the new firm--GM Korea (GMK). GM Korea Corporation would produce 35,000 cars and 50,000 engines a year. It would export 30,000 engines through the global GM dealer network. In addition to its direct investment, GM also provided a $90 million loan to GM Korea for its credit sales. GM also announced that it would expand its production capacity up to 100,000 cars after 1976.[78]

3.5. The Birth of *Pony* and the Changing Structure of the Domestic Market

Following the failure of its joint venture with Ford and the presence of GM with Sinjin, Hyundai was under heavy

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76. *Ibid.*, 158.
77. *Sindong'a*, November 1984, 423.
78. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 159; *Seoul Gyeongje*, March 29, 1972.

pressure to choose its independent developmental path. There were several developments that were favorable for the ailing Hyundai. First of all, the Korean state cancelled its plan for a unified engine plant and allowed all automobile manufacturers to set their own engine plants. Second, in 1972, with the exception of the big four--Sinjin, Hyundai, Asea, and Kia--the Korean state ordered the closure of the remaining small and medium assemblers. However, these governmental policies were not specifically directed at Hyundai. These policies seemed to be more beneficial to Sinjin, which had succeeded in a joint venture with GM, because it was already prepared to absorb the benefits of those policies to dominate the domestic market with GM's superior technology and capital. Hyundai had to find a foreign partner or develop its own model in order to compete in the domestic market with GM Korea, even if not in the international market.

In March 1973, the Chung brothers of Hyundai--Chung Joo Young and Chung Se Young--announced that Hyundai had decided to develop its own model until the mid-1970s. In April 1973, Hyundai reorganized its Department of Planning and chose Shin Hyun Dong to take charge of the project. Three years later, *Pony* appeared in the domestic market and became the watershed of the Korean automobile industry. With *Pony*, Hyundai not only dominated the domestic market but also advanced into the international market. In contrast, the

powerful Sinjin collapsed in the late 1970s because it did not have a competitive model to *Pony*. Because the development of *Pony* was the watershed of the Korean automobile industry, it is necessary to discuss the factors behind this development in some detail.

Despite the failure of the joint venture with Ford, there were many other factors that enabled Hyundai to produce its own model in 1973. First, we have to understand the context of Park's heavy industrialization policies in the early 1970s, which created a favorable environment for Hyundai's new project. Second, Park's emergency order to freeze the curb market and the success of Hyundai's shipbuilding industry also provided Hyundai with the opportunity to accumulate capital for a new large-scale automobile plant. Third, an open and competitive international automobile industry allowed Hyundai to exploit the most appropriate technologies to develop its own model at a relatively low cost--the advantage of latecomers.

In the early 1970s, Park was under heavy pressure to end his personal dictatorship not only from various opposition groups but also from his own ruling party. An anti-ruling coalition had rapidly grown since the 1971 general elections that indicated that the peaceful transition of political power was no longer possible. The ruling party also showed its strong antipathy towards Park's policies by cooperating with the opposition parties to oust

his Minister of the Interior. Park's announcement of a heavy and chemical industrialization plan in 1973, as well as his new and sudden unification policy, therefore, formed a major part of his political strategy to renew the legitimacy of his regime and preempt mass support for the anti-ruling coalition.

With his control of the mass media and the help of "loyal" intellectuals, Park successfully exploited the fall of the South Vietnamese regime and the Nixon Doctrine as excuses for his dictatorship in the early 1970s. South Vietnam fell under the control of communist North Vietnam after a long civil war despite of the United States' military engagement. It was the first major defeat for the U.S. after World War II. At the conclusion of the Vietnam War, President Nixon declared that the U.S. army would incrementally withdraw from East Asia and that East Asian countries under the protection of the U.S. should establish their own defense power. According to Park's interpretation, these changes in the international environment necessitated the maintenance of his dictatorship for South Korea's security.

However, the changes in the international environment in the early 1970s did not necessarily mean a crisis in South Korea's security. For example, the cold war mentality in East Asia rapidly decreased with the diplomatic breakthrough between the United States and China. The end

of the Vietnam War and the resumption of diplomatic relations between China and the United States created a more favorable environment for the decreasing hostility between the two Koreas. Describing the situation of the Korean peninsula after the restoration of the Sino-American relationship, Thomas P. Bernstein and Andrew J. Nathan argue, "Nonetheless, with varying degrees of keenness the powers seem to favor negotiations in order to defuse the risk of war. In any case, the motives of the powers in Korea are primarily defensive--to prevent any worsening of the situation from the viewpoint of their own security."[79]

Therefore, Park's formula of "Steel as National Power" was more important than "External Threats" for his palace coup d'etat in 1972. In January 1973, Park announced his Declaration of Heavy-Chemical Industrialization. Along with Park's strong drive towards the heavy and chemical industrialization, major governmental posts were getting occupied by more mercantile than neoclassical technocrats, who were sympathetic with Hyundai's drive for its own model. In the early 1970s, major policies were decided by special task forces led by the Presidential Secretariat. For

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79. Thomas P. Bernstein and Andrew J. Nathan, "The Soviet Union, China and Korea," in *After One Hundred Years: Continuity and Change in Korean-American Relations*, edited by Sung-Joo Han (Seoul: Asiatic Research Center, Korea University, 1982), 73. This article also deals with Park's argument that there were some "immediate and evident" signs of military threats from the North and concludes that his argument is only controversial.

example, the Order to freeze the curb market and the Heavy and Chemical Plan bypassed the economic technocrats in the formal economic planning machinery such as the Economic Planning Board, the Ministry of Commerce and Industry, and the Ministry of Finance.[80] Because well educated neoclassical technocrats were largely antipathetic to measures which violated comparative advantage and property rights, Park usually selected compliant and nationalist technocrats to form the task forces for various special purposes. For the sector of the automobile industry, Park appointed Kim Jae Kwan to be the Deputy Minister of Commerce and Industry for Heavy Industry in 1973. Since 1970, Kim had repeatedly insisted on the development of a "national car" of 100% domestic content and design.[81]

Park's heavy-chemical industrialization drive provided not only the institutional structure for the success of Pony but also contributed to the establishment of strong backward linkages. For example, with the help of giant Japanese steel manufacturers such as Nippon Steel and Nippon Kokan, Pohang Steel Works (POSCO) erected its first blast furnace

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80. Stephan Haggard, *Pathways from the Periphery: The Newly Industrializing Countries in the International System*, 182; Sung Hyung Lee, "Gug'ga, gyegeub mid jabonchugjeog--8.3 jochireul jungsimeuiro--(The State, Classes and Capital Accumulation: About 8.3 Order)," in *Han'gug jabonjueuiwa gugga* (Capitalism and State in Korea), edited by Jang Jip Choi (Seoul: Hanul, 1985), 265.
81. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 181.

in 1973.[82] With its imported advanced technology and management system, POSCO became the most efficient steel company in the world.[83] For example, POSCO produced 467 tons of crude steel per man in fiscal 1986, in contrast to 327 tons for Japan's five biggest steel producers that had been the most efficient steel producers prior to POSCO's development. In fact, the economic linkage effects of the automobile industry and steel production are impressive. POSCO has been exceedingly efficient in providing its steel to domestic automobile manufacturers at the low cost of $320 per ton, compared to the Japanese and American car makers who have to pay $550 and $430, respectively. In return, the rapid increase of automobile production contributes to the productivity and profitability of POSCO. In 1987, for example, POSCO utilized 106% of its nominal capacity without any accidents, shutdowns or bottlenecks, while Japanese steel makers used only two-thirds of their capacity.[84]

In addition to the Heavy and Chemical Industry Development Plan, Park promulgated the Emergency Order for Economic Stabilization and Growth to freeze all curb markets in August 1972. Preempting the demands of *Jeongyeongryeon*

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82. Kubota Akira, "Transferring Technology to Asia," *Japan Quarterly* 33 (January-April 1986), 39. Akira proposes a thesis of "boomerang effects" in technology transfer from Japan to South Korea. See also Tim Shorrock, "A New Phase in Korean-American Relations: U.S. Steel's Pohang Strategy," *AMPO Japan-Asia Quarterly Review* 17 (1985): 2-13.
83. *The Economist*, May 14, 1988, 68-70.
84. *Ibid.*, 70.

(Korean Business Association), this Order was to freeze the curb market of 335.2 billion Won for three years, provide special loans of 200 billion Won for ailing manufacturers, increase the Fund for Industrial Rationalization up to 65.8 billion Won, and decrease the interest rate from 19% to 15.5%.[85] Although most manufacturing firms were major beneficiaries of the Order, Sinjin and Hyundai in particular were learders among them: the first and second debtors in South Korea according to the final report of the Order.[86] In fact, Hyundai Motor Corporation had borrowed several billions at the usurious rate of 45% a year from the curb

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85. In 1971, Kim Yong-Wan, the president of Jeon'gyeongryeon, visited Park and asked him to control the curb market through institutionalization, tax holidays, and the reduction of the interest rate. When Park showed indifference to their demands, the *Jeon'gyeongryeon* began a tax revolt in which the businessmen asked the government to reduce its budget by half--about 600 billion Won. Sung Hyung Lee, "Gug'ga, gyegeub mid jabonchugjeog--8.3 jochireul jungsimeuiro--(The State, Classes and Capital Accumulation: About 8.3 Order)," 253-255.

86. *Ibid.*, 271. According to government reports, the Order reduced the financial burden for businessmen by W102.8 billion a year. However, we can estimate the actual transfer of capital from creditors to debtors that occurred through this Order under the norm of the free market. If we assume that total transfer of capital is the sum of interest reduction and devaluation by freeze and inflation for eight years (freeze for three years and payment with a reduced rate of interest for five years), then,
$T = a(\ (R_t - r_t) + \ (I_t))$
T: total transfer of capital, a: the principal
R_t: average interest rate of curb market during the period (45.6% a year)
r_t: average interest rate in the Order during the period (15.5% a year)
I_t: inflation rate (GNP deflator) during the period, then, T = 160.09 trillion Won.

market and had to amortize it at the rate of about 100 million Won a day during several months of 1970-71.[87] The Order, therefore, freed Hyundai from the heavy debt trap and allowed it to accumulate capital for the development of its own model.

Although Hyundai Motor Corporation, as a subsidiary of Hyundai, as well as other automobile firms, suffered serious debt problems, Hyundai as a corporate conglomerate had rapidly grown since the early 1960s. Along with the economic boom of the First Plan years and the Vietnam War, Hyundai Construction Corporation, as the parent of Hyundai, had rapidly grown and played a very important role in founding the new Hyundai Shipbuilding Corporation and Hyundai Motor Corporation in the early 1970s. Hyundai Construction Corporation was large enough to guarantee credits for new firms. Although Hyundai obtained commercial loans of $61.1 million from Western and Japanese banks, it could invest $30.0 million (12.2 billion Won) in the new firm. This parent firm worked not only as a creditor for new subsidiaries but also as a training camp for engineers that would eventually run the new firms.[88] Usually, the section of the Department of Planning in

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87. *HMC, Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 140-141.
88. For example, all the engineers of the new firms came from Hyundai Construction Corporation, *ibid.*, 50-54; Chung Lee, *Jesamgonghwa'gug, je'ilgweon* (The Third Republic, Volume I) (Seoul: Donggwangchulpansa, 1985), 227-233.

Hyundai Construction Corporation became the Department of Planning in a new subsidiary.

Another factor that made Pony possible was an open and competitive international automobile industry. As George Maxcy points out, the basic structure of the international automobile regime involves the oligopoly of multinational corporations that dominate the international automobile market through their huge capital and advanced technology.[89] However, this regime also includes highly competitive small and medium firms which specialize in design and auto parts production. Not only the technologies of small and medium firms but also the technologies of large multinational corporations were made accessible to Hyundai because of the high competition among them.

Table 4-4 shows the historical trend of major Korean auto firms' technology import. If all terminal and parts firms are included, 98 firms imported 247 technologies from Japan, the United States, England, Germany, Italy, the Netherlands, and Austria during the period of 1962-1986.[90] Most of the license periods of those technologies were from 3 to 10 years.

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89. George Maxcy, *The Multinational Automobile Industry* (New York: St. Martin's Press, 1981), 15.
90. Cf. Wolganjadongcha, *Jadongcha chongram* (The Automobiles & Auto Parts Guide Book) (Seoul: Wolganjadongcha, 1986), 389-397.

Table 4-4: Technology Import of Korean Auto Firms, 1976-1986

Year	Hyundai	Daewoo	Kia	Total
1976		1	1	2
1977	2	1		3
1978	13	1		14
1979	5	2	1	8
1980	3	1		4
1981	3	1		4
1982	4		2	6
1983	5	2	1	8
1984	8	6	2	16
1985	3	2	2	7
1986	4	2		6
Total	57	26	15	98

Note: permitted by government.
* Total of 1960-1986.

Source: Young-suk Hyun, "An Empirical Study on the Technological Development of Korean Automobile Industry," Unpublished Ph.D. Dissertation, Department of Management Science, Korean Institute of Science and Technology, 1988, 111.

The international financial system played a pivotal role in the birth of Pony. As Jeff Frieden points out, "private financial institutions have displaced multinational corporations and official aid" and the Third World nationalist state-capitalist regimes could utilize the capital of the internationalist finance-capitalist of the Euromarkets in the 1960s and 1970s in order to "march the countries involved into the industrialized world."[91] Hyundai's financial plan for Pony showed that about 73

91. Jeff Frieden, "Third World Indebted Industrialization: international finance and state capitalism in Mexico, Brazil, Algeria, and South Korea," *International Organization* 35 (Summer 1981), 407, 408.

percent of the total of $71.25 million was dependent on foreign saving.[92] As long as Hyundai did not rely on direct investment from Ford, the Korean state and Hyundai had to borrow $52.11 million from abroad.

Soon after Hyundai announced the new project of "a Korean car" in 1973, Hyundai was able to borrow an unprecedented amount of money from three foreign banks: Suez Bank in France, Barclays in England, and Mitsubishi Corporation in Japan. The final amount of those commercial loans increased to $61.15 million in 1976.[93] Even though all foreign loans were endorsed and guaranteed by the Korean state, the speed and amount of those loans for a project was quite impressive and contributed to the birth of Pony.

Therefore, this case supports Frieden's thesis of the Third World authoritarianism-international financial system linkage. By borrowing money from international financial institutions without relying on heavy taxation, Third World authoritarian regimes could foment their authoritarian ruling coalitions for a long period. In the Brazilian case, Frieden explains,

> "The political consequences of borrowing and the subsequent financial crisis became substantial. The country's integration into a growing international financial and commercial system consolidated the position of the authoritarian coalition that took power

92. HMC, *Hyundai jadongcha isipnyeonsa*, 183.
93. *Ibid.*, 196.

> in 1964. Debt-financed industrial growth helped to cement an alliance of the country's economic elites and ensure the passive support of large portions of the middle and working classes pulled upward by the industrialization drive."[94]

Without restructuring the domestic financial distribution system in the short-term perspective, Park and Chung together set up a modern automobile production plant. The development of automobile production rapidly cultivated domestic demands that had been only latent in contrast to the demands of the countries in the same income level. Moreover, until the domestic market became saturated the rapid expansion in the demand for the automobile created profits for capitalists and jobs for workers. If the ruling coalition chose outward-oriented industrialization, the problem of domestic market saturation would be solved along with the international competitiveness of the industry. Until the mid-1970s, Park and his allies followed the Frieden thesis.

In the case of Pony, Hyundai imported engine, transmission, and radiator technologies from Mitsubishi in Japan, and overall design from Ital Design in Italy. It proved to be a successful combination of high fuel-efficient engine and advanced design, which formed an appropriate model for the Korean situation. Korean roads were narrow and largely unpaved until the early 1980s. Therefore,

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94. Jeff Frieden, "The Brazilian Borrowing Experience: From Miracle to Debacle and Back," *Latin American Research Review* 22 (1987), 96.

Pony quickly dominated the domestic market with its relatively higher chassis, strong body, low weight, and superior fuel economy. Moreover, the oil crises in the 1970s made resource-poor Korea very nervous about fuel economy. When Pony appeared in the market in 1976, therefore, it swept all previous records of car sales and Hyundai has maintained the high market share of over 50% since the mid-1970s, as shown in Table 4-5.

Table 4-5: Production of Major Korean Motor Vehicle Manufacturers, 1973-1986

Year	Hyundai		Kia		Daewoo*		Others		Total
	units	%	units	%	units	%	units	%	Units
1973	7009	26.6	8373	31.8	9545	36.2	1407	5.3	26334
1974	8992	29.5	14482	47.6	6237	20.4	740	2.4	30451
1975	7093	19.1	20354	54.7	8405	22.6	1328	3.6	37180
1976	19319	38.9	20250	40.8	8491	17.1	1515	3.1	49575
1977	38642	45.1	29484	34.4	13997	16.4	3475	4.1	85598
1978	82631	51.7	45746	28.6	26769	16.8	4664	2.9	159810
1979	103888	50.8	58248	28.4	38693	18.9	3618	1.8	204447
1980	61840	50.2	33369	27.0	24413	19.8	3513	2.9	123135
1981	70213	52.3	36039	26.8	20411	15.2	7571	5.6	134234
1982	91544	56.3	42525	26.1	22796	14.0	5725	3.5	162590
1983	108902	49.2	64178	29.0	35146	15.9	12793	5.8	221019
1984	141790	53.4	75007	28.2	42357	16.0	6207	2.3	265361
1985	240755	63.6	84931	22.4	44935	11.9	7541	2.0	378162
1986	428934	71.3	104007	17.2	55826	9.3	12779	2.1	601546

Note: * Daewoo includes Saenara ('62-'63), Sinjin ('64-'74), GMK ('72-'76), and Saehan ('77-'82): both Sinjin and GMK produced cars during the period of 1972-74.

Source: HMC, *Hyundai jadongcha isipnyeonsa* (20 years of Hyundai Motor Corporation) (Seoul: HMC, 1987), Appendix: 60.

The success of Pony in the domestic market provided Hyundai with significant financial stability. From 1976 to

1979, Hyundai's total sales increased from 52.78 billion Won to 269.04 billion Won, showing the excessive growth rate of 409.6 percent. For the same period, Hyundai's net profits also increased from 3.5 billion Won to 11.3 billion Won and its accumulated profits were about 30 billion Won.[95] The capital to debt ratio also improved from 19.68 percent in 1976 to 27.51 percent in 1978. As the sales and profits increased, the size of Hyundai's capital also increased to 38.25 billion Won in 1979, which was about six times larger than its capital in 1975.

In contrast, GM-Korea had failed to provide an appropriate model for the Korean market. Its Chevrolet 1700 and Camina were too heavy, large, and fuel-consuming to compete with Pony in the Korean market. As the market share of GM-Korea rapidly declined, the profitability of Sinjin Motor Corporation also declined. Because of its failure on subsequent new models, Sinjin could not maintain its share of GM-Korea and thus sold its share to the Korean Bank of Industry in 1976, which was then sold again to Daewoo in 1978. Likewise, Kia had hardly competed in the domestic passenger car market. In fact, Kia had been a producer of commercial vehicles until 1983 when Kia entered into the passenger car market with its Brisa. Thus, from 1972, the domestic passenger car market was dominated by Pony. The success of Pony, therefore, exerted

95. *HMC, Hyundai jadongcha isipnyeonsa*, 333.

significant impetus not only upon the structure of the domestic market but also upon the strategies of the Korean state and multinationals. As the Mexican case will show, there is no threat to a multinational offering an inappropriate model if there is no competitor. Transnational subsidiaries in Mexico imported their models from their mother firms in order to contribute to the economies of scale for a model. The appropriateness of a model is largely ignored. However, the existence of a successful model which is appropriate to the local situation tends to emerge as the leader in market. Other firms have to follow suit through the development of a new local model or they would be eliminated from the competition.

4. Summary

This chapter examined the role of Korea's ruling coalition in the development of Korea's automobile industrialization in the stage of introduction. As discussed above, major changes in development strategy for the automobile industry were the outcome of intra-coalition struggles in which powerful members of the Korean state and business community competed with one another to advance their interests under the changing political economic environment. However, there were some basic "reciprocal consents" within Korea's ruling coalition regarding the

development of automobile industrialization. In order to understand the basic compromises within the ruling coalition, it is necessary to understand the historical development of the ruling coalition.

The South Korean ruling coalition, established by the American Military Government after World War II, underwent renewals through land reform, the Korean War, and the Military Coup. The Korean state and local entrepreneurs established a close alliance for capitalist development, while both the landlords and workers incrementally lost their political power. After the 1961 military coup d'etat, Park reorganized the ruling coalition as a triple alliance among the strong state bureaucracy such as the KCIA and EPB, an official mass party such as the Democratic Republican Party, and businessmen associations such as Gyeongje'in Hyebhoe. This basic coalitional structure has hardly changed even after the 1980 military coup by Chun and Roh.

As Nigel Harris points out, one of the most apparent traits of the ruling coalition is the ideological and economic "blind-success bred pragmatism," in which Park's coalition strongly encouraged capitalism but with extensive control over property rights, trade, and markets. The Korean ruling coalition preferred the private sector as a major actor in the auto industry. Even bankrupted auto firms such as Saenara and Sinjin were always taken over by

other hopeful businessmen rather than assigned to public ownership. In these cases, the state provided various incentives and institutional arrangements for the convenience of new auto firms. However, the Korean government promulgated several auto decrees disallowing more than four auto firms throughout the whole period.

In fact, the goal of this pragmatism in the auto industry can be summarized as the establishment of national champion firms. As an integral part of this strategy, local ownership and economies of scale were frequently emphasized in governmental policy guidelines and corporate reports. Park's political concern about nationalist forces within and outside of the ruling coalition and the domestic firms' concern about managerial control coincided in the preclusion of majority ownership by foreign firms in major cases. Moreover, since Korea has only a small and underdeveloped domestic market, economies of scale were emphasized as an economic prerequisite for the efficient and rapid growth of such a capital-intensive industry as the automobile industry.

As the establishment of national champions became the basis for coalition consensus regarding the automobile industrialization strategy, the autonomy of Park's government only partly explains the successful establishment of a national champion in South Korea. The Korean state often failed to perceive the technological complexity of

automobile manufacturing and to solve struggles among governmental ministries and/or automobile manufacturers such as in the instances involving the 1962 Five-Year Motor Vehicle Industry Plan, the 1963 Plan for Unification of the Motor Vehicle Industry, and the 1964 Plan for Promotion of the Motor Vehicle Industry.

The Saenara scandal in the early 1960s exemplifies clearly what could happen to a development strategy in the absence of cooperation within a ruling coalition. Kim Jong Pil, the KCIA chief, contemplated the high profitability of automobile assembly and the possibility of the industry being a major source of much needed political funds. With the assistance of Park No Jeong, a Korean-Japanese businessman, Kim established Saenara Motor Corporation as an assembler of Nissan Bluebirds. Kim also promulgated the 1962 Five Year Plan and the 1962 Protection of the Motor Vehicle Industry Law in order to support this venture. However, this venture was politically and economically too weak to continue. Despite its very profitable operation, Saenara Motor Corporation collapsed in July 1963 when the struggle between Kim and Park over profit-sharing turned the venture into a national scandal.

Corporate policies were emphasized as a major part of the ruling coalition's development strategy. Korea's automobile policies were successful only to the extent local manufacturers agreed and supported the goals of the

policies, as illustrated in the cases involving the 1967 Guidelines for Permission of Motor Vehicle Manufacturers and the 1974 Long-Term Plan for Development of the Motor Vehicle Industry.[96] Hyundai Motor Corporation emerged after the 1967 Guidelines and developed Pony as a national car under the 1974 Long-Term Plan.

The development of Pony as a domestic model followed the failure of a series of negotiations for a joint venture between Hyundai and Ford. While Ford wanted to incorporate a new joint venture into Ford's world sourcing system, Hyundai firmly insisted on its managerial control of the new auto firm. In 1973, Hyundai decided to develop its own model and succeeded in assembling its first Pony in 1976. An open and competitive international automobile industry allowed Hyundai to exploit the most appropriate technologies to develop its own model at a relatively low cost. Moreover, as a diversified conglomerate, Hyundai could accumulate managerial experience for a new large-scale automobile plant.

Hyundai's ambitious project, however, was possible only with the political economic circumstances created by Park's heavy-chemical industrialization policies and his emergency order to freeze the curb market in the early 1970s. The heavy-chemical industrialization policies and the 1974 Long-

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96. Alice Amsden uses the term "market conforming" to define this type of market intervention by the Korean state. Amsden, *Asia's Next Giant*, 141.

Term Plan, which were aimed at consolidating Park's regime against the internal and external threats by exploiting the nationalist formula of "steel as national power," were used by Hyundai's entrepreneurs to insure Hyundai's highly risky project of developing of a national car as one of the national projects.

Park's emergency order to freeze the curb market was also one of the most prominent examples of "reciprocal consents" between Park and business leaders. This order was suggested by business organizations and adopted by Park to provide relief to the business sector from economic crises in the early 1970s. This order released Hyundai from a short-term debt trap and helped Hyundai to accumulate capital for the development of a domestic model.

The success of Pony in the domestic market profoundly affected the structure of Korea's automobile industry in the next stage of late industrialization. With the superior competitiveness of Pony, Hyundai established its hegemony over the domestic market as a national champion, enabling it to prepare for its advance into the North American auto market. The establishment of Hyundai as a national champion and the development of Pony exemplified how the Korean state and national bourgeoisie cooperated with each other to form development strategies for late automobile industrialization and successfully implemented those strategies.

In contrast, Sinjin, which bought Saenara in 1965, chose a different strategy from Hyundai's by seeking a joint venture with GM. This corporate strategy was temporarily supported by the Korean government in order to secure the presence of America's interests in Korea. However, as this new joint venture--GM-Korea--could not live up to the nationalist slogans such as the development and export of national cars, the support for Sinjin within the ruling coalition eventually diminished. When GM-Korea failed to produce a competitive model to match Pony, it collapsed. Sinjin's share in GM-Korea was sold to Daewoo in 1978. This market structure was consolidated in the 1980s and became a solid base for the export pattern that will follow.

Chapter V. Development of Automobile Industry In South Korea (II)

1. An Export Boom in the Korean Automobile Industry

1.1. Automobile Export of Third World Latecomers

To foreign observers, the export of Korean automobiles into the international market was the most dramatic part of the so-called "Korean Miracle." As one of the main pillars of the ruling coalition's developmental strategy, the export promotion in the automobile industry has been really phenomenal. The speed and volume of Korea's automobile export growth have been among most outstanding in the history of the world's automobile industry. Indeed, the logic that explains the success of Korea's automobile export is also rapidly changing.

From the outset, neoclassical economists were generally doubtful about the success of Korea's heavy industrialization drive, including the success of the automobile industry.[1] The neoclassical argument regarding the obstacles to Korean automobile export involved several substantive issues. For the automobile industry to succeed, it had to be export-oriented rather than based on import-substitution because of its small and underdeveloped

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1. For example, see Chul Hee Lee, *Han'gugeui jadongcha gong'yeob* (The Korean Automobile Industry) (Seoul: KDI, 1980).

domestic market. The question was whether Korea could establish an automobile industry, the products of which would be competitive in the international market. Regarding the highly developed production and demand structure of the international automobile market, any Third World latecomer such as South Korea would hardly be able to produce internationally competitive cars.

Moreover, the automobile industry is highly capital-intensive like other heavy-chemical industries. A KDI report correctly pointed out that *labor intensiveness* (the rate of labor costs to total manufacturing costs) assumed only 4 to 7 percent from 1967 to 1976 in the Korean automobile industry.[2] On the one hand, cheap labor--one of the major advantages of the Korean economic system--hardly played a role in the competitiveness of the Korean automobiles in the international market. On the other hand, the high cost of capital would push local auto firms into financial crises sooner or later.

The most feasible way for a Third World latecomer to export cars is to engage in multinational automobile joint ventures. Under the new international division of labor, as both neoclassical economists and neo-Marxists agree, multinational corporations increasingly want to use the cheap labor of Third World latecomers to produce

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2. *Ibid.*, 38.

standardized products.[3] The products that are manufactured by the capital and technology of multinationals are competitive in the international market. Third World host countries could exploit that opportunity to invite direct investment from multinationals to set up modern factories for exports. Chuk Kyo Kim and Chul Heui Lee argue,

> "Korea's development strategy for the automobile industry . . . aimed at indigenous development and production . . . But the prospect is not necessarily bright . . . The Korean economy is not expected to grow as rapidly as in the past while international competition in the world market is being intensified. The critical know-how regarding emission control, safety devices, and gas conservation is not likely to be readily accessible. As a result, it will be increasingly difficult to successfully promote the automobile industry as an internationally competitive industry. In view of the difficulties facing the Korean automobile industry, *it seems imperative to modify the development strategy in line with the changing internal as well as external conditions, that is, towards closer cooperation with multinationals.*"[4]

The case of the Brazilian auto industry seems to be one of the most prominent examples of the exploitation involved

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3. Rhys Jenkins, "Internationalization of Capital and the Semi-Industrialized Countries: The Case of the Motor Industry," *Review of Radical Political Economics* 17 (Spring & Summer 1985): 59-82. Both neoclassical economists and neo-Marxists agree on the increasing power of multinational corporations in the international capitalist system. While neoclassical economists usually believe that these multinationals contribute to the diffusion of capital and technology in developing countries, however, neo-Marxists believe that multinationals only contribute to the interests of core countries.
4. Chuk Kyo Kim and Chul Heui Lee, "Ancillary Firm Development in the Korean Automobile Industry," 322; italic is added.

in the new international division of labor. In fact, almost all of the capital in the terminal firms and much of the auto parts firms in Brazil are foreign owned or controlled. According to Kenneth S. Mericle's observation, multinational automobile corporations in Brazil have produced products of the same quality as they do in their home countries, using the same technology.[5]

The Brazilian auto industry grew at an annual rate of 38.79 percent during the period of 1960 through 1980.[6] In 1980, Brazil produced 1.16 million cars and assumed 44.7 percent of total Third World car production. The growth of car exports was also impressive. Until the early 1970s, Brazil hardly exported motor vehicles. However, Brazil has become a net exporter of cars and auto parts since the mid-1970s. Brazil exported 207,640 cars and $857.3 million of auto parts in 1985. Regarding the wide backward and forward linkages of the industry, this rapid growth of the Brazilian auto industry has played a critical role in the making of the "Brazilian Miracle."

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5. Kenneth S. Mericle, "The Political Economy of the Brazilian Motor Vehicle Industry," in *The Political Economy of the Latin American Motor Vehicle Industry*, edited by Rich Kronish and Kenneth S. Mericle (Cambridge: The MIT Press, 1984), 1.
6. ANFAVEA, *Industria Automobilistica Brasileira: Anuario Estatistico* 1957/1986 (Sao Paulo: ANFAVEA, 1986). Data mentioned below should be referred here.

1.2. The Success of the Korean Automobile Export in the U.S. Market

In spite of the predictions of some economists, however, an independent Korean auto industry has shown a remarkable record in its automobile exports. As Table 5-6 shows, the export of motor vehicles in Korea has grown at the annual rate of 587.9 percent for a decade, from 1977 to 1987. This rapid growth in Korean motor vehicle exports was led by the export of passenger cars. Until 1975, Korea exported no passenger cars. However, Korea became a world-level exporter of passenger cars in 1987. This rapid increase of passenger car export coincides with the entry of Korean cars into the North American market. Since 1983, Korea has begun to export cars to Canada and, later, to the United States. The volume of the Korean exports in following years set a new record through the sale of a single model in those markets. Achieving the export of over 300,000 cars in 1986, Korea became the sixth exporter of cars in the world.[7]

As Table 3-6 in Chapter 3 shows, Hyundai contributed the most to the rapid growth of vehicle export in the Korean automobile industry. Since 1981, Hyundai has assumed over

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7. Cf. Automotive News, *Automotive News*, 1988 Data Book (Detroit: Automotive News, 1988). In 1986, Japan exported 6,604,923 cars, Germany 2,693,739, France 1,702,400, United States 842,401, and Spain 813,823. South Korea exported 306,369, Brazil 183,279, and Mexico 123,103.

70% of total Korean automobile exports even though the relative share of other firms has recently increased. With the help of American multinational corporations such as Ford and GM, Kia and Daewoo has recently increased vehicle export. However, their share still is far behind that of Hyundai. This rapid expansion of Hyundai's vehicle export can be explained largely by the development of *Pony* and *Pony Excel*--national designs--which are competitive in the international market.[8]

Table 5-1: Exports of Motor Vehicles From Korea

Year	Cars	Trucks	Buses	Total
1975	0	0	31	31
1976	558	36	649	1243
1977	5075	6	4055	9136
1978	16371	67	9899	26337
1979	18702	75	12709	31486
1980	14655	243	10355	25253
1981	17221	395	8768	26384
1982	14133	215	5969	20317
1983	16405	192	7913	24510
1984	48778	561	3011	52350
1985	119210	745	3155	123110
1986	298878	605	6886	306369
1987	535231	2312	8767	546310

Source: Korea Auto Industries Cooperative Association, *Korea Automobile & Autoparts '89-'90* (Seoul: KAICA, 1988).

Pony's success in the domestic market was discussed in the previous chapters. With *Pony*, which was designed to meet the conditions of the domestic market, Hyundai swept

8. HMC, *Hyundai jadongcha isipnyeonsa*, Part 3.

the domestic market. However, *Pony* did not pass the emission and safety tests necessary for export into the U.S. market. It was *Pony Excel* that guaranteed Hyundai's success in international market. Pony Excel (called Hyundai Excel in the United States), as a front-engine front-wheel-drive (FF) car, appeared in 1985. This car was equipped with a very advanced emission control device and a modern design for safety that qualified for the U.S. market. Pony Excel was introduced in the U.S. market in 1986. In spite of various obstacles, the export of Pony Excel has turned out to be the most spectacular success in the history of import cars in the U.S. market. One hundred and sixty-eight thousand Excels were sold in 1986, 263,000 in 1987, and 264,000 in 1988.[9] As a single model, Excel set the record as the best selling import car in the history of the U.S. automobile market.

The international trade situation, especially the condition of the U.S. market, produced mixed incentives for the entry of Hyundai Excel. One of the positive factors for the entry of Hyundai Excel into the U.S. market was the voluntary restraint of the Japanese automobile exporters. Since 1979, acknowledging the trade friction caused by the massive trade imbalances between the U.S. and Japan,

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9. *Jung'ang Ilbo*, Thursday, March 2, 1989.

Japanese car exporters imposed "voluntary" restraints of car exports to the United States.[10]

Table 5-2: Import Penetration of U.S. Car Market by Japanese Car Exporters, 1979-1985 (thousands)

Year	Total	Japanese	(%)	Others	(%)
1979	3,006	1,588	52.8	1,418	47.2
1980	3,248	1,887	58.0	1,361	42.0
1981	2,999	1,814	60.4	1,185	39.6
1982	3,067	1,741	56.7	1,326	43.3
1983	3,510	1,772	50.5	1,738	49.5
1984	4,880	1,939	39.7	2,941	60.3
1985	5,300	2,317	43.7	2,983	56.3

Source: Compiled from MVMA, *World Motor Vehicle Data, 1987 Edition*.

Table 5-2 shows that the share of U.S. car imports from Japan has declined since 1981, while the volume of total imported Japanese cars has increased. It is not clear whether the Japanese auto makers would have set up barriers to the entry of Hyundai Excel as a compact car if there was no restriction on the import of compact Japanese cars. In fact, however, Japanese car companies chose to introduce mid-size cars rather than to increase the market share of small cars after the three years of voluntary restrictions. Obviously, the restraint of Japanese car exporters in the

10. Cf. Robert E. Cole and Taizo Yakushiji, eds., *The American and Japanese Auto Industries in Transition: Report of the Joint U.S.-Japan Automotive Study* (Ann Arbor: Center for Japanese Studies, The University of Michigan, 1984).

compact car market paved the way for the entry of Hyundai Excel.

However, there were a few negative factors against the entry of Hyundai Excel. First, there already existed a serious excess capacity problem in the world automobile industry. For example, according to the U.S. Department of Transportation, the world auto industry had facilities which could produce 12 million cars more than the actual demand in 1981, because the world auto market was already saturated.[11] That meant that 24 percent of world auto factories were idle. Despite the economic recovery in major Western countries, and the production of 9 million units, 17 percent of automobile manufacturing facilities were still not utilized in 1985. As long as there is a heavy under-utilization of manufacturing facilities, competition among major Western auto manufacturers in Western countries is expected to be strongly intensified. The increasing competition would work negatively in regard to the entry of new comers like Hyundai.

Second, the U.S. trade policy has become increasingly protectionist. Even though the U.S. economy has enjoyed a substantial annual GDP growth of 2.5 percent with its relatively low average annual rate of inflation of 5.3 percent in the period of 1980-85, the U.S. auto market in

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11. United States, Department of Transportation, *The U.S. Automotive Industry*, 1982 (Washington, D.C.: Transportation Systems Center, 1983).

general has not been in good shape. Since the early 1970s, the new registration of motor vehicles in the United States has been stuck in the range of 10 million to 15 million cars. During the early 1980s, there was a clear recession in the U.S. auto industry. "The U.S. automobile industry is in a crisis . . . . : literally hundreds of thousands of people have lost their jobs; communities dependent on the industry have suffered devastating losses in employment and financial resources; all the domestic producers have suffered major financial losses; large facilities have permanently closed."[12] The recession in the auto industry influenced the U.S. Government to increase the barriers to foreign cars entering the U.S. auto market.

However, whether factors were positive or negative, the international environment is not adequate to explain the successful entry of Hyundai Excel. The international environment was hardly discriminatory towards Hyundai Excel. Any latecoming compact car manufacturer could exploit the opportunity created by the trade agreement between the U.S. and Japan. Not only Hyundai Excel but also a number of Third World cars such as Yugoslavia's Yugos sought to enter into the international auto market. However, Hyundai Excel

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12. National Research Council, *The Competitive Status of the U.S. Auto Industry* (Washington, D.C.: National Academy Press, 1982), 1.

is the only one among Third World cars that successfully entered the U.S. market.

It is interesting to observe that while three Korean car manufacturers entered the U.S. market in the early 1980s, the results were different. Kia and Daewoo depended upon multinationals such as Ford and G.M. for the sales of their cars in the U.S. market, while Hyundai established its own dealer network. In both the cases of Kia and Daewoo, their dependency upon the multinational corporations' dealer network resulted in the increase of prices. For example, the producer' prices for Festiva (Kia), Excel (Hyundai), and Lemans (Daewoo) are 3.3 million Won, 4.0 million Won, and 4.6 million Won, respectively.[13] However, as shown in Tabl 5-3, Hyundai could sell its car at the lowest price in the U.S. market, suggesting the possibility of dumping prices.[14] Not only in their basic prices, but also in the advertisement of their products, the aggressive attitude of their dealers, and the management of the dealer networks, there are substantial differences between Hyundai and the others. For example, Hyundai could choose the "single" dealers in strategically important areas, while the sales of the others' products became a part of the U.S. auto makers' national sales programs.

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13. KAICA, *Jadongcha gong'yeob pyeonram*, 429.
14. In fact, Hyundai was accused of "dumping activities" in Canada in 1987.

Table 5-3: Comparison of Selected Compact Cars in the U.S. Market, 1988

Country	Maker	Model	Engine Size (litter)	Price (US $)	Note
Korea	Hyundai	Excel	1.5	5395	
	Daewoo	LeMans	1.5	6399	(OEM for GM)
	Kia	Festiva	1.3	5490	(OEM for Ford)
Mexico	Ford	Tracer	1.6	8100	
Japan	Toyota	Corolla	1.6	7978	(FX)
	Nissan	Sentra	1.6	6499	
	Honda	Civic	1.5	6195	
US	Ford	Escort	1.5	6586	
	GM	Nova	1.6	8795	(with Toyota)
	Chrysler	Omni	2.2	5995	
Brazil	Volkswagen	Fox	1.8	6290	
W. Germany	Volkswagen	Golf	1.8	7990	
Yugoslavia	ZCZ	Yugo	1.1	4199	

Source: *Consumer Reports*, April 1988.

Table 5-8, reported by *Consumer Union* in the United States, partly explains why Hyundai's Excel was so much more successful in the American automobile market. Even though the Japanese compact cars are well known and more reliable, the price gap between Hyundai and them is so large that many budget-conscious consumers prefer Hyundai Excel rather than the other cars.[15] Only Yugo listed price lower than Hyundai Excel. However, the reliability of Yugo is rated as "much worse than average" by *Consumer Report*, while that

15. Car And Driver, *Buyers Guide to 1989 New Cars*, July 7, 1989, 30.

of Hyundai Excel is rated as "average."[16] Therefore, it has been claimed that the low price together with the average quality played an important role in the success of Hyundai Excel in international market.

The low price and "average quality" in international auto market, as both neoclassical economists and neo-Marxists argue, could hardly have been achieved by independent late-coming manufacturers such as Hyundai without their dependence upon the multinational corporations. The other Korean automobile manufacturers--Kia and Daewoo--have followed their advice and exported their cars only with the help of the multinationals. It is important, therefore, to examine how the Korean automobile manufacturers--especially, Hyundai--obtained "the critical know-how regarding emission control, safety devices, and gas conservation" that may not have been easily accessible.[17]

1.3. The Political Economy of the New *Pony Excel* (I)

The plan for *Pony Excel* in Hyundai began in 1978, according to Hyundai's reports.[18] The purpose of this plan was to build an assembly plant that could assemble

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16. *Consumer Reports*, April 1988.
17. Cf. Chuk Kyo Kim and Chul Heui Lee, "Ancillary Firm Development in the Korean Automobile Industry."
18. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 429.

300,000 FF cars by 1985 from an investment W396.9 billion (current US $582.79 million). Hyundai officially announced this plan in October 1981. Mitsubishi Motor Corporation provided the main source of technology for a new car. This project would be financed in part by foreign loans (US $393.96 million) and in part by all of Hyundai's credit.[19] The first Pony Excel rolled out from its plant in February 1985.

This brief description of Pony Excel, however, does not help us to understand the issues that influenced the production of *Pony Excel*. For example, the economic recession in the late 1970s and the early 1980s, the struggle within governmental institutions around the reorganization of the heavy-chemical industries in 1979 and 1980, and the negotiation between Hyundai and the multinational automobile corporations heavily influenced the course of the production of Pony Excel. The most important question as in the case of Pony is who initiated the plan of Pony Excel and why? How has the initiator of the plan managed various factors such as economic recession, financial crises, intra-coalitional struggles, the

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19. From 1982 to 1985, Hyundai borrowed from BA Asia Ltd. (US $30 million) and Lloyds Bank PLC (US $30 million) in Hong Kong through its own credits. It also borrowed from Manufacturers Hanover Ltd. in Great Britain (US $50 million) and the Mitsubishi Bank LTD in Japan (¥10 billion) through the guarantee of the Bank of Korea. However, Hyundai changed the governmental guarantee of Manufacturers Hanover Bank to its own credit in 1986. *Ibid.*, 435.

bottlenecks of advanced technologies, and the attacks from the emergent anti-ruling coalition forces.

The economic recession in the late 1970s and the early 1980s was serious enough to produce the first real recession to Korean economic growth since 1962. The average rate of GNP growth showed 9.0 percent for the three Five-Year Plan periods (1962-1976).[20] The rate was 10.7 percent in 1977 and 11.0 percent in 1978. However, it fell to 7 percent in 1979 and -4.8 percent in 1980. As economic demands were decreasing, the overall operation ratio in the machinery sectors and the rate of profit in all manufacturing sector also declined from 74 percent to 35 percent, and from 3.5 percent to -0.2 percent in the period from 1977 to 1980, respectively.[21]

Two major factors account for the economic recession in the late 1970s and the early 1980s. First, the so-called "second oil shock" caused by the Iranian Revolution in 1979 was so powerful as to shake the Korean economy because Korea's energy source is heavily dependent upon the oil of the Middle East. Through the first oil crisis in the early 1970s, the oil price was already too high to be paid by the oil-dependent Korean economy. Following the success of the Iranian Revolution and its leaders refusal to cooperate with

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20. Economic Planning Board, *Korean Economic Indicatiors* (Seoul: EPB, 1988). Data used in this section come from this source, unless otherwise noted.
21. Korea Exchange Bank, *Monthly Review*, December 1980.

the multinational oil corporations which had controlled international oil market in 1978, the order of the market was greatly disturbed once again and oil prices rose rapidly. As Korean industrialization advanced, the ratio of oil to all other energy sources in Korea rose from 8.1 percent in 1961 to 63.5 percent in 1978.[22] Because of its massive dependence upon oil, the sudden increase in oil price meant that the Korean economy could hardly substitute oil for other energy resources but instead had to pay the high prices. As a result, the ratio of oil to all imports increased from 16.4 percent in 1979 to 25.4 percent in 1980.

The automobile industry was the hardest hit by the second oil shock. Because automobiles consume gasoline as their fuel, the increase in oil prices not only caused a decrease in the demand for cars but also forced the government to pick the automobile industry as a major target of its energy saving policies. Gasoline prices increased from W198.5 per liter in 1978 to W580 per liter in 1980. Over the period of a year, it increased about 192 percent. This rapid increase in gasoline price was enough to discourage the demand for automobiles in Korea.

From 1979, the Korean government set up various direct and indirect measures to restrict the use of motor vehicles

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22. HMC, *Hyundai jadongcha isipnyeonsa* (Twenty years of HMC), 360.

in order to reduce the consumption of oil. For example, the government restricted the use of personal passenger cars during holidays and also restricted the passage of commercial vehicles through downtown Seoul. It also introduced new taxes on new cars and increased the rate of the old taxes on used cars.[23] After January 1980, the government announced a halt in the registration of new commercial vehicles with the exception of motor vehicles for mass transportation.

Table 5-4 shows the financial impact of the economic recession and the governmental policies upon the three major Korean auto firms. Total sales in the three firms exceeded W200 billion in 1979. However, all of them were plagued by a setback in total sales in 1980. The more drastic impact of the economic recession is indicated in their profits than in their sales. All three firms recorded high profits in 1979. However, all of them suffered a drastic decline in profits and showed a considerable loss since 1980. Interestingly, Hyundai was the quickest to recover in its sales and profits. Daewoo still had not recovered from its loss in both sales and profits in 1982. The reasons for these differences were

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23. For example, a new 5 percent registration tax on producer prices and a new 3 percent mortgage tax on sale prices were established and the automobile tax increased to 50 percent for producer prices in April 1979. Until January 1980, the compulsory purchase of the Seoul Metro Bond and the Defense Tax also rapidly increased. *Ibid.*, 387-388.

discussed in previous sections. For example, Pony provided a definite structural advantage to Hyundai in sales and profits. As the biggest *Jaebol* in Korea, moreover, Hyundai had the financial muscles to surmount the temporary financial crises. As another Jaebol, Daewoo possessed the financial buffer to override the financial crisis but it did not have the appropriate model to reshape the structure of the domestic automobile market.

Table 5-4: Sales and Profits of Three Major Korean Auto Firms, 1979-1982 (billion Won)

Year		Hyundai	Kia	Daewoo
1979	Sales	269.0	261.9	212.2
	Profits	11.4	5.5	4.2
1980	Sales	225.0	154.8	164.7
	Profits	-19.3	-24.7	-23.8
1981	Sales	296.7	191.3	167.3
	Profits	-16.4	-26.6	-33.0
1982	Sales	430.1	272.9	192.2
	Profits	11.3	3.9	-22.7

Source: HMC, *Hyundai jadongcha isipnyeonsa*, 391.

1.4. The Political Economy of the New *Pony Excel* (II)

As the economic recession hit the Korean economy in general, the old struggle between the neoclassical economists in Economic Planning Board and the nationalists in the Ministry of Commerce and Industry emerged again in

the late 1970s and in the 1980s.[24] This struggle between two ministries also heavily influenced the structure of the automobile industry. As Haggard points out, from the outset, neoclassical economists in the Economic Planning Board disliked the heavy-chemical industrialization plan based on "strategic sectors" or "targets" with inflationary measures.[25] With the help of the neoclassical economists in the international lending organizations such as the IMF and the World Bank and economists in the Ministry of Finance, the Economic Planning Board argued that the heavy-chemical industry was one of the major sources of economic problems in South Korea. For example, Economic Planning Board argued that the strong bias towards manufacturing investment in the industry,[26] the lack of comparative advantages in the industry, and the reversing effects of import-substitution policies in the industry, had caused growing inflation, while increasing imports and decreasing exports.

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24. The neoclassical coalition in the case of the automobile policy includes the Economic Planning Board, the Ministry of Finance, the Bank of Korea, and the Korean Development Institute. The nationalist coalition includes the Ministry of Commerce and Industry, the Presidential Secretariat, and the Korean Institute for Economics & Technology.
25. Haggard, *Pathways from The Periphery: The Newly Industrializing Countries in The International System*, 199-201. The automobile sector became one of "the strategic sectors for export" since 1977.
26. Over 75 percent of all manufacturing investment was towards the heavy-chemical industry from 1975 to 1980. *Ibid.*, 198.

In 1978, as the economic situation was getting worse, Park reluctantly accepted these arguments and replaced the Keynesian expansionist Nam Deok Woo with the so-called "stabilizationist" Shin Hyun Hwak as the head of the Economic Planning Board. As both the head of powerful Economic Planning Board and the deputy Prime Minister, Shin tried to reshuffle the industrial structure according to his neoclassical principles. He organized an interministerial committee to reorganize the heavy-chemical industry. It was called the Committee for the Adjustment of Industrial Investment. The Ministers of Finance, Commerce and Industry, and Energy were members of the committee and Shin was the chair of the committee. However, this Committee was in disarray for a period of time because of the differences in viewpoints between the Economic Planning Board and the Ministry of Commerce and Industry. Because the results of the adjustment would influence the existence of major industrial firms and the range of each ministry, no one party would not allow the others to dominate the Committee.

In April 1979, when the Minister of Commerce and Industry--Choi Kark Kyu--was visiting foreign countries, Shin hurriedly called a meeting of the Committee and promulgated *the 4.17 General Stabilization Plan* that was aimed at lowering the share of heavy industry investment in the economy (from 82 percent to 78 percent) and cancelling

the investment plan for some sectors having a low comparative advantage, thus marking the temporary triumph of "a new anti-Keynesian policy coalition."[27] However, this triumph was soon reversed when Choi returned home and strongly protested against the Plan. After a month's negotiation, both sides agreed on *the 5.25 Heavy-Chemical Industry Investment Adjustment Plan*. According to the new Plan, through the vertical integration of the heavy-chemical industry investment and the cancellation of new investment, Korea could save W372.7 billion. However, this Plan was nothing but a face-saving plan for both sides because most of the cancelled investment plans remained on paper rather than being substantive entities during that time.[28]

A more dramatic breakthrough came from the activities of the anti-ruling coalition that rapidly increased following Park's *Yusin* Coup in 1972. Park's legitimacy crisis, according to Han Sung-Joo, came not from the regime's economic failure but from the regime's political failure. For example, "in the course of his prolonged rule, President Park had generated so much opposition to and alienation from not only his own rule, but also the

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27. Haggard called this plan "the triumph of a new anti-Keynsian policy coalition." *Ibid.*, 201. In fact, "the final triumph of a new anti-Keynesian policy coalition" could not have appeared until after the death of Park and the establishment of the Chun regime.
28. HMC, *Hyundai jadongcha isipnyeonsa*, 376-377.

sociopolitical system as a whole . . . ."[29] Park's authoritarian regime barely tolerated even mild criticism of his rule. Year by year starting in 1972, a considerable number of students, intellectuals, and workers were arrested and, accordingly, added to the increasing opposition that was already institutionalized as a broad coalition of *Minjuheobog gugminhoeeui* (the National Committee for the Restoration of Democracy) against Park's regime. In 1978, even his loyal opposition, the New Democratic Party (NDP), came under the control of "hardliners" led by Kim Young Sam with the help of Kim Dae Jung--a *persona non grata* to the ruling coalition--after a heated struggle between hardliners supported by the anti-ruling coalition and doves supported by Park's ruling coalition.

The rise of intra-coalitional struggles despite the economic boom in the mid-1970s has been explained by Dahl as the "self-fulfilling prophecy of a hegemonic regime."[30] For the military generals such as Park and Chun in hegemonic regimes, as Dahl explains, all opposition against their regime is potentially dangerous and therefore should be subject to repression. The successive military juntas asked the Korean people to show the degree of discipline

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29. Sung-Joo Han, "South Korea: Politics in Transition," in *Democracy in Developing Countries: Asia*, edited by Larry Diamond, Juan J. Linz, and Seymour Martin Lipset (Boulder: Lynne Rienner Publishers, 1989), 276.
30. Robert A. Dahl, ed. *Regimes and Oppositions* (New Haven: Yale University Press, 1973), 13.

that the military normally finds in its barracks. Organized and legal opposition parties could work as loyal opposition parties only as long as Park and Chun tolerated them and accepted their political challenge to some degree. But since all opposition is likely to be intrinsically regarded as disloyal by military rulers, any form of opposition is necessarily trapped in the self-fulfilling prophecy of disloyalty to the military rulers.

Major legal political oppositions, which have survived the frequent "red" purges or military coups d'etat, therefore, have served as loyal opposition to the military regimes at their inception and were the real center of the anti-ruling coalition throughout the period of the Park and Chun regimes, because the military regimes failed to tolerate moderate opposition. The list of those parties includes most of the successive major opposition parties--Minjudang (the Korean Democratic Party), Sinmindang (the New Democratic Party), Tongmindang (the Party for Unification and Democracy), and Pyungmindang (the Party for Peace and Democracy)--that have been continuously reorganized by Kim Dae Jung and Kim Yong Sam.

The New Democratic Party of Kim wanted to play a modest role in the political struggle between Park's supporters and opposition circles. For example, the opposition party wanted to serve as an influential institution for interest articulation in Korean politics, inviting female textile

workers to express their grievances. However, Park did not allow the opposition party to play even such a modest role in Korean politics and ordered the breakup of the demonstration by workers and assemblymen. Furthermore, Park planned to oust Kim from the leadership of the New Democratic Party and the National Assembly. Park's scheme resulted in mass riots in the strongholds of Kim such as Busan and Masan and the shake-up of his already weakening regime. Recognizing the instability of Park's regime, an opportunist KCIA chief shot Park to death in December 1979, in an attempt to start a new era for himself.

There were scarcely any changes to Park's ruling coalition because his successor General Chun took over Park's regime through two successive military coups, in 1979 and 1980, respectively. Even though major institutions within the regime had changed their names, the nature of the exclusive Korean ruling coalition was not altered but instead its exclusiveness was intensified.[31] However, there was a significant change in the direction of the economic policies under the Chun regime. Neoclassical economists associated with the Economic Planning Board controlled the

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31. Chun's Democratic Justice Party replaced the Democratic Republican Party. The Korean Central Intelligence Agency changed its name to the Security Planning Agency. However, major members of those institutions kept their positions except those who had shown sympathy with the causes of the anti-ruling coalition forces.

Korean economy. Their major slogans were liberalization, privatization, and monetarism.

After a brief intermission of reflationary packages such as the devaluation of the Korean Won against U.S. dollar in the early 1980s,[32] neoclassical economists and bureaucrats cooperated with the new military junta to set out several policy changes including the liberalization of the banking sector, the tighter control over wages and subsidies, and the emphasis on the light manufacturing sector. In August 1980, Gum Jin Ho, the chairman of the Committee of Commerce and Industry in the new military junta, summoned major industrialists and bankers to its new office. A few hours later, Gum announced *the 8.20 Heavy-Chemical Industry Investment Adjustment Plan* as the final triumph of the anti-Keynesian coalition within the Korean regime that had tried to reorganize the heavy-chemical industry since 1979.

The major environmental factors, therefore, were hardly favorable to the development of *Pony Excel*. The economic recession in the late 1970s and the early 1980s decreased available captial and the demand for cars. Governmental policies discouraged the development of a new model, as the "anti-Keynesian coalition" hostile to the new project increased its strength within the ruling elite. Political

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32. Haggard, *Pathways from The Periphery: The Newly Industrializing Countries in The International System*, 205.

turmoils and increasing labor disputes also made it difficult for auto firms to set up a plan for a new model for export. As far as the environmental factors were not favorable, the planners of the Pony Excel were exceedingly cautious in developing their idea.

As shown in the case of Pony, the risk-taking entrepreneurship of the Chung brothers--Chung Joo Young and Chung Se Young--operated as one of the most important factors in the development of Pony Excel, but which was also affected by the pragmatism of the Korean ruling coalition. Interviews and the documents show that the idea of the Pony Excel was begun by the Chung brothers in 1978.[33] From the summer of 1978, the Department of Planning in Hyundai developed an X-car project the purpose of which was to set up an annual production facilities of 300,000 FF cars until the mid-1980s.

Interestingly, the Chung brothers regarded the then current economic recession as another opportunity for Hyundai. The History of Hyundai summarizes the argument of the Chung brothers as follows,

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33. Interview with Shin Hyun Dong, November 1, 1988 and November 3, 1988. See also HMC, *Hyundai jadongcha isipnyeonsa*, 429, 437. Most interviewees in the industry merely asserted that they were not concerned about the issue and just believed in the role of the Chung brothers. However, it is clear that the role of the Korean state is minimal in the decision regarding Pony Excel.

"The current economic recession decreases the rate of operation of our factories to 50 percent. It means that the production facilities for 140,000 cars are idle. Therefore, the argument that the new vast investment for large-scale production is very dangerous seems to be correct. However, the vitality of an enterprise is proved by showing its courage and wisdom in crises. Our company can exploit the economic recession because we can make factories at much lower prices in economic recession than in economic boom."[34]

This episode partly reflects Schumpeter's concept of innovative entrepreneurship which refers to the "opening up a new outlet for products."[35] However, Hyundai's type of entrepreneurship hardly fits into Schumpeter's entrepreneurial capitalism or bureaucratic capitalism. It is far less organized to be related to bureaucratic capitalism and too much dependent upon political power to be linked to entrepreneurial capitalism.[36] The attitude of the Chung brothers is clearly risk-taking but hardly Confucian although Pye combines the two as "risk-taking Confucianism" in Korea. Pye argues, "Yet the Korean took their exposure to Confucianism seriously and hence came to

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34. Ibid., 429.
35. Joseph A. Schumpeter argues, "The function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on." Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy*, With a new introduction by Tom Bottomore (New York: Harper, 1976), 132.
36. Hyun-Chin Lim, *Dependent Development in Korea*: 1963-1979 (Seoul: Seoul National University Press, 1985), 106.

believe that virtue should and would be rewarded; *therefore the elite could afford to take risks.*"[37] Even though there is no substantial study about Chung's ideology, Chung seems to be more pragmatic than Confucian.[38] Chung has emphasized national interests, the role of the state, Confucian ethics, liberalization, independent entrepreneurship, and even democratization according to his audience. Just like the other members of Park's ruling coalition, the Chung brothers did not upheld their ethical principles but tried to mobilize every possible resource to accomplish their goals.

The most dramatic episode of Chung Joo Young's risk-taking attitude involved his decision in selecting the automobile industry in *the 8.20 Heavy-Chemical Industry Investment Adjustment Plan.* In August 1980, the military junta summoned major industrialists and asked them to adjust their business domain. The adjustment to the business domain meant that Hyundai and Daewoo had to choose either electric machinery or the automobile industry. Because Chung Joo Young, as a head of Hyundai, was older than Kim Woo Joong, as a head of Daewoo, Chung was allowed to choose one of them first.[39] The general opinion then was that

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37. Pye, *Asian Power and Politics*, 58.
38. Joo Young Chung, *Iachimedo seolreimeul an'go* (Let's Be Fresh in Every Morning) (Seoul: Samsungchulpansa, 1986).
39. This episode is quite Confucian. However, the priority given to Chung also reflected Chung's industrial and political power over that of Kim. In

Chung preferred the electric machinery sector to the automobile sector because Hyundai had long heavily invested in the former, the profit size of the former was bigger than the latter, and the latter was in recession. However, Chung chose the automobile sector, saying that he already bet his business on this sector.[40]

The risk-taking entrepreneurship of the Chung brothers should not be overemphasized. The success of Pony also helped Hyundai to make sure of its rosy future. The financial and technological success of Hyundai's domestic design provided it not only with substantial profits but also its confidence regarding the Koreanization of a new export model. As discussed in the previous chapters, with the success of Pony, Hyundai increased its domestic market share up to 49% in 1979, boosted its accumulated net profits from 1976 to 1979 by about W30 billion, and its capital increased 6.4 times during the same period. Therefore, Hyundai Motor Corporation was already equipped with the financial buffer to tolerate the possible failure of a new export model. Our discussion of the various factors, therefore, shows that the domestic economic recession and the intra-ruling coalition conflicts over automobile policies served as unfavorable factors for Hyundai's

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fact, either choice of electric machinery or automobile is good for Kim because Daewoo's business in both sectors was inferior to Hyundai's business.

40. HMC, *Hyundai jadongcha isipnyeonsa*, 380-382.

negotiations with the multinational corporations. Only the success of Pony and Chung's risk-taking entrepreneurship kept the plan of a new FF model for export alive.

In the summer of 1978, Hyundai began to look for the supplier of technology for a new export model. The supplier was required to provide the most advanced technologies of emission, fuel economy, and design, sufficient to produce a new model for export into the U.S. market. Table 5-10 provides a summary of the negotiations between Hyundai and the multinational automobile corporations from 1978 to 1982. Mitsubishi Motor Corporation was the final choice by Hyundai as its partner in the production of a new model.

The negotiation between Hyundai and the multinational corporations began with Hyundai's contact with Volkswagen in January 1978. Volkswagen was a very attractive candidate for Hyundai's new export model. Volkswagen had already developed a successful FF model--Golf--in the European market. Volkswagen also had popular compact models such as Polo, Derby, and H¦mmel. Most of all, Volkswagen proposed the lowest royalty--$26.5 per car--and an export guarantee of 100,000 cars from Hyundai. This export guarantee of a high volume in the late 1970s was particularly attractive to the Korean state that was bent on exploiting the export volume as one of the signs of the regime's high economic performance. However, Volkswagen asked for an equity

share of 25 percent of Hyundai Motor Corporation or 33.3% of the new motor company. As shown in the two phases of the negotiation between Hyundai and Ford, the issue of management had been the most critical for Hyundai. Even though Volkswagen seemed to be the best option in major ways, Hyundai began to search for alternative suppliers of the necessary technologies.

Renault in France was another European alternative for Hyundai. It was the most advanced auto firm in Europe that had developed an FF model. However, Renault asked Hyundai not only for its participation in management but also the highest royalty, $62 per car until the production of 2.16 million cars. Other European car makers such as Peugeot and Fiat were in financial crises when Hyundai tried to contact them. The third phase of Hyundai's negotiation with Ford commenced after Hyundai found that the European car makers were not available for it. However, in this case, the negotiation between them was soon terminated when Ford asked for its participation in management and a relatively high royalty of $53 per car until the production of 1.8 million cars.

Even though the negotiations dealt with different levels of royalties per car, the common element in those unsuccessful negotiations was the multinationals' requirement of managerial participation in Hyundai and Hyundai's rejection of it. As in the case of Pony, the

Chung brothers argued that the participation of the multinationals in Hyundai's management would not bode well for the development of the automobile industry in Korea. Because of the vast disparity in technology and experience, Hyundai gradually became an offshore plant of the multinationals that only works for the multinationals' profits. Moreover, Hyundai's overall situation in the negotiation for *Pony Excel* was far better than in the case of *Pony* in the 1960s.

The Korean state was more liberal concerning the issue of management participation of the multinationals in the case of *Pony Excel* than in the case of Pony. Since 1980, when neoclassical economists began to dominate national economic policies, the Korean government tried to liberalize the domestic market for the direct investment of multinational corporations in export industries. After the *8.20 Heavy-Chemical Industry Investment Adjustment Plan* in 1980, Chun's military junta encouraged the merger of Hyundai and GM-Korea (Saehan) into a big monopolistic auto firm in South Korea. The problem with this merger involved the question who would control the new firm. While Hyundai proposed that GM would be allowed 20 percent of equity in the new company according to the proportion of each company's capital, GM demanded 50 percent of equity and its participation in the management of the new company.[41]

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41. *Dong A Ilbo*, October 20, 1980.

Although Hyundai's proposal conformed with the guidelines of the Plan, the Korean state hardly forced GM to accept the proposal because this governmental guide would violate "international norms."[42]

Table 5-5: Hyundai's Negotiation with Multinational Automobile Corporations, 1978-1982

MNCs	Conditions		
	Royalty (million cars)	Management (equity share)	Others
Volkswagen	$26.5/car	Yes (33.3%)	100,000 export guarantee
Renault	$62/car (2.16)	Yes	
Ford	$53/car (1.8)	Yes	
Mitsubishi	$42/car (0.6)	No (10%)	

Source: Compiled from HMC, *Hyundai jadongcha isipnyeonsa*, 436-445 and interviews.

The proposal by Mitsubishi was clearly the best option for Hyundai. Even though Mitsubishi was doubtful about the successful export of Korean cars, it was willing to provide advanced technologies such as technologies for emission controls and fuel economy for Hyundai's new

42. Hyung Je Jo, et al., *Oneuleui Han'gug jabonjueuiwa gugga* (Korean Capitalism and the State Today) (Seoul: Han'gilsa, 1988), 165. The behaviour of Chun's military junta seems to be largely different from that of Park's regime. The nationalist Park regime usually sided with Hyundai--a local capital--in the two phases of the negotiation between Hyundai and Ford in the late 1960s.

project. In fact, since the development of *Pony*, Mitsubishi has closely cooperated with Hyundai to introduce domestic designs for Korea's domestic and international markets. As *Pony* was a twin model of Mitsubishi's *Lancer* in the 1960s, *Pony Excel* was also a twin model of Mitsubishi's new *Mirage* that was developed as a FF car for Mitsubishi's export.[43]

The royalty payment for Mitsubishi also was modest by international standards. Mitsubishi asked the royalty of $42 per car until the production of 600,000 cars or for 7 years.[44] In return, Hyundai offered 10 percent of equity as a bonus to Mitsubishi and invited two Japanese members into the Board of Control according to Mitsubishi's proportion of equity. The final contract was signed in October 1981. The result of negotiation between Hyundai and Mitsubishi seems to have met the satisfaction of both the parties. On the one hand, Mitsubishi gained a considerable royalty from Hyundai plus export of its auto parts--especially engines and auto transmissions. As a minor firm in Japan, Mitsubishi achieved better economies of

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43. Mitsubishi's strategy, unlike that of GM's, supports Chung H. Lee's thesis that American corporations were oriented towards the domestic market in Korea while Japanese firms were export-oriented. See Chung H. Lee, "United States and Japanese Direct Investment in Korea: A Comparative Study," *Hitotsubashi Journal of Economics* 20 (February 1980): 26-41.
44. It means that Hyundai would pay the royalty of $42 per car for the production of 600,000 cars or for 7 years. HMC, *Hyundai jadongcha isipnyeonsa*, 440.

scale through its cooperation with Hyundai. On the other hand, Hyundai benefitted from the most desired technologies for a new export model without the concession of its management.

2. New Labor Movement in the 1980s

2.1. The Economic Boom and Labor Movements in the 1980s

In Korea, the economic recession of the late 1970s and the early 1980s seemed unrecoverable. For example, Bruce Cummings, an influential Korean specialist, argues that this economic recession is structural and may be long-lasting. Korea violated not only economic principles such as comparative advantage but also basic structures of the world system by trying to set up heavy-chemical industrialization. Therefore, Korea would be one who was "called but not chosen."[45]

However, in contrast to his pessimistic view, the Korean economy has rapidly recovered since 1982. For

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45. See Cummings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences." His 1983 article also repeats the same thesis: "South Korea in Crisis: Danger or Opportunity?" *SAIS Review* 3 (Summer-Fall 1983): 71-86. His view was largely shared by the neo-Marxists about Korean industrialization and the neoclassical economists about Korean industrialization in the early 1980s.

example, the annual average GNP growth is 8.86 percent and the annual average growth of the manufacturing sector is 10.89 percent from 1981 to 1987.[46] In fact, the growth of exports has never been interrupted even in the period of economic recession. In particular, Korean trade has shown a considerable surplus of $4.6 billion in 1986 and $9.8 billion in 1987. The Korean automobile industry has greatly contributed to total trade surplus by achieving its trade surplus of $1.42 billion in 1986 and $2.76 billion in 1987.[47]

Cummings' prediction failed not because his knowledge about Korea is lacking but because his perspective is too economic. Cummings' argument depends too much upon the economic variables of the international regime in relation to the Korean economy and misses the strength of the industrial structure reorganized by the efforts of the Korean ruling coalition. And even if the reorganized industrial structure is not strong enough to eliminate the pressures from the international system, there are emerging backward and forward linkages between heavy-chemical industries and light manufacturing sectors that would mediate the process. Moreover, the nationalist development of major industries has increasingly insulated major

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46. Economic Planning Board, *Korean Economic Indicators*, 1988.
47. Economic Planning Board, *Korean Statistical Yearbook*, 1988 (Seoul: EPB, 1988).

economic sectors from the immediate pressures from the international system. As the automobile sector shows, the results of learning by doing and the development of domestic models through rapid technology transfer proved to be largely successful.[48]

Furthermore, Cummings argues that the legitimacy of Park's ruling coalition is supported only by its economic performance. Thus, the economic collapse would bring about the collapse of the regime. This economic reasoning is partly supported also by Haggard. Haggard cautiously points out, "the political collapse of 1979 can thus be partly explained in terms of Park's economic strategy."[49] Even though political crises are partly intensified by economic recession, this economic explanation seems to have been reversed in the Korean case. Political turmoils do not necessarily ensue from economic crises. On the one hand, the Korean crises in late 1979 and 1980 were more political

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48. This result contrasts most sharply with Cummings' prediction: "Furthermore, the big new steel, auto, and shipbuilding factories built in the mid-seventies to enhance Korean independence of external suppliers and to move up in the product cycle, met precisely the obstacle that World Bank and U.S. officials had predicted: when ships and cars could not be sold abroad, the small domestic market could not help out. Korean auto production in late 1979 and 1980 came to a virtual standstill." Cummings, "South Korea in Crisis: Danger or Opportunity?" 78.
49. Haggard, *Pathways from the Periphery: The Newly Industrializing Countries in the International System*, 204.

than economic. On the other hand, the political uprisings in 1987 did not follow economic crises.

The process of rapid political changes (the Korean "abortive abertura" according to Cummings) with economic boom in the 1980s support the political explanation about the Korean political economy. As long as it is concerned about the explanation of economic crises and political democratization, Cummings consistently argues that economic crises caused the liberalization of the political economic system. Arguing against O'Donnell's explanation that the Latin American countries became democratized despite economic crises and Reagan's conservatism, Cummings says, "I want to suggest that the causality might be different: because of, not despite, the crisis and the policies."[50] However, there is a problem with Cummings' argument because there are considerable economic crises but no successful political democratization in Korea in the mid-1980s. The problem stems from his economic explanation that depends upon economic causality in relation to political transformation.[51]

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50. Bruce Cummings, "The Abortive Abertura: South Korea in the Light of Latin American Experience," *New Left Review* 173 (January/February 1989), 28.
51. There is a good discussion about the relationship between economic crisis and political liberalization in the Brazilian case in O'Donnell's edited volume. Luciano Martins argues that economic crises caused by the oil crises and ill-conceived policies weakened the legitimacy of the Brazilian military government and the political base of the ruling alliance. However, Fernando H. Cardoso observes that the Brazilian

As much as it contributes to economic boom in the 1980s, the automobile sector also contributes to political changes in South Korea. In the mid-1980s, several strikes at Hyundai and Daewoo drew considerable public attention and influenced the general pattern of labor disputes in other industrial sectors. In particular, the Daewoo Motor Strike in 1984 was an epoch-making event in the history of the Korean labor struggle. One report on the strike argues that it strongly influenced not only the labor-business relationship in Daewoo but also the general strategy of the Korean authoritarian regime since then.[52]

It is interesting that the Daewoo strike in 1984 occurred during the second economic boom after the brief recession in the early 1980s. In general, economic boom is expected to contribute to the increase of workers' welfare. In fact, as Alice Amsden points out, the wages of Korean workers have rapidly increased. According to her account, average real wages have grown at 9.3 percent a year

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bourgeoisie prefers political liberalization in economic boom but retreats to authoritarian rule in economic crisis. Luciano Martins, "The 'Liberalization' of Authoritarian Rule in Brazil," in *Transitions from Authoritarian Rule: Latin America*, edited by Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead, 72-94 (Baltimore: The Johns Hopkins University Press, 1986). Fernando H. Cardoso, "Entrepreneurs and the Transition Process: The Brazilian Case," in *ibid*.

52. *Han'gug gidoggyeo sanyeobgaebalwon* (The Institute of Korean Christians for Industrial Development, or *Gisanwon*), *Daewoo jadongcha payeob-nongseong* (Strikes and Sit-ins in Daewoo Motor Corporation) (Seoul: Wesley, 1985).

between 1965 and 1984--"faster than in any previous industrialization, including that of Japan."[53] The issue of the Daewoo strike, therefore, is interconnected with various other issues such as working conditions, workers' ideology, the mobilization of anti-ruling coalitional forces as shown in the change of labor union structure, and the responses of the ruling coalition to workers' demands. Even though the discussion of each issue is hardly separable, an analysis based on the ruling coalition analysis might help us to understand the process of labor process in the stage of consolidation in the automobile sector.

2.2. Wages, Working Conditions and Workers' Attitudes

As the Korean economy has rapidly industrialized, the rapid increase of industrial workers led by the growth of the manufacturing sector is one of the most visible results. The share of the manufacturing sector in all industries increased from 22.4 percent in 1972 to 30.3 percent in 1987, while the share of the agricultural sector decreased to 11.4 percent in 1987.[54] The rapid growth of the manufacturing

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53. Alice Amsden, "Asia's Next Giant: How Korea Competes in the World Economy," *Technology Review* 92 (May/June 1989), 51. This article is a summary of her book, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989).
54. EPB, *Korean Economic Indicators*, 1988.

sector brought about the increase of manufacturing workers. As a result, manufacturing workers increased from 1.4 million in 1972 to 4.4 million in 1987 and accounted for 50.2 percent of total workers' increase in the same period.

Table 5-6: Workers of Korean Auto Manufacturers

	Hyundai	Kia	Daewoo	Total
1982	8,867	3,691	6,641	19,199
1984	11,000	3,500	7,411	21,911
1986	26,254	8,760	11,479	46,493
1988	28,000	12,500	15,000	55,500
(dt:%)	215.7	238.6	125.8	189.0

Note: (dt:%) means the rate of increase from 1982 to 1988.

Source: Compiled from KAICA, *Korea Automobile & Autoparts*, and various other sources.

In particular, the economic boom since 1981 resulted in the rapid growth of workers in three major automobile manufacturers, as Table 5-6 shows. As the most successful, Hyundai recorded a considerable increase of its workers because of the success of its export model--Pony Excel. After 1987, when all terminal firms could produce all models, Kia also rapidly increased its working forces because it expanded its operation from the production of commercial vehicles to the production of all models. The less successful Daewoo also expanded its operation towards the production of export models--Le Mans--since 1986. As a

result, the labor force of the three major Korean car makers increased 189.0 percent from 1982 to 1988.

While the number of workers has rapidly increased, the working conditions in all the industries were only partly improved. According to a governmental source--EPB's annual report of *Korean Economic Indicators*-- the real wage of all industries has grown at the annual rate of 7.7 percent from 1972 to 1987, resulting in a trippling of the real wage of Korean workers. The rapid growth of real wages in the Korean economy is substantial.

Table 5-7: Real Wage and Labor Productivity in Korean Manufacturing Industries, 1972-1987

Year	Real Wage		Productivity		
	Index	dt	Index	dt	R/P (%)
1972	35.1	2.0	27.5	12.7	15.7
1973	40.2	14.6	29.8	8.4	173.8
1974	43.8	8.9	31.9	7.0	127.1
1975	44.3	1.3	34.3	7.5	17.3
1976	51.8	16.8	36.7	7.0	240.0
1977	63.0	21.7	40.7	10.9	199.1
1978	73.9	17.3	45.6	12.0	144.2
1979	80.4	8.8	52.8	15.8	55.7
1980	76.7	-4.6	58.4	10.6	-43.4
1981	75.9	-1.1	69.0	18.2	-6.0
1982	81.2	7.0	74.4	7.8	89.7
1983	88.2	8.6	84.5	13.6	63.2
1984	93.2	5.7	93.4	10.5	54.3
1985	100.0	7.3	100.0	7.1	102.8
1986	106.2	6.2	117.6	17.6	35.2
1987	115.1	8.3	133.2	13.3	62.4

Note: "dt" means the annual increase rate;
R/P (%) = Real Wage / Productivity X 100.

Source: EPB, Korean Economic Indicators, 1988.

For example, as Table 5-7 shows, the real wage of the manufacturing sector has increased at the annual rate of 8.05 percent. Table 3-7 shows that the wage of the automobile workers in Korea has grown about 1.4 times during the period of 1978-1982. The growth rate of wages among Korean automobile workers is only behind that of Brazilian automobile workers for the same period.

The rapid growth of real wage, however, is only a part of the overall process within the Korean labor system. First, the fast rise of real wage does not necessarily mean the enhancement of workers' well-being in the process of Korean industrialization.[55] Compared with the workers of other East Asian countries, Korean workers have received far lower wages, as shown in the index of hourly wage--(Korea=100), Japan (546.5), Taiwan (126.0), and Singapore (156.1)--in 1983. They have worked under severely dangerous conditions, as indicated in the death rate by industrial accident--Korea (0.17), Japan (0.02), Hong Kong (0.03), Singapore (0.02), and the Philippines (0.06)--in 1982.

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55. The perceptual discrepancy between the notion of "the fastest increase of wages" and the reality of working conditions comes from the result of a data bias. The divider of a given number is so small that the result of the division is extremely high. For example, the wage of Korean automobile workers was still 1.8 times smaller than that of Mexican automobile workers despite the former's 143.7 percent increase, because the divider for Korean workers was $0.8 but that for Mexican workers was $2.1.

They also have worked for much longer hours: in the hours of work in a week--Korea (54.3), Japan (41.1), Singapore (48.1), the U.S. (40.1), and Taiwan (48.1)--in 1983.[56]

Second, the population living below Korea's minimum cost of living is so large that the effects of the rapid increase of wages seem to be largely minimized. For example, according to *Nochong* and the Ministry of Labor, the minimum cost of living for a family (4.3 persons in the cities) is W501,057 (621.67 in current U.S. dollars). The number of Korean families which earn an income below the minimum costs of living, according to the same sources, is 87.9 percent of total families in 1984.[57] Even though the "minimum costs of living" is a relative term, the huge number of lower income families acknowledged by various organizations reflects the real conditions of industrial workers in Korea.

Third, even though Amsden argues that it is not the sole source of the Korean economic performance, the notion that the exploitation of workers is one of the major pillars of the Korean development strategy is meaningful.[58] As

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56. Data derived from *Gisayeon* (The Christian Institute for the Study of Justice and Development), *Han'gugeui sahoejeong'eui jipyo* (Indicators of Social Justice in Korea) (Seoul: Minjoongsa, 1986).
57. *Ibid.*, 34.
58. Amsden, "Asia's Next Giant: How Korea Competes in the World Economy," 51. Alan Lipietz of the French regulation school developed the concept of "bloody Taylorism" to describe the Korean economic system before the 1980s. Cf. Alain Lipietz, *Mirages and*

Table 4-12 shows, for example, the ratio of wage increase to productivity increase is about 80 percent in the whole period.[59] It means that the outcome of productivity has been accumulated and the workers' contributions to the Korean economic growth have not been compensated in the form of wages. Therefore, the notion of unequal distribution between workers and industrialists is widespread in Korea. If the rapid increase in productivity is attributed to the intensification of work rather than mechanization, the notion of unequal distribution and the grievances of workers become accelerated. For example, the studies of Daewoo Motor Corporation show that the intensification of labor

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Miracles: The Crises of Global Fordism (London: Verso, 1987).

59. It is interesting to see that the relative increase of wages over productivity was highest in the period when the income distribution in Korea was worse than ever as shown in Table 5-13. The contradictory results of the governmental indicators suggest various explanations, one of which is, of course, the political motive of Park in the late 1970s.

Table 5-8: Income Distribution in South Korea

Year	% of income received by: Highest 20%	Lowest 20%	Gini Concentration Ratio
1965	41.81	5.75	0.3439
1970	41.62	7.34	0.3322
1976	45.34	5.70	0.3908
1978	46.70	5.18	0.3999
1980	45.39	5.09	0.3391
1985	43.70	5.09	0.3631

Source: EPB, *Korean Economic Indicators*, 1985; *Dong A Ilbo*, January 24, 1987.

process has increased 197 percent in 1984 if that of 1980 was 100.[60]

Fourth, this historical notion of unequal distribution has become one of the major factors behind workers' changing attitudes about the Korean economic system and their aggressive movements in the 1980s. Various empirical surveys about workers' attitudes toward work and society show that Korean workers are getting more frustrated about the results of Korean industrialization, while they still respect the traditional collectivism.[61] Compared with the surveys of the 1970s, the surveys of the 1980s show that workers' satisfaction regarding their current jobs is decreasing and the frustration concerning low wages is evidently increasing. The grievances regarding bad

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60. Gisanwon, *Daewoo jadongcha payeob-nongseong*, 60; Jung Hi Lee, "Han'gug jadongcha dogjeom giyeobeseoeui nodongja gyeogeubeui sangtaee gwanhan saryeyeon'gu" (A case study on the conditions of labor class in Korean auto monopolistic firms), unpublished M.A. Thesis, Department of Sociology, Seoul National University, 1987, 23. The Index of Labor Intensification = The Index of Labor Productivity / The Index of Labor Equipment. For example, from 1980 to 1984, the index of labor productivity increased 361.4 percent and the index of labor equipment 183.5 percent.
61. Kyu Han Bae provides a good summary of various empirical surveys about workers' attitudes toward work and society. "Han'gugeui gong'yeobhwawa gunroeuisigeui byeonchyeon" (The Korean industrialization and the transition of workers' attitudes), in *Haebang sasibnyeon gachieuisigeui byeonhwawa jeonmang* (The Transition and Prospects of Value Orientations in Postwar Korea), edited by The Institute of Social Science, 251-277 (Seoul: The Institute of Social Science, Seoul National University, 1986).

management and the feeling of job insecurity are also increasing. Most studies argue that these changes are structural rather than psychological, as Bae summarizes:

> "It shows that the factors of workers' decreasing satisfaction are largely societal-structural rather than personal. The issues of labor problems should not be simply reduced to the results of structural stratification according to industrialization. The problems come not only from the industrial stratification but also from the process of industrialization. The most serious structural factors which influence workers' attitudes are the Korean class structure of elitist monopoly, the heavily centralized power structure, and the structure of unequal distribution, which are generated by the biased process of industrial structural stratification."[62]

2.3. Trade Unionism, the Rise of Anti-ruling Coalition Forces, and the Daewoo Strike in 1984

The weak and coopting unionism in Korea under the brutal industrialization process in the 1960s and 1970s, called "the bloody Taylorism" by French regulationists, has been the issue of many studies. Cultural explanations argue that because of their Confucian culture Korean workers have been moderate in their political activities and subservient to managerial authority, as discussed in the previous chapters. However, Choi argues that the influence of traditional culture on the contemporary Korean culture is partly a structural and policy outcome of the

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62. *Ibid.*, 264.

ruling coalition's deliberate efforts to make workers and peasants subservient.[63] Even a cultural theorist such as Lucian Pye acknowledges the role of the state in its shaping of contemporary Confucian culture in South Korea as a measure of labor control.[64]

Frederic Deyo argues that the development strategy of export-oriented industrialization in the semiperiphery such as Korea provides its ruling elites with strong support from the core countries and the industrial structure to undercut the power of labor unions and political opposition.[65] Deyo's world system theory seems to be more adequate for explaining the recent Korean labor unionism than its cultural counterpart, because it could explain the changing nature of development strategy and labor unionism. However, the history of Korean labor unionism shows that the pattern of current labor movements emerged long before the export-oriented industrialization strategy of Park and his coalition.[66] Even though the export-oriented strategy

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63. Jang-Jip Choi, "The Strong State and Weak Labor Relations in South Korea: Their Historical Determinants and Bureaucratic Structure," in *Dependency Issues in Korean Development: Comparative Perspectives*, edited by Kyong-Dong Kim (Seoul: Seoul National University Press, 1987), 306.
64. Pye, *Asian Power and Politics*, 226.
65. Frederic Deyo, "Export Manufacturing and Labor: The Asian Case," in *Labor in the Capitalist World-Economy*, edited by Charles Bergquist (Beverly Hills: Sage, 1984), 285.
66. Jang-Jip Choi, *Han'gugeui nodong'undonggwa gugga* (The Korean Labor Movement and the State) (Seoul: Yeolumsa, 1988).

might intensify the repression of labor movements in Korea, therefore, it is necessary to review the history of Korean labor movements to understand the current labor disputes in the automobile industry.

There are two major historical and economic aspects about labor control in the development strategy of the Korean ruling coalition since the 1962 military coup d'etat. First, the issue of labor control in Korea is largely political. Until the 1960s, the Korean ruling coalition repressed labor movements with its anti-Communist complex. The division of Korea and the Civil War in 1950 produced an extensive animosity against Communism in South Korea and considerable excuses for the suppression of labor movements for the sake of national security. From the 1970s, however, the ideological control over labor movements through the anti-Communist slogan became less influential because the personal dictatorship of Park and his coalition members was so evident and blatant that most Koreans could easily identify the real motive of Park's national security campaign.

Second, the issue of labor control is also economic. Until the 1960s, the Korean state, neoclassical economists, and businessmen argued that the demands of workers could not be satisfied because the only source of Korea's comparative advantage in the international market is cheap labor. This argument does not disappear even after the 1970s when

the Korean economy has been restructured from labor-intensive light industry to capital-intensive heavy industry. Moreover, major neoclassical studies hardly discuss the issue of labor control but instead concentrate on the discussion of fiscal and monetary policies.[67]

The two principal components of the Korean ruling coalition--the Korean state and big businessmen--together have developed various means of labor control from the shop floor level to the national level. Recent studies about the Korean labor movements show that there are three major means of labor control.[68]

First, the Korean state and companies have frequently used physical force to destroy the labor movements. The list of the physical force used include mostly illegal

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67. For example, the World Bank's two volumes of the Korean case study hardly discusses the issue of labor even if it claims a "broad" description of the Korean economic growth. *Korea: Managing the Industrial Transition, Volume I: The Conduct of Industrial Policy & Volume II: Selected Topics and Case Studies* (Washington, D.C.: World Bank, 1987). For a contrasting view, see Amsden's institutionalist argument in *Asia's Next Giant: South Korea and Late Industrialization*.

68. As a good introduction, see Jang-Jip Choi, *Han'gugeui nodong'undonggwa gugga*; also see Eun-Jin Lee's excellent study of the semiconductor industry. "Changing Strategies of Labor Control in the Semiconductor Industry in a Peripheral Country, South Korea: A World-System Perspective, unpublished Ph.D. dissertation, University of California, Los Angeles, 1989. See also Jun Sik Park, "1980 nyeon jeonhueui nodongundonggwa guggaeui gaeip" (Labor Movements and State Intervention in 1980), in *Onuleui Han'gug jabonjueuiwa gugga* (Today's Korean Capitalism and the State), edited by the Korean Industrial Society Studies Association, 320-350 (Seoul: Han'gilsa, 1988).

lynches, abductions, tortures, rapes, education camps and, sometimes, killings by the police, the KCIA men, and the *Gusadae* (the "Save Our Company" corps).[69] Second, the legal and institutional control of the labor movements have also been developed. From 1961 to 1981, nineteen major laws and decrees were passed concerning the limits and resolution of labor disputes. In light of these laws, however, any type of effective labor movement is almost impossible.[70] The Korean government has also encouraged the resolution of labor disputes through *Nosahyeobeuihoe* (The Council of Labor and Managers) rather than the negotiation between labor unions and companies. Finally, ideological control has also been applied. The anti-communist campaign usually links unofficial labor leaders to the sympathizers of North Korea and the threat to national security. National *Saemaul* (New Village) and *Saemaum* (New Spirit) campaigns insist that traditional values such as personal loyalty to the State and parents (and also firms) should be instilled. Most governmental and business campaigns encourage the concept of "my company as my family." Even though these ideological campaigns include some substance for a new relationship between workers and

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69. Cf. Tae Ho Lee, *Choigun nodong undong girog* (The History of Recent Labor Movements) (Seoul: Cheongsa, 1986).
70. Jun Sik Park, "1980 nyeon jeonhueui nodongundonggwa guggaeui gaeip," 331-340.

entrepreneurs, the harsh reality of poor working conditions make those campaigns hardly acceptable to workers.

Despite these various means of labor control, the issue of labor unionism was at the center of workers' struggles. The history of Korean trade unionism, in fact, is a major part of the history of the political economic struggles between the Korean ruling coalition on the one hand and Korean workers supported by broad anti-ruling coalition forces on the other hand. This political struggle includes not only the issue of who benefits more from Korean industrialization but also the issue of how Korean society will be organized. According to Choi's summary, the Korean labor movement had been transformed through four phases before 1961.[71]

During Japanese colonialism (until 1945), the labor movements constituted a major part of the anti-imperialist and national independence movement. During this period, communists gradually replaced nationalists as the leaders of labor movements through their discipline and sacrifices.[72] Under the rule of the American Military Government (1945-1948), the militant leftist factions assumed the leadership of the labor movements and opposed the policies of the

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71. Jang-Jip Choi, *Han'gugeui nodong'undonggwa gugga*, 38.
72. Dae-sook Suh, *The Korean Communist Movement*, 1918-1948 (Princeton: Princeton University Press, 1967), 132; Bruce Cummings, *The Origins of The Korean War: Liberation and the Emergence of Separate Regimes*, 1945-1947 (Princeton: Princeton University Press, 1981), Chapter One.

American Military Government in South Korea. Sooner or later, however, major forces of the Korean labor movement were smashed by the American Military Government and hardly recovered until recently. When Rhee assumed the Presidency in 1948 and his old ruling coalition was split into Rhee's followers and the Korean Democratic Party, a handful of labor unions and their leaders who had survived the repression of the American Military Government were coopted by Rhee's ruling party--the Liberal Party--as a symbol of popular support for Rhee.[73] The 4.19 Student Revolution in 1960 temporarily released labor unionism from the shackles of the Korean state.[74] The official *Nochong* (Korean Federation of Trade Unions) was challenged by more independent labor unions, even though the latter were still small and unorganized. However, the new independent unions, as represented by the Korean Teachers' Union, were crushed by the 1961 military coup d'etat.

The Korean labor unionism after 1960 shows a cyclical pattern of increasing labor activities and military coups. The rise of new independent labor movements after the 4.19 Student Revolution, as a major sector of the rising anti-ruling coalition forces, reflected the demand for a change in the ruling coalition and posed a threat to the existence

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73. Nak Jung Kim and Yoon Hwan Kim, *Han'gug nodongundongsa* (The History of the Korean Labor Movement) (Seoul: Iljogag, 1970).
74. Cf. Sung-Joo Han, *The Failure of Democracy in South Korea* (Berkeley: University of California Press, 1974).

of the ruling coalition. The 1961 military coup d'etat, therefore, was the response of the most conservative section of Rhee's old ruling coalition--the Korean military--to the demands of reformist anti-ruling coalition forces. The military junta led by Park abolished all political institutions including labor unions and established a selective institutionalization process in which only coopted institutions could get legal status. The Korean Central Intelligence Agency (KCIA), as the most powerful pillar of the new militarized Korean state, reorganized *Nochong* and its branches.[75] The KCIA appointed the leaders of national committees and branch committees. The military junta also promulgated several labor laws which restricted the financial and organizational activities of labor unions.

This pattern of labor control was repeated under the Chun regime. In 1979, Park was assassinated by the KCIA chief who seized the opportunity to enhance his power in the context of the rising activities of the anti-ruling coalition forces. During the so-called "Spring of Seoul" in 1980, independent labor unions rapidly increased. However, this Spring of Seoul was soon interrupted by General Chun and his colleagues who had benefited from Park's dictatorship and were fearful of losing their power. After its successful military coup d'etat in 1980, the new military junta led by Chun purged most activists from the

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75. Choi, *Han'gugeui nodong'undonggwa gugga*, 38-40.

labor movements and sent them to military camps for their "purification education."[76] It also promulgated various regulations to disband the reformist labor unions and to promote the recontrol of labor union leadership by a newly organized *Nochong*. As a result of repression and popular alienation, as Table 5-14 shows, the rate of unionization among Korean workers decreased significantly after 1980.

Table 5-9: Unionization of Workers, 1970-1984
(employees; thousands)

Year	Total	Unionized	Unionization
1970	3786	478.7	12.65
1975	4803	750.2	15.62
1976	5197	845.6	16.27
1977	5764	954.7	16.56
1978	6293	1054.6	16.76
1979	6519	1088.1	16.69
1980	6485	947.7	14.61
1981	6624	853.3	12.88
1982	6867	843.3	12.28
1983	7184	811.4	11.29
1984	7630	838.8	10.99

Note: Total employees = total workers - (self-employee + family employees); Unionization = unionized employees / total employees X 100; the estimate of unionized workers is based on *Nochong*'s reports.

Source: Gisayeon, *Han'gugeui saheoijeongeui jipyo* (Seoul: Minjungsa, 1986), 86.

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76. Jun Sik Park, "1980 nyeon jeonhueui nodongundonggwa guggaeui gaeip" (Labor Movements and State Intervention in 1980), in *Onuleui Han'gug jabonjueuiwa gugga* (Today's Korean Capitalism and the State), edited by the Korean Industrial Society Studies Association (Seoul: Han'gilsa, 1988), 331-334.

Choi Jang-Jip argues that the cooptation of official labor unions by the Korean ruling coalition exemplifies the pattern of "authoritarian corporatism" that implemented the political demobilization and economic mobilization of the work forces.[77] However, the concept of "authoritarian corporatism" that includes the element of political demobilization seems to be controversial because the emphasis upon political demobilization is inconsistent with sectoral political representation, which is a major aspect of the concept of "corporatism."[78] Under Park's military dictatorship, Korean labor unions neither represented the demands of workers nor worked as a source of the regime's legitimacy. In general, throughout the whole period of Park's and Chun's governments, the purpose of labor union's cooptation by the ruling coalition was to discipline workers to managerial rules and keep the power of labor unions minimal.

Political changes under the Korean dictatorial control of labor movements usually came from the challenges from anti-ruling coalition forces. First, many workers became more class-conscious and rebellious against the exclusive Korean ruling coalition, as state capitalism proceeded in Korea. As discussed above, the Korean industrialization

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77. *Ibid.*, 20.
78. Cf. Philippe C. Schmitter, "Still the Century of Corporatism?" in *Trends Toward Corporatist Intermediation*, edited by Philippe C. Schmitter and Gerhard Lehmbruch, 7-52 (Beverly Hills: Sage, 1979).

based on "cheap labor" increased the grievances of workers concerning low wages (lower than those of Singaporan and Taiwanese workers), hard work (more dangerous than in Hong Kong, Singapore, and the Philippines) and long hours (the longest in the world).[79] Interestingly, from the outset, the struggle of the labor unions was not between workers and managers but between workers and the state.

Second, many progressive intellectuals, middle class organizations and religious organizations such as the Korean Bar Association, the Korean Professors' Association for Democratization, the Roman Catholic Association of Farmers and the Urban Industrial Mission show sympathy with the claims of workers and peasants, and create a core for the Korean anti-ruling coalition. Through *Nonghwal* (activity in farms) and *Gonghwal* (activity in factories), especially, student activists have played an important role in instigating and linking these isolated opposition movements.

The Daewoo Auto Workers Strike, therefore, was one of the most important labor movements in the 1980s for understanding the political economy of the Korean labor movements. The Daewoo Strike in 1984 began when a college-educated worker complained of military training without pay. In August 1984, Song Gyeong Pyeong and his colleagues

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79. Cf. data from Gisayeon (The Christian Institute for the Study of Justice and Development), *Han'gugeui sahoejeong'eui jipyo* (Indicators of Social Justice in Korea) (Seoul: Minjoongsa, 1986).

appealed the irrationality of military training without pay. In this dispute, the company conceded the irrationality of military training without pay and promised to correct it. A few weeks later, Song and his colleagues protested against the Daewoo Automobile Workers Union, an official labor union, for its compromise with the company over an irregular bonus payment. With the consent of its labor union, Daewoo had paid the bonus of the third quarter earlier than the original schedule in order to save money by lowering the number of fully paid employees.[80]

The response of the company to Song's protest was to promote Song to a higher position, claiming that Song had graduated from college. Of course, the company also threatened to fire him if he did not accept it. Even though this practice of union-breaking job transfer was illegal under the then current Korean labor laws, this method has been effective and hardly checked by the law enforcement officials. In this case, however, Song strongly resisted the company's offer of a job promotion and publicly filed his well organized petition with the Ministry of Labor. His petition actually listed most of the irregular and illegal labor practices not merely of Daewoo but also of Korean automobile manufacturers concerning its

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80. This payment was rescheduled 20 days earlier than usual. By this rescheduling, the company reduced the fully paid employees to 75 percent of total employees. Gisanwon, *Daewoo jadongcha payeob-nongseong*, 90.

workers. These include lower than normal wages for extra hours, the disadvantage of military veterans, unpaid holidays, unpaid quality control training, and irregular bonus payments. With Song's public petition, Daewoo workers began to pay serious attention to the result of this dispute.

Despite Song's pending dispute with the company, however, the first stage of the Daewoo Strike involved the struggle between independent labor activists such as Song and the official labor union to control the majority of workers. The Daewoo Auto Workers Union was formed during the two days' strike in 1971. Since 1971, it has been known to effectively represent the demands of workers. Through the 1976 wage dispute, the 1977 wage dispute, and the 1979 equal treatment dispute, this union has shown considerable effectiveness in bargaining with the company. However, since the mid-1970s the union has become more bureaucratized and alienated from the workers. A detailed research argues that the bureaucratization of the union can be explained by the synergistic process of the iron law of oligarchy and the increasing external threats to the existence of the union hierarchy.[81] In the name of

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81. Ibid., 69-83. This argument supports the hypothesis of fragile union democracy by Lipset, Trow, and Coleman rather than the hypothesis of the technological structure of the workshop by Robert Blauner. See Seymour Martin Lipset, Martin Trow, and James Coleman, *Union Democracy* (New York: Anchor Books, 1962) and

efficiency, the union's long-tenured hierarchy monopolized information and the decision-making process.

This is the classic case of how an independent union can be under the control of labor aristocrats. As the history of Latin American labor movements shows, labor unions sometimes become disciplined through the repression and cooptation by the ruling elites. For various reasons, labor leaders have been vulnerable to the pressures from the ruling coalition and have transformed into the labor aristocracy that enjoys stable privileges and serves the interests of the company in return.[82] The rapid transformation of the Daewoo labor leaders alienated most workers from the official union. This alienation from masses of workers weakened the union but the union survived, as long as it balanced the representation of the workers' demands and its effectiveness in negotiations. When the new military junta led by Chun threatened to purge the leaders of the union in 1980, however, this balance collapsed and the union was turned into an instrument of the company's will.

Robert Blauner, *Alienation and Freedom* (Chicago: The University of Chicago Press, 1964).

82. For a Marxist introduction to labor aristocracy, see J.M. Barbalet, "The 'Labor Aristocracy' in Context," *Science & Society* 51 (Summer 1987): 133-153. For a history of the Latin American labor movements, see Hobart A. Spalding, Jr., *Organized Labor in Latin America: Historical Case Studies of Urban Workers in Dependent Societies* (New York: Harper & Row, 1977).

Table 5-10: Wage Comparison of Daewoo Automobile Workers (%)

Year	C	A	U	N
1981	57.8	20.7	40.2	10.4
1982	14.0	15.8	25.5	9.8
1983	11.0	11.0	15.7	6.0
1984	9.0	8.8	14.7	4.9
1985*	8.6	9.9	18.7	10.0

Note: C = Costs of Living Increase Rate; A = All Manufacturing Wage Increase Rate; U = Demand of Union's Wage Increase; N = Result of Wage Negotiation. * The result of the 1984 Strike.

Source: Gisanwon, *Daewoo jadongcha payeob-nongseong*, 118. Rate of all manufacturing wage increase in 1985 comes from EPB, *Korean Economic Indicators*, 1988.

In 1984, there already existed a wide gap between the representation of the union and the demands of the workers. This gap was effectively exploited by Song and his colleagues. For example, Song and his colleagues used Table 5-15 to show how the union was alienated from the demands of the workers and thus inefficient. They criticized the ineffectiveness of the union in its wage negotiation with the company by showing that the final results of the negotiation until 1984 were below 35 percent of the original demands of the workers and less than that of the entire manufacturing sector. Moreover, they found that the union had concealed the official decision from the Ministry of Labor that was favorable to the workers' demands from the company. Therefore, among the alienated workers, it was relatively easy for the new leaders to replace the

old leaders and organize a de-facto union within the official union.

From January 1985, however, the labor dispute was gradually transformed into a social struggle between the ruling coalition and the anti-ruling coalition. After negotiations that lasted several months between the company and Song, the company fired Song and his closest friend, Lee Yong Sun, citing that they were "disguised workers" out to destroy the industrial peace between the company and workers. With the beginning of the company's offensive against the labor activists, the Korean government and major official newspapers began to warn businessmen about the immediate danger of "disguised workers" who graduated from colleges and infiltrated into workshops to "indoctrinate" workers with leftist ideology.[83] In addition to its propaganda against labor activists, the government arrested Song on a misdemeanor charge. The official union also attempted to regain its leadership over the majority of the workers by criticizing Song and his colleagues for trying to fulfill some "concealed" purposes rather than the representation of the workers' demands.

Song and his colleagues, however, found various outside supporters. Mainly, the Christian organizations such as Academy House and the Committee of Yeongdungpo Christian Industrial Mission educated Daewoo workers and provided the

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83. Gisanwon, *Daewoo jadongcha payeob-nongseong*, 180.

logistical help. Many fliers and newspapers were printed and distributed with the help of those organizations and student activists. However, the most decisive strategy of the Strike came from the workers themselves. Starting on April 16, 1985, 2,200 Daewoo auto workers began to strike in the front of the main office. When they heard about the police's raid into the company, they occupied the company's Center for Technology that stored all of the technological materials of the company. This strategy proved to be most effective because the company could not afford to lose the materials. The recovery of the materials might take several years if they were lost.

A compromise between the workers and the company was arrived at by Kim Woo Jung, the head of Daewoo Conglomerate, and Hong Young Pyo, the leader of the de-facto union. In spite of the appeal from the official union, they agreed to the 10 percent increase in wages together with an increase in other benefits. Kim also promised to eliminate the irregularities in work conditions that were a source of complaints. The final settlement seemed favorable to the workers.

The Institute of Korean Christians for Industrial Development, one of the supporters of the independent labor union, summarizes the major characteristics of the Strike as follows.[84] First, it was almost the first labor dispute

84. *Ibid.*, 146-154.

in such a large heavy industry firm as Daewoo. Until the 1970s most labor disputes occurred in small firms in the light industry. It could be explained partly because the heavy industry was underdeveloped until the 1980s in Korea and partly because the working conditions in the heavy industry that were controlled by big business groups were somewhat better than those in the small light industrial workshops.[85]

Second, it was a strike by male workers, while most of the labor disputes before the 1980s were led by female workers. It seems to be linked to the fact that small and light industries hired mostly female workers while heavy industries recruited male workers. However, various aspects of the labor disputes led by male workers differ from those led by female workers in Korea. For example, while male workers are more conservative about labor movements than female workers because they are usually the heads of households, male workers are more militant and steadfast than female workers when they are in a labor dispute.

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85. For example, according to a governmental data, workers of large firms (over 500 workers) were paid 17.8 % more than workers of small firms (under 30 workers) in 1983, while the working hours of the former were only 2.4 percent longer than that of the latter. *Ibid.*, 146. However, not only in their wages but also in their other working conditions such as shop floor management, lunch, and recreation facilities, the workers of large firms enjoyed far better advantages than the workers of small firms.

Third, it was a well-prepared and organized strike, while previous labor disputes were hardly prepared and organized. For example, the workers' revolt in the Hyundai Shipyard in 1974 and the miners' strikes in Sabug in 1980 were led by male workers in large firms. However, those occurred as a reaction to temporary management failures and subsided when they received the promise of managerial changes. The Daewoo Strike was well prepared by militant labor activists and developed as the model of Korean labor unionism after 1984. The labor union in Daewoo Motor Corporation was better institutionalized and reinforced by the results of the strike.

Fourth, it exemplified the labor-intellectual solidarity that has developed in the process of Korean industrialization. Major labor leaders in the strike were intellectuals who turned themselves into manual workers. As auto workers, they became leaders and received the fidelity of other undereducated workers by expressing their militancy and knowledge about the firm. Their role was not limited to organizing the strike but also involved the negotiation of wages and working conditions by using the leverage of support from various anti-ruling coalition forces such as churches, the press, labor unions, and other organizations of intellectuals.

3. Summary

If the process of automobile industrialization in the stage of introduction was highly exclusive and politicized only within the small faction of the ruling coalition, as Jenkins argues, the process in the stage of consolidation became a broad social process in which not only technocrats and businessmen but also workers were willing to participate. From the late 1970s, the share of the industry in Korea's national economy had grown so large that major interest groups began to pay attention to the direction of government and auto industry policies. Auto workers increased in number and organized themselves as an effective voice with the help of the anti-ruling coalition forces.

While Korea's development strategy under Park's ruling coalition was export-oriented in general, the actual strategy of automobile industrialization in particular was import substitution until the late 1970s. This study finds a large gap between the rhetoric of advocating automobile export and the establishment of the policy means by which to promote automobile exports, as most governmental--neoclassical technocrats, in particular--and corporate interviewees confirmed. Only in 1977, after the success of Pony in both the domestic and international markets, did the

Korean government select the automobile industry as a major strategic industry for export.

Despite the neoclassical economists' doubt about the success of Korea's automobile export, Hyundai developed its own export model with incredible speed and volume. The international trade situation, especially the condition of the U.S. market, produced mixed incentives for the entry of Pony Excel. The voluntary restraint of the Japanese automobile exporters opened up the possibility for the entry of compact cars from other countries, although there already existed a serious excess capacity problem in the U.S. auto industry, with the respect that the U.S. trade policy was becoming increasingly protectionist.

Unlike the case of Pony, there was no dramatic governmental policy such as the decree to freeze the curb market in the case of Pony Excel. Domestic economic recession combined with the intra-ruling coalition conflicts over automobile policies created a rather discouraging environment when Hyundai decided to develop an export model in the late 1970s. The debate over industrial adjustment between the nationalist faction and the neoclassical faction within the ruling coalition exemplifies the struggle between coalitional factions to control the national economy. When economic recession hit the Korean economy, the adjustment plan for the heavy-chemical industry was suggested as a

necessary policy but the coalition soon deadlocked over the plan.

In 1979, a dramatic breakthrough in the deadlock emerged from the activities of the anti-ruling coalition that had long been frustrated by Park's extended dictatorship. Mass riots in the Busan-Masan areas and the ensuing assassination of Park by the KCIA chief unsettled South Korea in general. Auto manufacturers held back their investments and auto workers went on strike. The divided and frustrated ruling coalition, however, was subsequently regrouped by Park's military generals in 1980. The neoclassical faction took control of the economic ministries under the Chun regime and unveiled a plan to reorganize Korea's auto industry into one national champion--Hyundai. However, this objective encountered some opposition because GM-Korea disagreed with Hyundai over the terms of the new joint venture.

Therefore, despite its vacillation on the adjustment plan, the Korean government and the automobile manufacturers kept their close cooperation for maintaining the goal of national champions. Even the neoclassical "liberalization" policies of the Korean government in 1983 did not allow Samsung to participate in the automobile industry but only opened car imports. Rather than liberalize automobile manufacturing, the Korean government strongly supported

Hyundai's car export into the North American market through various policy means.

Two additional factors helped Hyundai to develop Pony Excel as a successful export model. First, the financial and technological success of Pony provided Hyundai not only with substantial profits and a number of engineers but also its confidence regarding the Koreanization of a new export model. Second, the international competition among major multinational automobile corporations helped Hyundai to select the most advanced technologies of emission, fuel economy, and design that enabled it to produce a new FF model for export into the North American market.

As discussed in chapter IV, the success of Pony was possible only because of the close cooperation between Hyundai and the Korean government. The success of Pony as an accumulated effect of coalitional consensus heavily influenced the success of Pony Excel. Just as with the case of Pony, the success of Pony Excel in the international market in return determined the structure of the automobile industry. Hyundai consolidated its hegemonic position in the domestic automobile industry through its successful export, and other auto manufacturers have had to follow its example.

Even though rapid growth in car export and expansion of the domestic market occurred, Korea's automobile industry recorded a major disruption in the early 1980s and a

relatively slow growth in the late 1980s. Korea's automobile production dropped to 123,135 units in 1980 from 204,447 units in 1979. In the late 1980s, Korean government officials and auto manufacturers have begun to complain of a sharp decline in production and profits in automobile manufacturing. These two historical events are better explained by the activities of anti-ruling coalition which opposed the development strategy of the ruling coalition under the Park and Chun regimes than by the changes of governmental policies and international environment.

The economic boom since 1981 resulted in the rapid growth of the labor force in the auto industry, but the working conditions were only partly improved. As a result, the number of labor disputes rapidly increased in the 1980s. Korea's ruling coalition has developed various physical, legal and institutional, and ideological means to control the auto workers. Official labor unions, for example, usually served as an institutional means of labor control.

However, as the 1984 Daewoo strike shows, workers became more class-conscious and rebellious against the exclusive Korean ruling coalition. The anti-ruling coalition forces, comprised of progressive intellectuals, middle class organizations and religious organizations, provided both ideological and institutional support for the workers in labor disputes. The 1984 Daewoo strike shows how the economically pragmatic ruling coalition in Korea was

politically too exclusive to meet the demands of workers and contain the extent of labor disputes.

Chapters IV and V discuss the effects of coalitional politics upon Korea's automobile industrialization. Major events in the auto industry such as the Saenara scandal, the development of Pony, the export of Pony Excel, and the 1984 Daewoo strike were an integral part of Korea's political economic development influenced by the choices and struggles of the ruling coalition. In sum, Korea's ruling coalition displayed pragmatic responses towards the limits and opportunities of late industrialization. These pragmatic responses underlay the successful establishment of a national champion. By comparing the Mexican case with the Korean case, this study will further develop this argument.

Chapter VI: Development of the Automobile Industry in Mexico (I)

1. The Emergence of a Populist Ruling Coalition and the Mexican Automobile Industry since 1940

1.1. The Mexican Revolution in 1910

Since Hidalgo's *Grito de Dolores* in 1810, independent Mexico had inherited a large debt, a bankrupted treasury, severed economic ties with European markets, and deserted lands from its colonial past. Mexico's crippled economy needed a great deal of capital but could not attract the needed capital without first establishing political stability. The colonial latifundia remained intact and most of the Mexican population were landless. Moreover, the power struggle between "liberals" and "conservatives," and between federalists and centralists enabled only two presidents to complete their four-year terms from 1821 to 1856.[1] Moreover, the success of notoriously personalistic and irresponsible persons such as Augustin de Iturbide and Antonio López de Santa Anna, whose political base depended on criollo royalty, deepened the roots of Mexican political and economic misfortune.

Foreign intervention aggravated Mexico's problems. The United States, France, Great Britain, and Spain all

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1. Daniel Levy and Gabriel Székely, *Mexico: Paradoxes of Stability and Change* (Boulder: Westview Press, 1983), 25.

demanded reparations for losses suffered during Mexico's war. The United States exploited the Mexican instability by appropriating over half of Mexico's territory during the Mexico-U.S. War of 1846-1848. In 1846, France imposed Austrian Archduke Maximilian to rule Mexico. However, Mexico eventually defeated the foreigners under the leadership of Benito Juárez who was a leader of Mexican liberals and an Indian from the poor village of Oaxaca. Under the period of La Reforma, Benito Juárez established a coalition of mestizo liberals and a growing bourgeoisie to attack the traditional privileges of the churches, reduce their land holding, expand political liberties, and assume control over social affairs such as education and marriage.

Despite their liberal orientation, however, these mestizo liberals failed to appreciate the importance of equality for the Indian masses and consolidate their political and economic power. Ultimately, the liberals lost their power in 1876 to a military coup headed by Porfirio Díaz, who was a hero in Mexico's struggle against the French intervention. The transfer of power from the mestizo liberals to Porfirio Díaz, however, did not mean the resurrection of traditional conservatives' power. Porfirio Díaz developed a highly centralized administrative state with the help of foreign capital, positivist *cientificos* (technocrats) and notorious *rurales* (rural security forces).

The achievements of the porfiriato (1876-1910) were substantial: political stability and economic growth. "Order and progress," the slogan of positivist *cientificos*, bore fruit in the form of substantial growth in national income, public capital, and primary goods export sectors. Divisions of power between the national and regional governments were eliminated by Díaz's centralized political power. Then, Mexico enjoyed a period of political stability. This stability, in turn, contributed to the inducement of foreign capital and economic growth.[2] Foreign investment rose from 100 million pesos in 1884 to 3.4 billion in 1911.[3] In the 1900-1910 period foreign investment accounted for 66 percent of total Mexican investment.[4] The railroads, the mining and metallurgy industry, and Porfirio's government were the three major beneficiaries of foreign investment.[5] With the help of rapid growth in those sectors, the Mexican economy showed a stable annual average growth of 5.8 percent

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2. Roger D. Hansen, *The Politics of Mexican Development* (Baltimore: The Johns Hopkins Press, 1971), 13-18.
3. Daniel Cosío Villegas, ed., *Historia moderna de México, El Porfiriato--la vida económica*, book 2, 1162.
4. Alfredo Navarrete R., "The Financing of Economic Development," in *Mexico's Recent Economic Growth: The Mexican View*, edited by Tom E. Davis (Austin: The University of Texas Press, 1967), 109.
5. For example, by 1911, 33.2 percent of total foreign investment flowed into railroad construction, 24.1 percent into mining and metallurgy, and 14.6 percent into public debt. Hansen, *The Politics of Mexican Development*, 16. The public debt, which was financed mostly by French bankers, was used largely to redeem or convert prior federal debts. Navarrete R., "The Financing of Economic Development," 114.

in its GNP during the whole porfiriato.[6] Thus the porfiriato cut off the vicious circle of economic weakness and political instability which were endemic in the early independence period.

Under the porfiriato, however, the political and economic conditions of the masses were disastrous. The *cientificos* argued that economic growth would help the rich, the small middle class, and eventually trickle down to the poor. This model of modernization needed big capital, cheap labor, and no strikes. Therefore, according to this perspective, temporary economic concentration and political repression might be inevitable.[7] However, the questions were how long and how much? In reality, the modernization of the porfiriato for three decades only served the owners of big haciendas, a few capitalists of the primary export sectors, and the small middle class. With the help of the absolute power of the porfirian state, large landholders increasingly expropriated the small land of the peasants and the communal land of the Indians. Furthermore, the peasants were pushed into being part-time laborers on their land, which eventually culminated in their quasi-serf status because of their debts. The wages and living standards of

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6. In 1970's constant pesos, the Mexican GNP was 15.6 billion pesos in 1877 and 47.0 billion pesos in 1910. Instituto Nacional de Estadistica, Geografía e Informática, SPP, *Estadisticas Históricas de México, Tomo I* (México, D.F.: INEGI, 1986), 311.
7. Levy and Székely, *Mexico*, 27.

the masses deteriorated and more than four in five Mexicans remained illiterate.[8] Because the porfiriato encouraged foreign investments in major sectors of the Mexican economy and assured their profitability, foreigners prospered. Moreover, the freedom of election, of speech, and of the press disappeared. Only a small number of peasants co-opted by the government, gunmen, and bandits enjoyed good salaries, uniforms, and power.

The lack of social and political mobility under the long porfiriato frustrated even the younger generation of the middle class which was created under Díaz's rule but became the stronghold of anti-ruling coalition under the porfiriato. Michaels and Bernstein emphasize the emergence of a new "progressive" group of highly nationalistic intellectuals and economic newcomers.[9] Spawned by the prosperity of the Díaz era, this new growing class of merchants, manufacturers, and small commercial farmers delved into numerous activities for brewing beer, raising wheat, cotton, rice, and vegetables for the national market. The interests of this progressive group coincided with the interests of the profiriato in terms of stability and growth. However, the general policies of the Díaz regime

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8. *Ibid.*, 27.
9. Albert L. Michaels and Marvin Bernstein, "The Modernization of the Old Order: Organization and Periodization of Twentieth-Century Mexican History," in *Contemporary Mexico*, edited by James W. Wilkie, Michael C. Meyer, and Edna Monzón de Wilkie (Berkeley and Los Angeles: University of California Press, 1976), 690.

became too rigid to respond to the new situation and too dependent upon the foreigners. The fixed gold standard for the peso and the inflexible banking system under the porfiriato were not flexible enough to support the exports of the new group and to control stagflation.[10] The foreign domination of major industries and the conflicts between Mexicans and foreigners bred, in particular, anti-Americanism as shown in the strike at Colonel William Greene's Cananea copper mine in 1906.[11] The frustration of the middle class under the porfiriato became an immediate cause of the Mexican Revolution in 1910.

The intellectual foundations for the Revolution were established by, on the one hand, a reborn liberalism which demanded free elections, a free press, and a return to the reformist 1857 constitution and, on the other hand, the class consciousness of the peasants and workers who needed land and jobs.[12] On the eve of the Revolution, the economic situation worsened because of the national and international depression. The Diaz government adopted harsh policies (e.g., calling in loans) and thereby alienated some of the ruling coalition. Accordingly, the

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10. *Ibid.*, 691.
11. Michael C. Meyer and William L. Sherman, *The Course of Mexican History* (New York: Oxford University Press, 1987), 488.
12. Levy and Székely, *Mexico*, 28; James D. Cockcroft, *Mexico: Class Formation, Capital Accumulation, and the State* (New York: Monthly Review Press, 1983), 99-114.

living conditions of the laborers and peasants deteriorated and there arose increasing worker and peasant strikes. The most serious political mistake by Diaz was an announcement of his personal retirement in early 1908 which fueled not only the rising expectations of the middle class intellectuals of the anti-ruling coalition but also that of the ambitious members of the ruling coalition such as its Reyista faction. However, the typically rigged re-election of Porfirio Diaz in the 1910 presidential elections disappointed the *Reyista* faction and provided the necessary momentum for the successful anti-reelection campaign of Francisco I. Madero.[13]

The Madero government neither intended to smash the old regime nor implement major necessary reforms for labor and the peasantry that had constituted Madero's revolutionary army. Madero only tried to restore old reformist tenets such as free election, a free press and private property rights. As he discouraged the movements for basic social reforms such as land reform and kept the power of the porfiriato ruling oligarchy intact, his political base grew weaker. He depended upon the regular military led by Victoriano Huerta more than ever when there was increasing resistance against him from Emiliano Zapata in Morelos and Pascual Orozco in Chihuahua who once were major forces of

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13. Meyer and Sherman, *The Course of Mexican History*, 491-497.

the anti-reelection campaign.[14] In Mexico City, the old guard of the porfiriato, the U.S. Embassy, and Huerta conspired to drive him out. When Huerta made a successful coup d'etat and killed Madero in 1913, the Mexican Revolution met with its real historical momentum.

Three major armies joined in the ouster of Victoriano Huerta's dictatorship. Emiliano Zapata led the peasant forces from the south. Pancho Villa's forces consisted of the petty bourgeoisie and workers from the north. The Constitutionalist army led by Venustiano Carranza allied with the powerful Northwest hacendados and businessmen who were excluded from Díaz regime's ruling coalition. Because of the major revolutionary forces' differences in political and ideological bases, the Aguascalientes Convention in October 1914 failed to arrive at a consensus among the revolutionary forces. It was inevitable that the revolutionary armies would clash with each other over the hegemony of the Revolution. In spite of the early military success, Villa and Zapata failed to form a power coalition to install their regime in Mexico City and they abandoned Mexico City after their brief visit. Ultimately, the Constitutionalists succeeded forming a new ruling coalition with the help of the United States and the urban workers of the *Casa del Obrero Mundial* based in Mexico City.

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14. *Ibid.*, 514-518.

Villa's military defeats in 1915-1916 and Zapata's increasing isolation in the south made it possible for the Constitutionalists to hold a constitutional convention at Querétaro in late 1916. As Peter Smith points out, among the delegates to the Convention at Querétaro, almost all were *carrancistas*, 85 percent were "middle class," and over half of them had professional titles with some sort of higher education.[15] Interestingly, only 30 percent of them were army men while the majority were middle class civilians who were in uniform. The convention turned out well beyond Carranza's expectations and the so-called Jacobin forces loyal to reformist Obregon dominated the convention. The 1916 Constitution, therefore, included the most progressive articles in the world at that time such as land reform, various labor rights, secular education, and the national control over its natural resources.[16] It also guaranteed political freedom, federalism, separation of powers, a bicameral congress, and an elaborate Bill of Rights. These middle class idealists at Querétaro attempted to include "what they perceived as the best of both worlds (the Soviet Union and the United States)."[17]

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15. Peter Smith, "La politica dentro de la Revolución: El Congreso Constituyente de 1916-1917," *Historia Mexicana* 22 (1973): 263-395.
16. Levy and Székely, *Mexico*, 30.
17. *Ibid.*, 31.

Even though Carranza signed the constitution, he opposed most of its progressive articles.[18] Carranza tried to restore the land ownership of the porfirian proprietors, reduce the educational and social programs, crush the workers' strikes in Mexico City, and assassinate Zapata.[19] In contrast to Carranza's counterrevolutionary attempts, Obregon absorbed the zapatista peasants army and allied with the progressive bourgeoisie in the northeast region to expel Carranza. This group installed its leader, Alvarado Obregón, as president. From 1920 to 1924, Obregon revived Carranza's restrained reform, especially in labor and educational policies. As the Constitutionalists led by Obregón actively pressed for reforms, this group finally succeeded in the early formation of the ruling coalition with revolutionary legitimacy and political support from the peasants and workers who had lost their leaders during the Revolution.

As an heir of the Revolutionary Family, Plutarco Elias Calles succeeded Obregon in 1924. He was successful in forging Mexico's unique political system of *sexenio* and one-party rule. He consolidated the power of the presidency and reigned over the revolutionary generals through the party structure of the Partido Nacional Revolucionario (PNR). After the Bucareli Agreement of 1923, which

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18. Cockcroft, *Mexico*, 111.
19. Meyer and Sherman, *The Course of Mexican History*, 549.

reaffirmed the nonretroactive clause to Article 27 and obliged Mexico to pay compensation for damage to U.S. property during the Revolution, the Mexico-U.S. relationship was restored to normal. Disputes prevail about whether it is Calles or Cárdenas who established the model of Mexican political economy in its present direction: political stability (with substantial limits on liberty) and economic modernization (centralized banking, improved tax collection, financial stability, agricultural credits, infrastructure development, and increased U.S. economic penetration into the Mexican economy), without effective redistribution of the newly generated wealth.[20]

If the major direction of Calles' developmental strategy has dominated the political economy of modern Mexico, the Mexican system would hardly be called "inclusive" and "populist" in its nature. In the final years of Calles's *Maximato*, the political base of the revolutionary coalition had been consolidated but narrowed. The essentially conservative approaches of the Callista coalition to social and economic development had become

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20. For example, Levy and Székeley emphasize the role of Calles in the formation of modern Mexico. Levy and Székeley, *Mexico*, 32. However, the majority of the Mexican specialists argue that it is Lázaro Cárdenas who formed the basis of modern Mexico. See Wayne A. Cornelius, "Nation Building, Participation, and Distribution: The Politics of Social Reform Under Cárdenas," in *Crisis, Choice, and Change: Historical Studies of Political Development*, edited by Gabriel A. Almond, Scott C. Flanagan, and Robert J. Mundt (Boston: Little, Brown and Company, 1973), 392.

increasingly ill-suited to the growing popular demands that were motivated by the Revolution.[21] Demands for higher wages and improved working conditions among the urban working classes were not satisfied. The old-line of the Confederación Regional Obrera Mexicana (CROM) led by Luis Morones could not meet the demands of most Mexican workers and hardly controlled the rapid growth of the anti-ruling coalitional labor organizations under Vincente Lombardo Toledano and other radical leaders. Peasants also began to express their frustration about the phase of land reform through acts of anomic violence, illegal land seizures, and broad noncompliant organizational movements. The Callistas had to use federal troops to prevent armed takeover of major haciendas.[22] In a speech in May 1933, Calles himself admitted that the Mexican Revolution had failed to accomplish most of its important objectives.

Some progressive members of the ruling coalition, such as Adlberto Tejeda in Veracruz, Luis Arroyo Ch. in Guanajuato, and Lázaro Cárdenas in Michoacán, refused to abide by the Callista line and continued land distribution within their own states.[23] In order to preempt the leftist factions of the ruling coalition, and believing that he could continue to control of the Mexican presidency, Calles appointed a reformist Cárdenas as the President in

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21. *Ibid.*, 429.
22. *Ibid.*, 430.
23. *Ibid.*, 430.

1934.[24] In contrast to Calles' expectations, however, Cárdenas forged his own course that gave new content and momentum to the Mexican Revolution. It is Cárdenas, moreover, who founded a new populist ruling coalition for modern Mexico.

1.2. The Cárdenas Legacy and the Populist Dilemma

When Cárdenas assumed the Mexican presidency as a compromise between the Callistas and the reformist section of the revolutionary family, he seemed to fully understand the strategic position of the President in Mexican politics[25] and determined to exploit its power to improve the welfare of the masses.

First, Cárdenas and his reformist supporters quickly responded to the popular demands of Mexico's masses through land and labor reforms.[26] Cárdenas demonstrated his firm

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24. *Ibid.*, 438. This view is a consensus of major Mexican specialists. Frank Brandenburg, *The Making of Modern Mexico* (Englewood Cliffs: Prentice Hall, 1964), 76; William Weber Johnson, *Heroic Mexico: The Violent Emergence of a Modern Nation* (Garden City: Doubleday, 1968), 412; L. Vincent Padgett, *The Mexican Political System, Second Edition* (Boston: Houghton Mifflin, 1966), 37.
25. Cornelius, "Nation Building, Participation, and Distribution: The Politics of Social Reform Under Cárdenas," 448.
26. Brandenburg points out, "To Cárdenas, the survival of Revolutionary Mexico depended on keeping faith with the masses, which he felt the PNR leadership had done in laying down the six-year plan and in selecting him,

commitment to the revolutionary principle of equality through his famous presidential campaign that lasted one and a half years. Under Cárdenas' presidency, the Mexican state distributed more land than had all his revolutionary predecessors combined. By 1940 the Mexican state had distributed 49 million acres and approximately one-third of the Mexican population had received land under the land reform.[27] Cárdenas also worked hard to strengthen the labor organizations to secure workers' demands. Governmental arbitration boards were largely favorable to workers' demands. He backed labor's right to secure its just demands through legal channels and encouraged the creation of a central labor confederation instead of the corrupt CROM led by the Callistas.[28]

Second, Cárdenas successfully prevented the militarism of the old revolutionary generals by consolidating the support of lower-echelon officers and arming peasants and workers' militia. Cárdenas established a professional procedure for military promotion and increased the salary of military personnel while reducing the military share of the

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Cárdenas, to be its standard-bearer." Brandenburg, *The Making of Modern Mexico*, 77.

27. Meyer and Sherman, *The Course of Mexican History*, 598-599. Even the successors of Cárdenas could not match his record of land distribution except López Mateos. See James W. Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910* (Berkeley: University of California Press, 1970), 192.
28. Hobart A. Spalding, *Organized Labor in Latin America: Historical Case Studies of Urban Workers in Dependent Societies* (New York: Harper and Row, 1977), 121.

federal budget from about 30 percent in the 1920's to 16.7 percent by 1938.[29] He also built elementary schools for the enlisted soldiers and their families. In 1936, he began to implement his plans for arming peasants and workers' militia to create a military counterpoise to the conservative revolutionary generals who frequently undermined the reform process. By 1940 some 200,000 peasants and 100,000 urban workers had been armed, of which 60,000 had been organized into reserve units.[30] These numbers take on a great significance because the regular army numbered only 55,000 during Cárdenas' presidency.[31] Moreover, Cárdenas incorporated the military into an official party to serve the ruling coalition rather than threaten it.

The immediate threat to Cárdenas' presidency came from the *jefe supremo*, Plutarco Elías Calles, and his Sonoran Dynasty. Because Calles had ruled Mexico through three presidents for ten years, and because Cárdenas himself had been one of the faithful members of his inner circle, Calles did not restrain himself from criticizing the leftist

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29. Cornelius, "Nation Building, Participation, and Distribution: The Politics of Social Reform Under Cárdenas," 466; Jorge Alberto Lozoya, *El ejército mexicano, 1911-1965* (México, D.F.: El Colegio de Mexico, 1970), 100.
30. Cornellius, "Nation Building, Participation, and Distribution: The Politics of Social Reform Under Cárdenas," 458.
31. Edwin Lieuwen, *Mexican Militarism: The Political Rise and Fall of the Revolutionary Army, 1910-1940* (Albuquerque: The University of New Mexico Press, 1968), 86,119.

policies of the new president. Noting that Cárdenas had not reduced the speed of his socio-political reforms, Calles issued an open warning message to the nation on June 12, 1935, hinting at the ouster of Cárdenas.[32] By gaining the support of the revolutionary generals and isolating those that remained in the Calles camp, Cárdenas successfully confronted the challenge from Calles. Cárdenas quickly and decisively expelled *callistas* from major military and governmental posts, and further undermined the influence of Calles through the threat of a general strike to be led by Vicente Lombardo Toledano. The defeated Calles were placed aboard a speical plane bound for the United States. This taming of the revolutionary generals and the consolidation of presidential power by Cárdenas was the first step that guaranteed the political stability of Mexico, a condition that is hardly found in contemporary Third World countries.

Third, through the expropriation of Mexican oil, the cardenistas infused a strong sense of Mexican nationalism into the modern Mexican ruling coalition. When Cárdenas became president, about 98 percent of the petroleum industry was controlled by 16 foreign companies, two of which were Royal Dutch Shell and Standard Oil of New Jersey.[33] The

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32. Brandenburg, *The Making of Modern Mexico*, 78.
33. For a discussion of the oil expropriation issue, see Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton: Princeton University Press, 1982), 216-240; George W. Grayson, *The Politics of Mexican Oil* (Pittsburgh: University of Pittsburgh Press, 1980), 13-18.

issue of Mexican control over the petroleum industry was significant for several reasons. First, control over the petroleum industry was regarded as the symbol of Mexican sovereignty over powerful foreign oil companies. The foreign oil companies had reaped high profits from their Mexican operations, sometime reaching from 40 to 60 percent in the early 1920s. In spite of their high profits, those foreign companies neither tried to improve their Mexican workers' wages and job security nor their relationship with the Mexican government. Therefore, the nationalization of the petroleum industry became an anticipated symbol of national sovereignty and independence from the advanced industrial countries, especially the United States. Second, the petroleum industry was an increasingly important source of export earnings and a vital sector of industrialization in Mexico. The proportion of Mexico's petroleum production for domestic consumption increased from 10.5 percent of the total produced in 1926 to 37.5 percent in 1932. Therefore, the government of Abelardo Rodriguez instituted Petróleos de Mexico in 1934 despite its limited governmental resources and private financial assistance. If it succeeded, the petroleum expropriation would guarantee the state control of the essential resource and its ability to guide the process of industrialization in Mexico.

On March 18, 1938, when the foreign oil companies refused to accept the decision of the Mexican Supreme Court

in the dispute between them and the oil workers' unions, Cárdenas issued a decree nationalizing the industry. The nationalization decree drew almost unanimous support from the Mexican people who stood behind its nationalistic cause and expected economic gains from the industry. The policy of nonintervention under the new Franklin D. Roosevelt administration and the fear surrounding the impending World War II forced the American oil companies to negotiate their compensation and the British companies to follow suit.[34] Even though the oil workers asked Cárdenas for control over the industry by themselves, Cárdenas rejected that approach and formed a public firm--Petróleos Mexicanos--controlled by a nine-member board of directors.[35]

Finally, it should be emphasized that Cárdenas succeeded in institutionalizing a populist ruling coalition of the Revolutionary Family.[36] Cárdenas completely renovated the PNR--a coalition of regional revolutionary generals--into the Partido del la Revolución Mexicana (PRM)--a modern popular party, a predecessor of the current Partido Revolucionario Institucional (PRI)--by incorporating

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34. Meyer and Sherman, *The Course of Mexican History*, 603-605.
35. Grayson, *The Politics of Mexican Oil*, 16.
36. Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 320-324. For the details of Cárdenas' efforts to institutionalize Mexican politics, see Brandenburg, *The Making of Modern Mexico*, 79-95.

major socio-political forces into the new party.[37] With respect to organize labor, Cárdenas backed Lombardo Toledano in his effort to crush the old and corrupt CROM and create a new Confederación de Trabajadores de México (CTM) in 1936. In return, the role of the CTM was crucial in the triumph of Cárdenas in his power struggle against Calles. With respect to the peasantry, Cárdenas also encouraged Emilio Portes Gil in mid-1935 to organize *ejidatarios*--communal farmers who received land through the land reform program. In August 1938, the new *ejidatarios* officially organized Confederación Nacional Campesina (CNC) in which membership became obligatory for every *ejidatario* in Mexico. Civil servants, including teachers in public schools, were also encouraged to unionize under an umbrella union such as the Federación de Sindicatos de Trabajadores en el Servicio del Estado (FSTSE). With its immense power resources, this sector became the most important pillar of the party's "popular sector."[38] These three sectors--labor, agrarian, and popular--were invited by Cárdenas to form the official party structure together with another sector, the military.

Even though the institutionalization of a populist ruling coalition through the mobilization of the agrarian, labor and popular sectors was his major concern, Cárdenas did not ignore the role of the private sector in Mexican

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37. *Ibid.*, 91; Hansen, *The Politics of Mexican Development*, 99-100.
38. Brandenburg, *The Making of Modern Mexico*, 86.

capitalist development. In the institutionalization of the private sector, Cárdenas restructured existing chambers of commerce and industry, although he did not include them in the PNR as he did with other sectors. All Mexican businessmen were encouraged to participate voluntarily or obligatorily in various business organizations--the Confederación de Cámaras de Industrias (CONCAMIN), the Confederación de Cámaras Naciónales de Comercio (CONCANCO), and the Confederación Patronal de la República de México (COPARMEX). Even though the independent COPARMEX challenged Cárdenas by waging an anti-socialist campaign in Monterrey in 1936, Cárdenas sought a compromise with the organization rather than abolished it.[39]

An interesting feature in Cárdenas' ruling coalition formation is that the official party system does not exactly reflect the power structure of the ruling coalition.[40] In its institutional form, for example, the private sector is outside the official party. However, as Hansen argues it is the private sector that has really shared power with the state in the Mexican politics and reaped the most from the

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39. Luis Felipe Bravo Mena, "COPARMEX and Mexican Politics," in *Government and Private Sector in Contemporary Mexico*, edited by Sylvia Maxfield and Ricardo Anzaldúa Montoya (San Diego: Center for U.S.-Mexican Studies, University of California, 1987), 93.
40. For a discussion about the distinction between the Mexican formal political structure and the "real" power structure, see Pablo González Casanova, *Democracy in Mexico* (London: Oxford University Press, 1970), 6.

Mexican Revolution.[41] In contrast, the popular sectors such as the labor unions and peasants organizations, which would have nominally shared the power within the official party, have largely worked as the cooptation mechanism of the ruling coalition of the state and the private sector.[42]

Capitalist development, as one of the choices of the Revolutionary ruling coalition, was further consolidated by succeeding presidents. In this regard, Miguel Alemán (1946-1952) became the "symbolic antithesis" to leftist Cárdenas.[43] Alemán favored business interests and economic growth rather than equality. Alemán's circle was filled with wealthy and influential businessmen.[44] Since the 1940s, therefore, the business community have increasingly participated in major public posts within the government.

While the business community was publicly incorporated into the ruling coalition, the co-optive mechanism of the

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41. Hansen, *The Politics of Mexican Development*, 101. Hansen criticizes Huntington's institutionalization thesis about Mexico, arguing that political behavior within the Mexican institutionalized systems is at best a partial reflection of the social reality. From the leftist view, see Hamilton, *The Limits of State Autonomy*, 28. A review of major literature on Mexican politics concludes, "It may be that although the government zigzags from right to left verbally, its concessions to business are real and its concessions to the left rhetorical." See Carolyn Needleman and Martin Needleman, "Who Rules Mexico? A Critique of Some Current Views On The Mexican Political Process," *Journal of Politics* 31 (November 1969), 1032.
42. For example, the articles of Nora Hamilton and Timothy F. Harding, eds., *Modern Mexico: State, Economy, and Social Conflict* (Beverly Hills: Sage, 1986).
43. Levy and Székely, Mexico, 35.
44. Hansen, The Politics of Mexican Development, 109.

ruling coalition over the popular sectors such as the labor unions and peasants organizations became intensified. Not tolerating popular opposition to Alemán's policies, the army and the police crushed strikes and jailed many union leaders who were openly critical of the regime. The government imposed its own union leadership and invited the so-called "Charros" to be the members of the ruling coalition.[45] These co-opted union bosses have enjoyed legal protection of their status, higher wages and fringe benefits, and promotion to high public positions such as senators.

However, despite his anti-leftism, Alemán's policies did not specifically change any part of Cárdenas's reforms or declare them illegitimate.[46] Rather, Alemán's policies exemplified the rightist end of the so-called "presidential pendulum" that occurs from one sexenio to another, on a rough kind of left-right, progressive-conservative continuum between *cardenistas* and *alemanistas*, while all presidents respect the continuity of the revolutionary legitimacy and institutionalization.[47] Guaranteeing that different political factions would take turns alternating in power

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45. For example, the legendary "five little wolves" such as Fidel Velázquez and his four colleagues consolidated their leadership of the CTM and maintained it until today. Ibid., 115. Also, see Cockcroft, Mexico, 154-155.
46. Levy and Székely, Mexico, 35.
47. Wayne A. Cornelius and Ann L. Craig, "Politics in Mexico," in Comparative Politics Today: A World View, edited by Gabriel A. Almond and G. Bingham Powell, Jr. (Boston: Scott, Foresman and Company, 1988), 444-445.

across presidential terms, this presidential pendulum has long contributed to political stability in Mexico.[48] Within the ruling structure that created such political stability, interestingly, there is also its peculiar problem of the populist dilemma that engenders the constant tension between the government and the private sector in Mexico. It forms the major part of Cárdenas's legacy that will be discussed in depth.

While the discrepancy between the formal political structure and the real power structure is a common phenomenon in late industrializing societies, therefore, the Mexican case involves a particular legacy from the Cárdenas government. Nora Hamilton argues that the perception of state autonomy that prevailed in the Cárdenas government produced contradictions between a populist state and capitalist development.[49] Even though the Cárdenas government succeeded in some reforms, according to Hamilton, its progressive but authoritarian ruling structure under capitalist development resulted in an increase in the relative power of the capitalists and the reduction of state autonomy that was designed to mitigate class struggles. While Hamilton focuses on the explanation of state autonomy

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48. David Ronfeldt, "Prospects for Elite Cohesion," in Mexico's Alternative Political Futures, edited by Wayne A. Cornelius, Judith Gentleman and Peter H. Smith (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1989), 435.
49. Hamilton, *The Limits of State Autonomy*.

in Mexico in terms of structural Marxism, Raymond Vernon investigates the causal relationship between the Mexican development pattern and the Mexican ruling structure. Raymond Vernon's concept of "the Mexican Dilemma" between populist legitimacy inherited from the Mexican Revolution (completed by Cárdenas) and capitalist development expressed the contradictions better than Hamilton.[50] For example, the authoritarian and populist Mexican system gradually loses the dynamics of political economic development, because it simultaneously alienates the populist masses and the private sector. Ultimately, this system will be destabilized by its economic failure if it keeps the populist ruling structure or by its loss of political support if it abandons the populist ruling structure.

In the Mexican effort of late industrialization since the Mexican Revolution, Cárdenas also provided an example for his successors. The Cárdenas government played an important role in the creation and expansion of public development banks that have encouraged the late industrialization process in Mexico.[51] Nacional Financiera, as the most important public investment, was established in 1934, the ejidal bank, as a main pillar of land reform, in

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50. Raymond Vernon, *The Dilemma of Mexico's Development: The Roles of the Private and Public Sectors* (Cambridge: Harvard University Press, 1965).
51. Cf. O. Ernesto Moore, *Evolución de las instituciones financieras en México* (México, D.F.: Centro de Estudios Monetarios Latinoamericanos, 1963).

1935, and the Banco Nacional de Comercio Exterior, as a public investment for export promotion, in 1937. The emphasis upon economic development and social well-being is reflected in the structure of the federal government's expenditures. For the first time in Mexican history, social and economic expenditures were greater than administrative expenditures under the Cárdenas government. As James W. Wilkie points out, "This action and Cárdenas's expenditure of an average of 37.6 per cent of the federal purse in the economic sphere of national life marked the turning point of Mexico's Revolution."[52]

Cárdenas also expanded direct government control over key economic sectors. His government expropriated sugar mills, railroads, and the oil industry, often incorporating some form of worker control or self-management.[53] This expropriation of major industries often contributed not only to the elimination of foreign domination in those sectors but also to the expansion of state control over the key economic sectors. Although the private sector expressed its regrets over Cárdenas's policies, the expansion of state control over key industries proved to be generally favorable to the interests of the private sector, by providing subsidized inputs and various services.

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52. Wilkie, *The Mexican Revolution*, 37.
53. Nora Hamilton, "Mexico: The Limits of State Autonomy," in *Modern Mexico: State, Economy, and Social Conflict*, edited by Nora Hamilton and Timothy F. Harding (Beverly Hills: Sage, 1986), 89.

Even though Cárdenas set up institutional frameworks for the industrialization of Mexico, the lack of capital and technology was still prominent. Although the general policy orientation of the Cárdenas government was not favorable to foreign investment in Mexico, the government frequently encouraged foreign investment in the manufacturing sector as well as in the agricultural sector.[54] As Mexican industrialization proceeded, some advanced industries, e.g., automobile industry, were introduced by foreign capital.

1.3. The Multinational Corporations and the Beginning of the Mexican Automobile Industry.

Even though industrialization efforts under the Cárdenas era played an important role in the development of the automobile industry in Mexico, there was no major effort to develop the automobile industry as a major manufacturing sector in Mexico until 1962. The first automobile arrived in Mexico in 1908. Because of some independent historical events such as the 1916 general strike, the utility of passenger cars and the bright future of the taxi business in Mexico City were assured.[55] Until 1925, however, all motor vehicles in Mexico were imported.

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54. Sanford A. Mosk, *Industrial Revolution in Mexico* (Berkeley: University of California Press, 1950), 57.
55. Brandenburg, *The Making of Modern Mexico*, 296.

In 1925, Ford Motor Company decided to establish an assembly plant in Mexico. A.R. Lajous, a Mexican of aristocratic parentage and the manager of the assembly plant, exploited his friendship with Calles to get important concessions on railway freight rates and taxes. The Calles government reduced the tariffs on imported CKD (Completely Knocked-down) kits by 50 percent in order to promote the domestic assembly of cars rather than the import of completed cars.[56] However, the Ford plant was a very limited assembly plant until it inaugurated full operation in 1932. Until the mid-1930s, therefore, the supply of domestic cars largely depended upon the imports of completed cars and trucks.

The substantial growth of highway networks and transportation under the Cárdenas government gradually encouraged the establishment of domestic assembly plants. In 1934, the government announced a grants-in-aid program to finance major roads leading into the national highway system. By 1940, about 6,170.9 miles of highways had been completed between Mexico City and such major cities as

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56. Mira Wilkins and Frank Ernest Hill, *American Business Abroad: Ford on Six Continents* (Detroit: Wayne State University Press, 1964), 147. Miguel S. Wionczek, Gerardo M. Bueno, and Jorge Eduardo Navarrete, *La Transferencia Internacional de Tecnología: El Caso de México* (México, D.F.: Fondo de Cultura Económica, 1974), 72.

Laredo, Veracruz, Córdova, Zacatecas, Oaxaca, Guadalajara, and Acapulco.[57]

With this rapid growth of highway networks, multinational corporations and domestic businessmen began to show interest in the domestic assembly of motor vehicles. International Harvester established its assembly plant in June 1934. General Motors established its assembly plant in September 1935 and the Azcárrga family started Fábricas Automex in October 1938 in order to assemble Chrysler CKD kits.[58] Truck- and bus-body makers such as General Motors, TYCSA, IMBA-MEX, Carrocerías González, and Industrial Metálicas de Monterry, and rubber-tire manufacturers such as Hulera Oxo (Goodyear), Hulera El Popo (General Tire), and Hulera Euzkadi (Goodrich) began their operations in Mexico.[59] In the small market in Mexico in the 1930s, the products of those major assemblers were adequate enough to meet the domestic demand for motor vehicles. For example, the domestic assemblers supplied 60 percent of total demand

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57. Victor L. Urquidi, "Fundamental Problems of the Mexican Economy," in *Mexico's Recent Economic Growth: The Mexican View*, edited by Tom E. Davis (Austin: University of Texas Press, 1967), 194; Brandenburg, *The Making of Modern Mexico*, 298.
58. Javier Aguilar García, *La política sindical en México: industria del automóvil* (México, D.F.: Ediciones Era, 1982), 19.
59. Brandenburg, *The Making of Modern Mexico*, 296.

in 1940 and almost 89 percent of the total demand of about 25,000 cars in 1950.[60]

The economic boom caused by the Second World War and the Korean War also contributed to the expansion of automobile assembly plants in Mexico. A full-scale war and its ensuing shortages in the United States and the European countries not only reduced their exports to Mexico but also gave Mexicans a chance to develop their own industrial structure.[61] The Avila Camacho government that succeeded Cárdenas in 1940 dramatically increased the favorable loans of the Nacional Financiera to the manufacturing sector up to a total of 286.8 million pesos by 1945. In 1944 the Congress passed legislation allowing foreign participation in Mexican industrialization if Mexican capital could control the joint-ventures.

A wide range of industries such as textile, food processing, chemical, beer, cement, and other major industrial goods manufacturing were newly settled and rapidly expanded. For example, pig iron production increased from 99,200 metric tons in 1930 to 240,300 metric tons in 1946 and electricity capacity grew by 20 percent during the same period. As a result, the national income grew from 6.4 billion pesos in 1940 to 18.6 billion in 1945.

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60. *Ibid.*, 19; Wionczek, Bueno, and Navarrete, *La Transferencia Internacional de Tecnologia: El Caso de México*, 73.
61. Meyer and Sherman, *The Course of Mexican History*, 634-637.

This economic boom and the cutoff from Western auto manufacturers encouraged domestic assemblies in Mexico.

After the brief postwar depression in Mexico, the assembly of automobiles expanded again. Under the new quota system Willys Mexicana (later, Vehiculos Automotores Mexicanos) entered into the motor vehicle assembly industry in February 1946 and Trailers de Monterrey in August 1946. Diesel Nacional was established by Bruno Pagliai and Luis Montes de Oca in August 1951 in order to assemble Fiat CKD kits but sold to the Mexican government in 1958.[62] Volkswagen also established its assembly plant in January 1954 and Nissan in September 1961. Therefore, until 1962 almost twelve assemblers and twenty-nine importers crowded such a small Mexican automobile market.[63] Motor vehicle production increased from 21,575 cars in 1950 to 62,563 cars in 1961.[64]

Governmental policies before 1962 were weak and short-term ones even though they were under the context of import substitution industrialization. From 1930 there were very high import duties on finished vehicles in order to encourage domestic assembly activities. In 1947, however,

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62. Douglas Bennett and Kenneth Sharpe, "The State as Banker and Entrepreneur: The Last-Resort Character of the Mexican State's Economic Intervention, 1917-1976," *Comparative Politics* 12 (January 1980), 178.
63. Aguilar García, *La política sindical en México: industria del automóvil*, 21.
64. Instituto Nacional de Estadística, Geografía e Informática, *Estadísticas Históricas de México, Tomo II* (México, D.F.: INEGI, 1986), 527.

the Alemán government prohibited the importation of assembled vehicles and set up two new types of control: annual assembly quotas and import bans on parts which were manufactured locally.[65] The assembly plants in Mexico received local quota in proportion to their current volume of production, without restrictions on types or models. With the restriction on imports of completed cars the domestic assemblers in Mexico made a relatively high profit in those years.[66]

In 1951 Alemán got rid of the restrictions on the importation of assembled vehicles but established a price-control system for low-priced cars and all types of trucks. Even though the balance of payments and import substitution were major concerns of the Mexican automobile policies, the Mexican government continued to put price ceilings on the sales of assembled cars in the domestic market. In 1959, for example, the Adolfo López Mateos government prohibited the importation of assembled cars that were over $4,400 per car on their retail sales prices and granted import licenses on small finished cars that were under $1,500 per car in order to induce the reduction of domestic market prices.

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65. Rafael Izquierdo, "Protectionism in Mexico," in *Public Policy and Private Enterprise in Mexico*, edited by Raymond Vernon (Cambridge: Harvard University Press, 1964), 283.
66. For example, Ford in Mexico showed successive profits in its operation, ranging from $112,000 in 1939 to $851,000 in 1945. See Wilkins and Hill, *American Business Abroad*, 335.

While those governmental policies were fluctuating within the context of import substitution, the numbers of assemblers and models were rapidly expanding. The twelve assemblers and twenty-nine importers that received licenses from the Mexican government provided almost forty brands and one hundred models to Mexican consumers in 1959.[67] The degree of integration in the industry was also significantly low. Although some auto parts such as tires and interior equipment were Mexican-made, these parts assumed only an estimated 20 to 25 percent of the total cost of the vehicles. Moreover, even local auto parts were not completely national products. For example, the rubber in tires and major parts of the car radio were imported.

The low economies of scale, low local content, and foreign domination of the domestic market in the stage of introduction are partly explained by the lack of a clear development strategy in Mexican automobile industrialization. In the 1940s and 1950s, most political economic groups in Mexico were concerned about the manufacturing of consumer nondurables such as food and clothes. They believed that the various conditions of the Mexican economy were not sufficient for the development of the automobile industry.[68] They concluded, "It is apparent to everyone in Mexico that the government is still undecided

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67. *Ibid.*, 284.
68. Aguilar García, *La política sindical en México: industria del automóvil*, 18.

about whether it should enter the automobile-assembly business on a large scale."[69] The report of Nacional Financiera (NAFIN) in 1960, therefore, was the major breakpoint in Mexican automobile industrialization.

2. The Limits of the *técnicos*' Approach: The Case of the 1962 Decree

2.1. The Emergence of *técnicos* in Mexican politics

As in the development of most Third World countries, the role of technocrats has been increasing in Mexico in the process of late industrialization. Since the ruling coalition in Mexico adopted the development strategies for industrialization, there were increasing numbers of technical issues such as exchange rate, investment, technology transfer, savings, taxation, and inflation that were beyond the understanding of the political leaders. Most political leaders who are not trained to understand these issues inevitably rely upon the expertise of technocrats to find appropriate solutions to given issues. Moreover, the increasing flow of highly technical

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69. Brandenburg, *The Making of Modern Mexico*, 297; Also, see Izquierdo, "Protectionism in Mexico," 283.

communications between nations and with international agencies enhanced the political position of technocrats in the decision-making process of major economic policies. "The greater the complexity of problems which challenge the government, the greater will be the influence of this new group of career bureaucrats (*técnicos*) in coping with the problems at all levels of the decision-making process."[70]

This emergence of technocrats (the so-called *técnicos* in Latin America) is particularly distinguished in Mexican politics. Raymond Vernon argues that there is a "reasonably clear" line between the so-called *téchnicos* (technocrats) and the *politicos* (political leaders) in Mexico, while the distinction between the technocrats and political leaders is blurred in many advanced countries.[71] The Mexican

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70. Roderic Ai Camp, "The Middle-Level Technocrats in Mexico," *Journal of Developing Areas* 6 (July 1972), 581. Of course, the emergence of *tecnicos* did not necessarily mean the erosion of *politicos'* power. As shown in the case of DINA, the power of *politicos* has long been maintained.
71. Vernon, *The Dilemma of Mexico's Development*, 136. However, many other Mexican specialists are not willing to insist that the distinction is so "reasonably clear." Roderic A. Camp and Merilee S. Grindle, for example, argue that empirical researches show that técnicos are usually also equipped with political skills and politicos have some technical skills in many cases. However, they recognize the usefulness of the term *técnicos*. Roderic A. Camp, "The Political Technocrat in Mexico and The Survival of the Political System," *Latin American Research Review* 20 (1985): 97-118; Merilee S. Grindle, "Power, Expertise and the 'técnico': Suggestions from a Mexican Case Study," *Journal of Politics* 39 (May 1977): 399-426; and David F. Ronfeldt, "Prospects for Elite Cohesion," in *Mexico's Alternative Political Futures*, edited by Wayne A. Cornelius, Judith Gentleman, and Peter H. Smith (San

técnicos, according to Vernon, consist of the bureaucrats in major Ministries who exercise their power in the decision-making process by their capacity to recommend policy alternatives to political leaders rather than by their capacity to share policy directly.

There is also a structural factor that makes the role of *técnicos* significant in the development process of such developing countries as Mexico. In most cases, there are two major alternatives of jobs for highly educated young persons in the Third World: the state and private enterprise. However, private enterprises are far less attractive than government organizations because private enterprises in the Third World are usually small in number, family-dominated in management, and unstable in job security. Therefore, governmental organizations become a pool for young aspirants seeking better jobs and values who then join the ranks of technocrats.[72]

The typical *técnicos* in Mexico have been trained in a few prestigious universities such as Universidad Nacional Autónoma de México, recruited through various merit exams, positioned in major ministries such as the Ministry of Finance, and promoted to higher positions with the help of their expertise and political support from *camarillas*

Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1989), 438.

72. Camp, "The Middle-Level Technocrats in Mexico," 580-581.

(political factions). [73] Vernon argues that there are some fundamentals in the belief of Mexican técnicos, e.g., the rapid industrialization, rapid growth of the domestic bourgeoisie, positive role of the state, reduction in domination of the national economy by foreign capital, and some reservations about the effectiveness of the market system in Mexico.[74] Even though there are some variances in the policy orientation of *técnicos* in recent years, these fundamentals are hardly changed.[75]

The restructuring of the Mexican automobile industry in the late 1950s became a good sector for the *técnicos* to show their commitment to industrialization in various ways. First, automobile industrialization might contribute to the solution of bottlenecks in import substitution industrialization. Facing the increasing bottlenecks of

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73. In the study of Bank of Mexico scholarship holders, Camp (1972); in the study of ministers in major presidencies, Camp (1985); in the study of the Diaz Ordaz Cabinet, James D. Cochrane, "Mexico's 'New Cientificos': The Diaz Ordaz Cabinet," *Inter-American Economic Affairs* 19 (Summer 1967): 61-72; in the study of CONASUPO, Grindle (1977). For general information about the Mexican ruling elites, see Roderic Ai Camp, *Los Lideres Politicos de Mexico: Su Educación y Reclutamiento* (México, D.F.: Fondo de Cultura Económica, 1980).
74. Vernon, *The Dilemma of Mexico's Development*, 137-149.
75. Judith A. Teichman, *Policymaking in Mexico: From Boom to Crisis* (Boston: Allen & Unwin, 1988), 93. She identifies two major tendencies in the policy orientation in *técnicos*: the quasi-populists and the neoliberals. The Mexican neoliberals, however, are dissimilar to the so-called "Chicago boys." According to her, they are more "liberal" than populist because they try to reduce governmental spending and excessive state intervention in the market.

import substitution in the late 1950s, Mexico had to choose one of two alternatives for further economic growth: either the expansion of the domestic market for nondurable consumer goods through income redistribution or the transition to consumer durable industries such as the automobile industry.[76] The former alternative is politically dangerous because it requires the redistribution of the wealth and privilege of the Revolutionary Family, thus, a restructuring of the current ruling coalition. Since Cárdenas, no Mexican President has dared to reform the current political economic structure of the populist ruling coalition even though it has led to increasing socioeconomic inequality in Mexico. The latter alternative is thus much more politically feasible. The expansion of the consumer durable industry would satisfy the demands of the middle- and upper-income consumers, many of which are the members of the ruling coalition.

Second, while it serves the demands of the upper-class, the automobile industry also contributes to industrialization in general by its backward and forward linkages. The rapid growth of the automobile sector would stimulate the growth of metalworking, glass, steel, paint,

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76. René Villarreal, "The Policy of Import-Substituting Industrialization, 1929-1975," in *Authoritarianism in Mexico*, edited by José Luis Reyna & Richard S. Weinert (Philadelphia: Institute for the Study of Human Issues, 1977), 67-107; Bennett and Sharpe, *Transnational Corporation Versus the State*, 99.

aluminum, gasoline, and car insurance industries. It will also serve the expansion of transportation with the rapidly expanding highways.[77] Even though the small domestic market would more or less limit the growth of the industry, the development of the industry could bring vast opportunities for investment and employment.

Third, the development of domestic automobile manufacturing will contribute to the balance-of-payment structure. By the late 1950s, the automobile sector constituted over 10 percent of all merchandise imports.[78] In fact, the import substitution of automobiles does not much contribute to the reduction of imports because inevitably the machinery and intermediate goods for automobile manufacturing will be imported. However, in any case, more foreign exchange will be used for the establishment of the domestic industrial base rather than the import of automobiles.

2.2. The 1960 NAFIN Report: A *técnicos'* Approach

In December 1958 when Adolfo López Mateos assumed the Mexican presidency, therefore, it came as no surprise that the Mexican técnicos took the initiative to restructure the

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77. Highways in Mexico have rapidly grown from 5,875 miles in 1940 to 28,023 miles in 1960. Urquidi, "Fundamental Problems of the Mexican Economy," 194.
78. Bennett and Sharpe, *Transnational Corporation Versus the State*, 100.

Mexican automobile industry. Enjoying the backing of Lázaro Cárdenas, young and energetic López Mateos, the well-educated son of a small-town dentist, was determined to pursue the industrialization of the Mexican economy. First of all, to renew industrialization efforts, López Mateos reorganized the government ministries. A new Ministry of National Properties was created to manage the governmental holdings in a growing number of industries. The name of the Ministry of National Economy was changed to the Ministry of Industry and Commerce (Secretaria de Industry y Comercio or SIC) and granted increasing power to control tariffs and import licenses that had earlier been under the control of the Ministry of Finance (Secretaria de Hacienda y Crédito Publico).

Antonio Ortiz Mena was appointed the Minister of Finance, Eduardo Bustamante the Minister of National Properties, and Raúl Salinas Lozano the Minister of Industry and Commerce. Many technocrats such as Plácido García Reynoso, Jorge Espinosa de los Reyes, Carlos Quintana, and Roberto Flores, who had been trained in the central institutions of economic policy, were placed in responsible positions to oversee the industrialization process. Most of them were very aggressive and nationalistic. Recognizing that they were in the easy phase of Mexican import substitution industrialization, they emphasized the role of the state to recapture Mexican ownership, advance

into capital-intensive industry, and, thus, renew rapid economic growth. This group had already observed the significant growth in electric-power and mining industries after their nationalization.[79]

In order to create an automobile manufacturing industry in Mexico, this group organized an interministerial committee with representatives from the Ministry of Industry and Commerce, the Ministry of Finance, the Ministry of National Properties, and the Bank of Mexico, which was led by Carlos Quintana, a high official of Nacional Financiera. In 1960, after considerable comparative field researches in Brazil and Argentina this committee presented a final report to López Mateos.

The NAFIN report constituted the Mexican *tecnicos'* blueprint for automobile industrialization. It included some specific recommendations for the development of the industry: (1) Economies of scale: there would be no more than four or five firms manufacturing automobiles and each auto producer would be limited to the manufacture of one model, with few extras. In addition, model changes would be permitted only every five years. It emphasized compact cars and forbade luxury vehicles. (2) Vertical integration: auto producers would be limited to the machining and assembly of the engine, and the assembly of the vehicle. Parts supply firms independent of the auto producers would

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79. *Ibid.*, 96.

manufacture components. (3) Standardization: standardization of parts across vehicle producers would be encouraged. (4) Mexicanization: both the auto producers and the parts firms would be joint ventures with transnational automobile firms, but with majority ownership in Mexican hands.[80]

Because it is common sense in the automobile industry that economies of scale and managerial control are important for successful business, as we noted in the previous chapters, the recommendations of the report were not new.[81] The NAFIN proposal, however, was important in the context of Mexican automobile industrialization. First, it appeared to represent the consensus of Mexican *técnicos* concerning the development of the Mexican automobile industry. The interministerial committee worked not only as a coalition of influential técnicos but also a technical committee of major powerful camarillas within the López Mateos government. There were hardly more powerful actors in the decision-making process of the 1962 automobile decree. Therefore, the report was incorporated into the final decree as a backbone of the decree.

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80. *Ibid.*, 94-95. This is Bennett and Sharpe's summary of the NAFIN report. See Nacional Financiera, "Elementos para una política de desarrollo de la fabricación de vehículos automotrices en México," (NAFIN, 1960).
81. Technocrats in the Korean case also emphasized the same points for the development of the Korean automobile industry.

Second, the report was the first effort to shape the pattern of the Mexican automobile industry. Since the 1920s when the automobile assembly plants opened in Mexico, the Mexican automobile industry was crowded by twelve assemblers and twenty-nine importers. The low economies of scale, low local content, and foreign domination became major concerns of the Mexican automobile industry. It was observed then that if Mexico launched a new automobile manufacturing industry, the market and ownership structure should be radically reformed. Whatever the direction of the first effort would be, it would influence the long-term pattern of the Mexican automobile industry.

Third, even though the role of the state was prominent, the basic outlines of the report was a capitalist strategy: reliance on private-sector investment and market function. While domestic businessmen in the automobile sector were still weak and hardly had a voice in the decision-making process, the state was determined to offer whatever they needed--investment incentives, tax subsidies, infrastructure project--in order to encourage the domestic bourgeoisie to assume the central role in the automobile industrialization in Mexico.[82] This strategy was exactly a sectoral version of the national development strategy in the 1960s.

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82. Bennett and Sharpe, *Transnational Corporation Versus the State*, 104.

Fourth, the proposal provided a very interesting case for an examination of the power of a Third World state versus the multinational corporations (MNCs). Major multinational automobile corporations such as GM, Ford, Chrysler, Volkswagen, and Nissan were already established in Mexico or wanted to participate in the Mexican market. *Técnicos* could hardly imagine the political complexity of the Mexicanization of the automobile industry. However, the issue of inclusion and exclusion in Mexican market as a result of the proposal was very critical to the interests of the multinational corporations. In fact, the issue of automobile industrialization was not limited solely to economic concerns during the whole period of the Mexican state-MNCs negotiation.

2.3. The 1962 Decree: Fragmentation, Denationalization, and The Failure of the *técnicos*' Approach.

When a new automobile decree based on the 1960 NAFIN report was officially promulgated in 1962, the issue of scale economies through the reduction of the number of firms became the most important agenda in the effort of Mexican automobile industrialization.[83] The 60 percent of local

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83. For the text of the 1962 decree, see Guillermo S. Edelberg, "The Procurement Practices of The Mexican Affiliates of Selected United States Automobile Firms," Doctor of Business Administration dissertation, Harvard University, June 1963, Appendix V.

content requirement, vertical integration, Mexicanization of ownership, and limits on models as the basis of automobile manufacturing rather than simple assembly of imported parts, were negotiated and finally accepted by the major automobile assemblers, even though the governmental requirements were hardly implemented as they were originally proposed. Governmental licenses on automobile manufacturing and the import of auto parts along with other fiscal policies were effective means to force those firms to accept the government's guidelines. Because the major components had to be imported despite the emphasis upon local manufacturing, for example, the import ban on auto parts against a particular firm meant the exclusion of that firm in the Mexican automobile industry.[84]

The issue of scale economies through the reduction of the number of firms, however, became the most critical issue to the multinational automobile corporations' subsidiaries, especially to Ford and GM.[85] In fact, if the 1962 auto decree pursued the Mexicanization of ownership and the economies of scale through the reduction of the number of

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84. *Ibid.*, 105.
85. To follow up on the details of the issue is particularly difficult because of the historical overlap and other contradictory information. One of the major achievements in Bennett and Sharpe's book, *Transnational Corporations Versus the State*, is its integration of information from extensive interviews on the issue into a historical sequence. This study largely follows Bennett and Sharpe's historical sequence.

firms, two of the three biggest assemblers in Mexico--Ford and GM--would hardly have been approved. Among the eleven Mexican motor vehicle assemblers, Fábricas Automex, run by the Azcárraga family as a Chrysler assembler, would have been approved because it was the only one majority Mexican-owned firm among the three largest firms in Mexico. DINA, as a state-owned firm, would have been approved without any difficulty. Moreover, Renault, as DINA's foreign partner, was willing to help DINA to produce a domestic model that was appropriate to the situation of the Mexican market.

Promexa, S.A., owned by Mexican pioneers in the automobile industry such as Edmundo Krause, Edmundo Stierle, and Rómulo O'Farrill, also submitted the application to manufacture Volkswagens. Proxema's proposal was one of the favorites among the Mexican *técnicos* because it was a wholly Mexican-owned private firm and Volkswagens were renowned as one of the appropriate models--*auto populares*--for Mexico. Another Mexican private firm, Vehiculos Automores Mexicanos, S.A. (VAM), was also one of the most likely candidates for Mexican automobile manufacturing. Created in 1946 as Willys Mexicana, owned by a Mexican industrial development bank, SOMEX, VAM would specialize in jeeps that were appropriate for rural Mexico.

Therefore, the overall situation of the industry led to the logical conclusion described by Bennett and Sharpe: "An industry comprised of Fábricas Auto-Mex, DINA, Promexa, and

VAM would have fit the general scheme of the NAFIN report: four firms, all majority Mexican owned, two linked to U.S.-based and two to European-based transnational firms, producing both small and large vehicles."[86] Those four firms had experience in the automobile industry. Three of them were private firms that the Mexican *técnicos* tried to encourage to be major actors of Mexican automobile industrialization.

The result of the 1962 decree, however, shows that the *técnicos'* approach was largely unsuccessful in regard to the most important issue of scale economies through the reduction of the number of firms. Not only Automex, DINA, Promexa and VAM but also Ford and GM were approved in December 1962. Soon thereafter, the applications of Impulsora Mexicana Automotriz, Reo, and Representaciones Delta were also approved. Finally, the Nissan auto plant was approved in late 1964 when Reo, assembler of Toyopets, collapsed.

It is interesting to consider what caused such a different outcome in 1964 from the NAFIN report even though Mexican *técnicos* consistently resisted it in most cases. First of all, the politics of international linkage between political and economic issues were apparent in the case of the 1962 decree. Ford and GM made strong efforts to modify

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86. Bennett and Sharpe, *Transnational Corporation Versus the State*, 108-109.

the decree and successfully mobilized the support of the U.S. government. When the NAFIN report was prepared, Ford also embarked on a separate two-volume study of the Mexican automobile industry and Ford's role in the development of the industry. Edgar Molina, as general manager of Ford's Mexican subsidiary and a friend of Raúl Salinas Lozano (Minister of SIC), tried to exploit his friendship with Salinas Lozano during 1961 and 1962 in order to ensure the involvement of Ford in the final list of approvals.[87] Ford and GM also argued that the disruption of Ford and GM, as two of three the largest assemblers, would cause not only a breakdown in services on sold vehicles and the supply of auto parts but also the unemployment of workers in the two companies' dealer networks.

The efforts of these foreign firms were more effective if their home countries had enough power to pressure the host country to accept them. The U.S. Ambassador in Mexico, Thomas Mann, informed Salinas Lozano that the U.S. government would regard the exclusion of any U.S. firms in the industry as a "not very friendly act."[88] Given Mexico's significant reliance upon the United States in terms of trade, investment, and finance, pressure from the U.S. government was considered seriously. Just as with Ford and GM, Nissan mobilized the support of the Japanese

87. As in the Korean case, this relationship was linked with financial offerings or bribery. *Ibid.*, 109, 114.
88. *Ibid.*, 110.

government in order to enter into the Mexican market. When Reo, the assembler of Toyopets, collapsed, the Japanese government argued that another Japanese firm--Nissan, in this case--should replace it. Despite the strong resistance from Mexican *técnicos*, the Japanese government successfully exploited Mexico's trade dependence in the form of cotton export to Japan to force Mexico to accept Nissan. In fact, cotton export accounted for over 20 percent of Mexico's total exports in 1963 and about 70 percent of that went to Japan.[89] Thus, Nissan entered into the Mexican automobile industry even though it was two years after the legal deadline for approval, by threatening to cut purchases of Mexican cotton.[90]

As long as Ford and GM were allowed to participate in the Mexican market, the *técnicos* could not help permitting other Mexican private firms that had strong political backing to enter into the Mexican market. Representaciones Delta of the Abed family and Borgward of Ernesto Santos Galindo, for example, exploited their political ties with the President to obtain governmental approval for automobile manufacturing. Both firms wanted to specialize in

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89. Raúl Salinas Lozano, *Memoria de labores, 1963* (México, D.F.: Secretaria de Industria y Comercio, 1963), 136-137; *Comercio Exterior*, May 1961, 287.
90. Bennett and Sharpe, *Transnational Corporation Versus the State*, 111. Of course, as Bennett and Sharpe point out, Japan used both carrots and sticks to induce Mexico to expand the trade relationship between the two countries, for example, by providing a $100 million loan. *Comercio Exterior*, March 1963, 167.

expensive cars--Mercedes Benz and Borgward, respectively--that técnicos regarded as unlikely to succeed in the given situation of the Mexican market. This view proved correct when both firms eventually collapsed. In both cases, however, López Mateos "made it clear to SIC officials that the application was to be accepted, whatever defects it might have."[91]

Even though there were some linkages between industrialization policies and other issues, however, it is also evident that there were alternative development strategies for the Mexican government in the sector of the automobile industry. In fact, as Bennett and Sharpe point out, the U.S. government might not have succeeded in forcing Mexico to accept Ford and GM if Mexico had denied the discrimination against American firms by arguing that Mexico already approved the advance of two American firms--Chrysler and American Motors.[92] Even though corporate and governmental interests usually coincided in United States foreign policies, corporate pressures from Ford and GM upon the U.S. government should not be overemphasized. As was clearly shown in the Mexican oil expropriation in 1938, the

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91. Bennett and Sharpe, *Transnational Corporation Versus the State*, 123.
92. *Ibid.*, 111.

U.S. government pursued its self-defined "national interests" rather than the particular corporate interests.[93]

If Ford and GM were rejected, other foreign and domestic firms would not have insisted their participation in the industry. In the case of Nissan, for example, the Mexican government could have persuaded the Japanese government to participate in other industries rather than in the politically sensitive sector of the automobile industry in 1962. Political linkage for some unsuccessful firms would be less effective and the costs of political consideration would be increased if the principle of scale economies was strongly upheld. The fact that approvals for Impulsora Mexicana Automotriz, Reo, and Delta were postponed until 1963 even though major six firms were approved in December 1962 partly supports the possibility of the rising costs of political consideration.

The results of the técnicos' approach in the Mexican automobile industry were denationalization and fragmentation of the industry. Extremely low economies of scale, lack of appropriate models, and fragile financial foundations of domestic firms vis-a-vis foreign subsidiaries resulted in the collapse of Mexican auto firms or the sale of Mexican equity to foreign firms. In some cases, the Mexican government served as the "last resort" for domestic

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93. Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978), 187.

ownership.[94] The further development of the Mexican automobile industry will be discussed in the next section.

3. The Collapse of Automex

3.1. The Development of the Mexican Automobile Industry since 1962

The 1962 decree of the López government was aimed at achieving the rapid growth of automobile manufacturing with domestic ownership through import substitution policies. Four points of the 1962 decree show the details of the *técnicos*' approach to achieve the goals: economies of scale, integration, standardization, and Mexicanization. In its initial stage of policy implementation, however, this policy was largely modified and attenuated. As a result, some goals were achieved but others not. Interestingly, the issue of scale economies was resurrected by the initiative of the private sector--Gaston Azcárraga Tamayo--in the late 1960s. This initiative, however, failed just as the *técnicos*' approach had in the early 1960s. Therefore, it is important to investigate what factors influenced the failure of the Azcárraga initiative in order to understand the recent pattern of the Mexican automobile industry.

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94. Douglas Bennett and Kenneth Sharpe, "The State as Banker and Entrepreneur: The Last-Resort Character of the Mexican State's Economic Intervention, 1917-76," *Comparative Politics* 12 (January 1980): 165-190.

Técnicos in the López government apparently succeeded in the creation of the industrial structure for the rapid growth of automobile manufacturing in Mexico. From 1960 to 1970 Mexico showed an annual average growth of 14.8 percent in automobile manufacturing. Mexico assembled 49,807 motor vehicles in 1960 and 193,266 motor vehicles in 1970. Integration between terminal firms and auto parts firms in Mexico rapidly increased. The level of integration was 20 percent in 1960 but increased up to 63 percent in 1966, which lasted until 1976.[95] The purchase of auto parts by the terminal firms from domestic auto parts firms was 400 million pesos in 1960 and 3 billion pesos in 1970. The savings through this import substitution of automobiles and parts was 1.3 billion pesos in that year. Even the exports of auto parts rapidly increased from 222 million pesos in 1969 to 850 million pesos in 1972.

One of the major goals in Third World industrialization is to create jobs for the rapidly increasing population. The rapid growth of the Mexican automobile industry contributed to the creation of a considerable number of jobs.[96] Assembly firms employed 7,072 workers and auto parts firms 3,500 workers in 1960. The total of 10,572 workers in the industry earned 388 million pesos as wages

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95. Javier Aguilar Garcia, *La politica sindical en México: industria del automóvil* (México, D.F.: Ediciones Era, 1982), 24-25.
96. *Ibid.*, 31-32.

and benefits. However, the number of auto workers rapidly increased up to 83,659 workers in 1970. In addition, the networks of about 800 automobile distributors employed 45,000 persons. Thus, a total of 128,659 jobs were created in the automobile sector. If the backward and forward linkages of the industry in general were considered, the effects of the industry on the increase in employment in Mexico would be substantial.

Table 6-1: Production of Major Mexican Motor Vehicles Manufacturers, 1965-1975 (units)

Year	Chrysler	Ford	GM	Nissan	V.W.	others	Total
1965	27857	22216	22033	1105	13189	17184	103584
1966	26041	26969	21840	1340	18519	20057	114766
1967	29293	21643	21419	6642	17630	23752	120379
1968	29180	31349	27756	9674	23709	24810	146478
1969	35520	34659	27000	12907	24437	30868	165391
1970	38820	36984	27859	15629	35626	35068	189986
1971	35300	41423	31972	17859	48219	36620	211393
1972	38267	43209	28938	22212	58468	38697	229791
1973	47864	44512	37170	24635	89624	41763	285568
1974	62839	55170	40159	26807	114504	51468	350947
1975	65032	55772	36286	30871	104570	64093	356624

Note: The figures in this table are somewhat different from the MVMA's World Motor Vehicle Data. For the changes of ownership and titles of each firm, see Figure 3-1.

Source: Asociación Mexicana de la Industria Automotriz, A.C., *La Industria Automotriz de Mexico En Cifras*, 1978.

Even though the rapid growth of production and employment was one of the major patterns of the Mexican automobile industry, low scale economies and

denationalization also became the patterns of the industry. Faced with the appeals from the multinational corporations and the governments in their home countries, the Mexican *técnicos* attenuated and thereafter discarded the goals of Mexicanization and economies of scale. Most of the dozen firms that were operating before the 1962 decree were approved to manufacture motor vehicles. The result was a far lower volume of production by many firms, accompanied by denationalization caused by the collapse of the major Mexican firms.

Table 6-1 shows that the division of a small market among many producers contributed to a very small scale of production for most terminal firms from 1965 to 1975. Most automobile manufacturers except Volkswagen after 1974 produced under 100,000 cars per model per year, which is usually regarded as the minimum in terms of economies of scale for popular cars.[97] Automex (later, Chrysler) produced under 400,000 vehicles per year until 1970, even though it was the largest producer in the Mexican automobile industry. In addition, every firm manufactured more than one model. For example, Automex assembled Chrysler's Valiant, Dodge, and Plymouth as well as commercial vehicles. Ford also produced three major models: Galaxie, Falcon, and Mustang. GM had two major models: Chevrolet and Opel. Nissan and Volkswagen focused on one model even though they

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97. See the discussion of scale economies in Chapter 2.

also assembled other models. As a result, each firm had to assemble only several thousand cars per model a year.

Given the market structure, it is evident that the multinational corporations' subsidiaries enjoyed a position superior to that of the domestic manufacturers in the Mexican automobile market. Foreign subsidiaries ameliorated the effects of low scale economies by highly flexible world sourcing and transfer pricing of major components, while local manufacturers always met with the low elasticity of price and supply of imported components.[98] Not only in the elasticity of price and supply of major components, the domestic auto manufacturers were also apparently inferior to the multinationals' subsidiaries in production technology and management skills. The latter was easily equipped with accumulated technologies of economic assembling, inventory control, and personnel management, while the former struggled to overcome the trials and errors in those sectors. Finally, the foreign subsidiaries enjoyed a wide range of financial advantages vis-a-vis the local competitors. The former got easier access than their local competitors not only to the various financial networks of their parent companies but also to lending institutions with the credits of their parent companies.[99]

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98. Rys Jenkins, *Transnational Corporations and The Latin American Automobile Industry* (Pittsburgh: University of Pittsburgh Press, 1987), 149.
99. Rhys Jenkins points out another possibility that the higher credit mobilization of the foreign subsidiaries

Price control by the Mexican government worked less favorably for the domestic auto manufacturers than for the foreign subsidiaries. In fact, the prices of motor vehicles in Mexico were substantially higher than in Western countries.[100] For example, the prices of compact cars in Mexico were 53 percent higher than for the same cars in the United States and France; 70 percent for medium-size cars; 85 percent for large-size cars; and 79 percent for sports cars. These government-controlled prices, however, were high enough to secure profits for the multinationals but far too low to guarantee profits for the local manufacturers.

The combined effects of market structure, technological development, and price policy are evident in Table 6-2, which is provided Rhys Owen Jenkins. After 1969, the profitability of the local firms was rapidly deteriorated, while the foreign subsidiaries showed consistently higher rates of profitability except in 1967. Moreover, an estimate of transfer pricing effects which is assumed at 10 percent added substantially higher profits for the foreign

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compared to the local firms is a result of the firms' strategies rather than preferential access to capital. For example, Mexican firms usually raised capital by issuing shares on the local stock market, while foreign companies preferred to borrow locally in order to maintain complete ownership of its subsidiary. Rhys Owen Jenkins, *Dependent Industrialization in Latin America: The Automotive Industry in Argentina, Chile, and Mexico* (New York: Praeger, 1977), 112.

100. Miguel S. Wionczek, Gerardo M. Bueno, and Jorge Eduardo Navarrete, *La Transferencia Internacional de Tecnología: El Caso de México* (México, D.F.: Fondo de Cultura Económica, 1974), 83-84.

subsidiaries. Until 1969, because most Mexican private automobile manufacturers collapsed, any profitability among local firms was confined to the two public firms, DINA and VAM.

Table 6-2: Profitability of Selected Mexican Auto Firms, 1966-1973

Year	Local firms	Foreign firms		
		A	B	C
1966	11.5	4.9	7.1	17.8
1967	6.6	-5.0	-2.9	7.1
1968	6.7	5.2	7.6	18.5
1969	8.0	9.6	11.4	19.0
1970	-3.8	10.3	12.2	19.9
1971	-17.9	6.7	9.0	17.8
1972	-11.1	6.1	8.7	18.2
1973	-3.6	8.5	11.7	n.a.

Note: A = profits; B = profits + royalties; C = profits + royalties + 10% average overpricing. n.a. - not available.

Source: Rhys Owen Jenkins, *Dependent Industrialization in Latin America: The Automotive Industry in Argentina, Chile, and Mexico* (New York: Praeger, 1977), 110.

If structural problems were dominant, the actual collapse of the local firms in the early 1960s suggests that it was due not only to these problems but also to the failure of corporate strategies to overcome those problems.[101] For example, Planta Reo de México, a Monterry assembly firm under the direction of Hector Cortés,

101. For a summary of the Mexican firms' collapses, see Bennett and Sharpe, *Transnational Corporations Versus the State*, 119-128.

collapsed in July 1963 when Cortés was arrested because he inappropriately managed his capital formation process through the banking system he had established for the construction of the assembly plant. Representaciones Delta, run by the Abed family, ceased its operation in 1964 when it discovered that it lacked the technical and managerial incapacity to manufacture Mercedes Benzs in Mexico. Fábrica Nacional de Automóviles S.A. (FANASA), led by Ernesto Santos Galindo and Gregorio Ramírez, borrowed much from SOMEX in order to establish an assembly plant for the manufacture of Borgward--a luxury car by Mexican standards. But FANASA could not repay its loan because the Borgwards' sales was too low. In 1969, Ramírez sold FANASA to the Mexican state and FANASA became a division of DINA.

The Sociedad Mexicana de Crédito Industrial (SOMEX) group, established in 1941 as a private development bank, controlled not only FANASA but also VAM. Willys Mexicana, renamed Vehiculos Automores Mexicanos S.A. (VAM) in 1960, was controlled by the SOMEX group and assembled AMC's jeeps. In spite of its new assembly plant and government approval for automobile manufacturing, however, VAM never produced more than 10,000 cars and trucks until 1968. Because several member firms such as VAM were almost bankrupt, the SOMEX group collapsed in 1963 and was sold to the Mexican

government.[102] As a result, VAM came under the control of the Mexican state as a division of DINA.

However, the single most important event in the denationalization process of the Mexican automobile industry was the collapse of Automex.[103] Automex, as a local firm, manufactured over 20 percent of total motor vehicles since the 1962 decree, while the combined output of the other Mexican firms was under 20 percent. Gaston Azcárraga Tamayo, the Mexican owner of Automex with the 33 percent shareholding of Chrysler, also controlled the powerful Banco Nacional de México (Banamex), one of Mexico's oldest commercial bank, with Agustin Legorreta and Pablo Jean.[104] Because of its significant position in the industry, Automex had usually received special consideration from the Mexican government. In every sense, Automex could have been the national champion in the Mexican automobile industry just as Hyundai is in South Korea. However, Automex sold 45 percent of its equity to Chrysler in 1968 and 99 percent in 1971. Even the Azcárraga initiative--the merger plan--did

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102. Hamilton, *The Limits of State Autonomy*, 299.
103. Interestingly, AMIA officials and managers of the Mexican automobile industry told me that they were not aware of the importance of the Automex case in the denationalization process. They said they regarded Automex as an enclave of Chrysler in Mexico long before the early 1960s. However, Automex was apparently controlled by the Azcárraga family until Chrysler increased its equity to 45 percent in 1968.
104. Azcárraga served as one of directors in the Bank from 1949 to 1967. See Banco Nacional de México, *Review of the Economic Situation of Mexico*.

not succeed. For the failed auto firms, there were three alternative outcomes: sell to foreign firms, sell to the state, or cease its operation. Automex picked up the first alternative. This incremental collapse of Automex, therefore, was at the peak of the denationalization process in the Mexican automobile industry.

3.2. The Azcárraga Initiative: the merger plan

Since 1938, Automex had assembled the Dodge and Plymouth models of Chrysler. The Azcárraga family gained control over the corporation by the late 1950s when Gaston Azcárraga Tamayo took over the control of the firm from his father. Under the automobile decree of 1962, Automex easily got its license for automobile manufacturing because it was the largest Mexican auto firm and its president, Gaston Azcárraga, had kept close friendships with major governmental officials such as Raúl Salinas Lozano, the Minister of Industry and Commerce. As the only Mexican private firm that survived the crowded Mexican automobile market since the 1962 decree, Automex had apparently enjoyed favoritism from the Mexican government, for example, it was granted a larger production quota than Ford and GM, despite Ford's substantial contribution to the decree. As Table 6-

3 shows, the production of Automex had steadily increased during the period from 1963 to 1972. Its market share also increased from nearly 18 percent in 1962 to more than 29 percent in 1965--the highest among the ten auto firms.

Table 6-3: Aspects of the Operation of Fábricas Auto-Mex, 1963-1972 (millions Pesos)

Year	Vehicles Sold	Employees	Sales	Earnings
1963	17286	1545	587	29.9
1964	20115	2134	832	45.9
1965	27859	2233	1067	46.6
1966	26044	3984	1189	41.9
1967	29304	4261	1298	15.5
1968	29197	4261	1417	23.9
1969	35542	5123	1565	15.9
1970	38703	4527	1828	-64.8
1971	35326	4011	1599	-117.4
1972	40102	3982	1763	-91.3

Note: Figures are for fiscal year ending Sept. 30.

Source: *Expansion*, May 16, 1973, 27; re-cited from Bennett and Sharpe, *Transnational Corporations Versus the State*, 127.

However, Automex sold 12 percent of its equity to Chrysler and, as a result, Chrysler increased its equity in Automex to 45 percent in 1968. Bennett and Sharpe have provided us with a well organized and documented explanation concerning the event. According to their explanation, the dependency of Automex upon Chrysler is the key for understanding the increasing denationalization of Automex. Automex, as an assembler of Chrysler's CKD kits with the

latter's technology, sufferred not from any production problem but from financial crisis, as is shown in Table 6-3.

The financial crisis of Automex arose from the financial squeeze between the low profit caused by the highly competitive domestic market and the high price of imported CKD kits. Mexican auto prices were relatively low because almost 10 firms were approved as automobile manufacturers in the 1962 decree. While other auto firms that were the subsidiaries of multinational auto firms were receiving the CKD kits at relatively lower prices from their parent firms, Automex had to depend upon Chrysler's CKD kits at relatively higher prices.[105]

Another problem related to Automex's dependency upon Chrysler was Chrysler's bid for the control of Automex, according to Bennett and Sharpe. Since the late 1950s, Chrysler changed its corporate strategy from domestic competition to overseas expansion. In order to survive in the increasingly competitive international auto industry, Chrysler tried to acquire foreign firms such as Simca in France and Rootes in Britain. Automex was a good candidate to introduce Simca into the Mexican market. With the increasing indebtedness of Automex to Chrysler, the latter

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105. This multinational corporate strategy is called "transfer prices," by which a multinational corporation sets administratively the prices of CKD kits in the intracompany transactions. See George Maxcy, *The Multinational Automobile Industry*, 16.

approached the former to buy out the Azcárraga family holding.

The study of the automobile industry by Rhys Jenkins shows that Automex had short-term debts of over 350 million pesos and a long-term debt of 73 million pesos to Chrysler in 1969.[106] It should be noted, however, that Azcárraga's dependency upon Chrysler was Azcárraga's strategy of finance. While Automex's financial crisis itself cannot explain why Gaston Azcárraga chose to borrow from Chrysler, the corporate strategy of financially depending upon the supplier of CKD kits contributed to the increase in bargaining power of the supplier--Chrysler--and, thus, the increasing denationalization of Automex.[107]

In addition to Automex's dependency upon Chrysler, however, the new market structure created by the 1962 decree and the corporate strategy of the Azcárraga family were major factors that contributed to the denationalization of Automex. One of the initial goals in the decree was to limit the number of firms in the Mexican market in order to attain the economies of scale in automobile manufacturing. However, the Mexican government approved 10 firms for the manufacture of motor vehicles in such a small market.

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106. Rhys Jenkins, *Dependent Industrialization in Latin America: The Automobile Industry in Argentina, Chile, and Mexico* (New York: Praeger, 1977), 167-168.
107. This point is more evident when we compare this case with the Korean case. It will be explained in the comparative section.

Therefore, even though Automex had one of the highest market shares in the industry since 1962, the total volume of production was far below the so-called minimum scale economies of 100,000 cars per year by the standard of the 1950s.[108]

In order to solve this structural dilemma, Automex, with the help of Chrysler, proposed a merger plan that sought to merge the four Mexican auto firms (DINA, VAM, FANASA, and Automex) into a single Mexican-owned firm affiliated with Chrysler. In 1968, Azcárraga approached Campos Salas, the Minister of Industry and Commerce, and Ortiz Mena, the Minister of Finance, with the idea. With Azcárraga's financial contribution and with Oritiz Mena's endorsement, according to Bennett and Sharpe, a technical committee was set up to study the Mexican automobile industry and the alternatives to improve the situation of the industry, for example, the balance-of-payment in the industry.

Chrysler was eager to support Automex's merger plan, setting up an office in Mexico City and dispatching several major Chrysler officials to help with the plan. When VAM and Automex were asked to present their proposals on the merger of the Mexican-owned firms in the industry, Automex

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108. George Maxcy and Aubrey Silberston, *The Motor Industry* (London: George Allen & Unwin, 1959).

submitted a well-articulated and organized proposal with the help of Chrysler. In addition to its technical cooperation, Chrysler was willing to accept minority ownership in the new firm although it hoped to control the management of the firm.[109]

The technical committee, led by government officials and automobile industry experts, produced a report in which the then current problems of the Mexican auto industry such as balance-of-payment and inefficiency could be solved by the rationalization of the industry (the merger of small firms, increasing local content, and the standardization of parts). While some governmental officials argued for the majority ownership by the Mexican government in a new venture, the technical committee had decided to adopt Azcárraga's merger plan in which Automex, the Mexican government, and Chrysler each shared one-third of the firm in January 1969.

This merger plan, if adopted, would give Automex decisive advantages in the Mexican auto market. With the large new firm and its high aggregate quota, Automex would have achieved substantial economies of scale and met the

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109. While Bennett and Sharpe describe Chrysler was willing to accept a one-third share of the new firm, Villaseñor wrote that Chrysler would assume 45% of the new firm. Bennett and Sharpe, *Transnational Corporations Versus the State*, 161; Victor Manuel Villaseñor, *Memorias de un hombre de izquierda: II. De Avila Camacho a Echeverria* (Mexico City: Biografias Gandesa, 1976), 354.

governmental requirement of domestic content, as the technical committee had recommended. The higher domestic content and lower quotas gained through by the merger would have meant that other foreign firms would lose their advantage of cheaper parts imports. If the merger were approved, therefore, Automex would have attained higher competitiveness and profits in the domestic market.

3.3. A Counterproposal from Ford: the export plan

While the Azcárraga plan was studied and almost approved by the technical committee, another plan was proposed by a multinational corporation--Ford--whose industrial position was threatened by the merger plan. Bennett and Sharpe summarize Ford's position as,

> "It did not like the overcrowded industry, but rationalization by merger would have threatened its market share. It would also have created a structure in which it would be logical for the government to raise local-content requirements, and Ford preferred to maintain as large a flow as possible of manufactured parts from its U.S. plants to Mexico. . . . If local-content requirements were substantially raised, these parts could no longer be imported. Given the size of the Mexican market and the large scale economies on these particular parts, their domestic manufacture would have compelled Ford to choose between unattractive options: either to raise prices or to maintain model styles for longer than one year. Either choice would have reduced sales. . . . Ford

preferred mandatory exports to higher local content if forced to choose."[110]

Since the 1962 decree, Ford had observed the governmental favoritism's towards Automex in the quota allocation within the Mexican market and had submitted several proposals to obtain quota equal to Automex's. In its confrontation with the Azcárraga plan, Ford decided to cooperate with Campos Salas, the Minister of Industry and Commerce, in a new export plan. Since assuming office in December 1964, Campos Salas and his director of industries, Bravo Aguilera, had consistently persuaded auto firms to export automobile products. The original idea of the export plan was "additional exports to compensate for the basic quota rather than to earn extra quotas."[111] However, Ford adopted and revived this strategy of mandatory export to quell the undesirable merger plan and maintain its position in the Mexican market. The major goal of this plan was to deal with the balance-of-payments problem by compensating for its imports with a steadily increasing percentage of exports. For example, exports compensation would be equal to 5 percent of imports to earn the basic quota for each firm in 1970 but to 100 percent of imports in 1972. If a firm would export beyond the required level, it would earn a larger quota in the domestic market.

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110. Bennett and Sharpe, *Transnational Corporations Versus the State*, 168.
111. *Ibid.*, 164.

3.4. The 1972 Decree and the Collapse of Automex: the failure of a populist ruling coalition

In late summer of 1969, President Gustavo Díaz Ordaz chose the export plan as the final plan for the Mexican automobile industry. It is interesting that the export plan emerged as the winner, even though the "Automex-Chrysler-Finance coalition" seemed stronger than the "Ford-SIC coalition."[112] In terms of trade balance, the merger plan was not inferior to the export plan because it would reduce the import of parts and create a strong new firm whose products would be competitive in the international market.

The reasons why the Azcárraga plan was rejected in its final stage in favor of the Ford plan can be summarized as follows: First, Automex's corporate strategy was largely ineffective in attracting broad economic and political support within Mexico for its merger plan. By increasing its borrowing from Chrysler, Automex increased its dependency upon Chrysler and made it vulnerable to populist attack, as discussed later. In fact, it was easier for Azcárraga to borrow from Chrysler than from the weak domestic financial institutions. However, there were various available alternatives for Azcárraga to solve his financial problems: for example, borrowing from

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112. *Ibid.*, 173.

international investment banks, as Hyundai does. The lack of strategic consideration by Azcárraga can partly be explained by the fact that he was more interested in the banking business than in industrial manufacturing.[113]

Second, the political rivalry between Ortiz Mena, the Minister of Finance, and Campos Salas, the Minister of Industry and Commerce, influenced the final result. As highly visible candidates competing to be the next Mexican president, Ortiz Mena regarded the Azcárraga plan as a chance to enhance his position on industrial policies in general while Campos Salas disliked Azcárraga's leaning towards his rival. As a result, Campos Salas searched for his own plan to reorganize the Mexican auto industry even though he sent his officials to the technical committee that was considering the merger plan. As it turned out, Campos Salas was not only the minister in charge but also one of the proponents of the Ford plan.

Third, the objection from Victor Manuel Villaseñor, the director of DINA, torpedoed the Azcárraga plan. In fact, DINA had prepared a merger plan in early 1967 prior to the emergence of the Azcárraga plan.[114] This plan was to the integrate three public auto firms such as DINA, FANASA, and

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113. An interviewee complains of his carelessness in the industry, "Azcárraga is just a money-seeking businessman who didn't care about the industry. He was much more interested in hotel and banking business." May 20, 1989.
114. *Comercio Exterior*, November, 1967, 906.

VAMSA into a big public firm affiliated with Renault. In formulating major aspects of the Azcárraga plan, DINA officials were neither invited to its discussion nor felt easy with the plan that would dismantle DINA. With his own counterproposal and the help of Gabriel Fernández Sayago, the president of VAM, Villaseñor wrote and distributed an eighty-page critique of the Azcárraga plan as "(a plan which) aimed only to surrender the Mexican automobile industry to Chrysler."[115] This populist argument, as Villaseñor believed, was effective in pressuring Díaz Ordaz to choose the less risky Ford plan.[116]

Finally, it was the "risk-averse" attitude of Díaz Ordaz, the president of Mexico, that finally defeated the Azcárraga plan. In the context of Mexican presidentialism, Díaz Ordaz assumed almost absolute power of discretion in his choice between the two competing proposals. While the two proposals presented different solutions to the then current economic problems in the industry, as earlier discussed, it was extremely difficult to view them as mutually exclusive. With some modifications, each proposal could have serve the goals of the other. However, Díaz Ordaz selected the Ford plan because "it probably

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115. Villaseñor, *Memorias de un hombre de izquierda*, 355.
116. Villaseñor described it as "At the same day, I hurried to distribute the document to the President and various ministries. . . . The government (finally) refrained itself from giving away DINA to a Yankee firm." *Ibid.*, 355.

seemed clean and simple, promising relief for the balance of payments and expanded production without the *political complications*--in the form of internal opposition from major ministries or state firms--that would have been provoked by the merger plan."[117]

While Bennett and Sharpe correctly point out the effect of the intra-ruling coalition struggle upon the outcome of the Azcárraga vs. Ford case, their argument misses an indirect role of labor upon this case.[118] Their observation needs to be revised if we take into account not only the institutional process of the case but also the structural aspects of Mexican politics in the late 1960s. Some observations about the structure of Mexican politics in the late 1960s might throw light on why Díaz Ordaz was very much concerned about the populist rhetoric against the Azcárraga plan and, thus, adopted a risk-averse attitude.

When the PRI selected Gustavo Díaz Ordaz as the presidential candidate in 1964, "it badly misread the temper of the times."[119] As a secretary of the interior in López's cabinet, Díaz Ordaz was deeply involved in domestic repression and adopted a very conservative stance that frustrated the reform-minded groups in Mexican society.

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117. Bennett and Sharpe, *Transnational Corporations Versus the State*, 173. Emphasis is added.
118. *Ibid.*, 166-167.
119. Michael C. Meyer and William L. Sherman, *The Course of Mexican History, Third Edition* (New York: Oxford University Press, 1987), 664.

Even though he had made some gestures toward keeping land reform alive and democratizing the PRI, the general contour of his policy leaned towards the conservative extreme in the so-called "Mexican presidential pendulum."[120] In addition to the fundamental frustration surrounding Diaz's policies, the Tlatelolco massacre in October 1968, which occurred when some students gathered in Tlatelolco to protest a few days before the summer Olympics, resulted in a serious damage to the legitimacy of PRI's rule over Mexico. This emergent legitimacy crisis within the Mexican system in the late 1960s was a major factor that forced Diaz Ordaz to evade further populist attack upon his policies and Luis Echeverria to adopt the leftist policies of the Mexican presidential pendulum.

4. Summary

This chapter analyzed the Mexican ruling coalition that started and promoted automobile industrialization. The current Mexican ruling coalition, which was formed during the Mexican Revolution after the long dictatorial *porfiriato*, has consolidated its populist ruling structure

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120. Wayne A. Cornelius and Ann L. Craig, "Politics in Mexico," in *Comparative Politics Today: A World View*, edited by G.A. Almond and G.B. Powell, Jr. (Glenview: Scott, Foresman and Co., 1988), 445.

and capitalist development strategy for seventy years. Lázaro Cárdenas successfully institutionalized the Revolution and advocated social justice and economic growth as a means of achieving legitimacy for the ruling coalition. Cárdenas prevented the militarism of the revolutionary generals by creating a modern political party, incorporating the popular sectors into the party, and establishing the populist legitimacy of the system through the nationalization of oil and various radical reforms.

Cárdenas and his ruling coalition also maintained the path of capitalist development. Mexico's capitalism has been encouraged and reinforced by Cárdenas's successors who emphasized economic growth rather than social justice. As a result, the private sector was increasingly incorporated into the ruling coalition, while popular sector organizations in the official party were transformed into mechanisms to co-opt the masses for the ruling coalition. This co-optive mechanism usually includes various means of corruption and repression. As a major political strategy of the ruling coalition, the "presidential pendulum" between *cardenistas* and *alemanistas* greatly contributed to political stability because it guaranteed that different political factions could take turns alternating in power across presidential terms.

The populist dilemma has often been mentioned as a peculiar problem of the ruling coalition. In the context

of capitalist development, the need for populist legitimacy created a considerable tension between the government and the private sector--the two major members of the ruling coalition. As shown in the case of the 1982 bank nationalization decree, the populist Mexican government suddenly alienated the private sector when it wanted to revive its populist legitimacy.

Mexico's automobile industrialization shows that this structural tension between the government and the private sector strongly influenced the changes in development strategy and their resulting industrial patterns. Thus, this chapter examined Mexico's two efforts to establish national champion firms in the stage of introduction wherein major political economic forces joined in the process of automobile industrialization.

The 1960 NAFIN report, which was produced by an interministerial committee led by Carlos Quintana of Nacional Financiera and presented to López Mateos, marked the first effort to begin automobile manufacturing in Mexico. Just as in the Korean case, the particular strategy proposed by the report was to establish national champion firms--by means of economies of scale and local ownership--based on private capital. An automobile decree based on the strategy was officially promulgated in 1962. However, this tecnicos' approach failed to fulfil its major

goal after the Mexican government approved 10 auto firms to manufacture auto vehicles.

Attributing the cause of the failure to the pressure from the U.S. government on behalf of GM and Ford is superficial. As Bennett and Sharpe argue, there were various alternatives to rejecting or evading the U.S. government's pressure in the case. The most important factor was that the struggles within the ruling coalition provided multinational corporations a chance to succeed in their demands. In particular, Ford found a powerful ally within the ruling coalition named Raúl Salinas Lozano, the Minister of Industry and Commerce. Through their friendship and various corrupt means, Ford's Edgar Molina persuaded Salinas Lozano to approve automobile manufacturing by Ford in Mexico, despite the opposition from middle-level technocrats.

The Mexican private sector also contributed to the failure of the strategy. Rather than forming a consensus to support the strategy of national champion formation, many financially weak firms exploited their political ties with the President to obtain governmental approval. As long as Ford and GM were allowed to participate in the Mexican market, the government could not help permitting other Mexican private firms to enter into the Mexican market. The extremely low economies of scale that occurred as a

consequence caused the early collapse of some weak Mexican auto firms in the early 1960s.

If the 1960 NAFIN report was the development strategy initiated by the técnicos, the merger plan of Automex in the late 1960s was one initiated by the private sector. Automex, which had assembled the Dodge and Plymouth models of Chrysler, had apparently enjoyed the favoritism of the Mexican government in its quotas in the domestic market. However, Gaston Azcárraga Tamayo, the owner of Automex, encountered increasing financial problems in its operation in the late 1960s. Azcárraga tried to overcome this crisis by merging segmented domestic auto firms into a large firm under his leadership.

In January 1969, an interministrial technical committee partially financed by Azcárraga decided to adopt Azcárraga's merger plan in which Automex, the Mexican government, and Chrysler would each share one-third of the new firm. However, this suggestion from the committee was rejected and the rival plan, Ford's export plan, was adopted by President Gustavo Díaz Ordaz in the late summer of 1969. Even though the "Automex-Chrysler-Finance coalition" seemed stronger than the "Ford-SIC coalition" because the former included a powerful domestic auto firm, the political aspect of this issue strongly influenced the President's final decision to adopt the export plan.

While the effects of the export plan were overlooked, many populist forces within the ruling coalition regarded Azcárraga's heavy dependence upon Chrysler as anti-nationalistic. For example, Victor Manuel Villaseñor, the director of DINA, described Azcárraga's merger plan as the selling-out of the Mexican automobile industry to Chrysler. Even though major government officials did not necessarily agree with Villaseñor's view, this populist critique against the merger plan neutralized Ortiz Mena (the Minister of Finance) who supported the merger plan but was competing with Campos Salas (the Minister of Industry and Commerce) for the *dedazo* of Diaz Ordaz. It also led the President into taking a risk-averse attitude on this issue, because he was very concerned about the regime's populist legitimacy which was being attacked increasingly by anti-ruling coalition forces, as shown in the case of the 1968 Tlateloco massacre.

As in many cases in Korea's automobile industrialization, the final decision of the President was later supported by economic logic and data. However, contrary to Mexico's development strategy since the 1960 NAFIN report, the result of that decision was the collapse of Automex and the beginning of denationalization of the Mexican auto industry. While Mexico's Revolutionary Family invited the private sector to become a member of the ruling coalition, there was neither dramatic support for the

private sector nor reciprocal consent between the government and the auto firms for the establishment of national champions, unlike in the Korean case.

It must be emphasized that the failure to develop national champions in Mexico did not necessarily mean the failure of automobile industrialization in Mexico. As discussed in chapter III, Mexico has shown a considerable growth in automobile production, local content, and vehicle export. The failure to develop national champions in the stage of introduction, however, means that the pattern of Mexico's automobile industrialization will be decided by foreign subsidiaries. The next chapter will discuss the development of Mexico's automobile industry by focusing on the consequences of an auto industry without national champions.

Chapter VII. Development of Automobile Industry in Mexico (II)

1. The Emergence of Export Promotion Policy

1.1. The Change of the Mexican Development Strategy: from import substitution to export promotion

The development of the Mexican auto industry since the early 1920s shows that the revolutionary coalition chose capitalist development by encouraging Mexican capitalists to set up private auto firms and locating them in the center of automobile industrialization. However, the process of denationalization and market fragmentation in the late 1960s, which was exemplified by the collapse of Automex, resulted in the virtual absence of the domestic bourgeoisie from the Mexican auto industry and its domination by foreign subsidiaries. Once the structure of the market and ownership was set up at this introductory stage of the automobile industry, thereafter even Mexico's strong government hardly attempted to restructure the auto industry.

When Guillermo Becker was named as director of industries in SIC under the new Echeverria administration in 1970, Becker and his team chose to push ahead the export-oriented automobile policy even though they were skeptical

about the result of the policy.[1] They believed that the Mexican auto industry was not sufficiently developed to commence export-promotion and that an export-promotion policy would not serve the Mexicanization of the industry. However, they found that it was politically unfeasible to change the 1969 *acuerdo* as discussed before. Therefore, a second auto decree, which was promulgated in October 1972, was aimed at promoting the export of cars and auto parts in order to alleviate the balance-of-payment problem.

Indeed, not only the 1972 decree, but also the 1977 decree of the López Portillo government, and the 1983 decree of the de la Madrid government, hardly sought any major structural changes in the Mexican auto industry. Since the late 1960s, the low economies of scale caused by the large number of firms, the domination of the local market by foreign subsidiaries, and the complete reliance upon foreign technology have been maintained. Rather than structural changes, the 1972, 1977 and 1983 decrees were promulgated to improve the balance-of-payment situation through mandatory export and higher local content.[2]

The new direction of the development strategy toward export promotion, however, achieved mixed results in the balance-of-payment situation while the denationalization

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1. Bennett and Sharpe, *Transnational Corporations Versus the State*, 176.
2. Juan Raymundo Rocha, "Las exportaciones: respuesta a la crisis de la industria automovilística," *Comercio Exterior* (November 1988): 979-987.

process was further accelerated. For example, the new strategy of export promotion partly contributed to the rapid increase of exports in the auto industry after 1984. However, the timing of the export increase does not support the argument that new governmental policies have mainly influenced the results. Moreover, the unintended consequence of the export policy was the further denationalization in the Mexican auto industry. The Mexican case exemplifies how the issues of localization and effective export promotion are interrelated with each other. A detailed analysis of the new development strategy is thus useful for understanding how the failures in the stage of introduction had profound effects on the industrial structure in latecomer economies.

Table 7-1 shows that the balance-of-payments in the Mexican auto industry accumulated deficits until 1982, while the governmental policies emphasized the positive role of automobile exports in the balance-of-payment. These large deficits in the auto trade were caused by the massive import of auto parts. For example, the trade deficits in auto parts were $1.2 billion in 1980 and $1.6 billion in 1981 while those of vehicles were $225.0 million and $211.6 million, respectively. Until 1982, therefore, the emphasis upon the export of automobiles contributed only to the increase in auto parts import.

Table 7-1: Trade Balance of Motor Vehicles and Parts in Mexico, 1976-1987 (millions US $)

Year	Export			Import			Balance
	Vehicles	Parts	Total	Vehicles	Parts	Total	
1976	9.7	35.1	44.8	124.9	595.5	720.4	-675.6
1977	18.1	43.1	61.2	78.6	426.1	504.6	-443.4
1978	87.2	186.7	273.9	230.2	732.7	962.9	-689.0
1979	117.3	246.1	363.4	402.6	905.9	1308.6	-945.2
1980	128.6	274.7	403.4	353.7	1468.0	1821.6	-1418.3
1981	107.3	261.7	369.0	318.9	1886.6	2205.5	-1836.4
1982	81.2	449.7	531.0	211.5	1040.6	1252.2	-721.2
1983	84.2	632.9	717.0	27.0	347.9	374.9	342.2
1984	145.9	1412.4	1558.2	96.0	676.6	772.6	785.7
1985	141.0	1450.9	1591.9	135.3	927.3	1062.6	529.2
1986	545.8	1722.8	2268.7	90.5	748.8	839.3	1429.4
1987	1329.9	1947.1	3277.0	122.4	1209.5	1331.9	1945.1

Source: compiled from Bancomex, Comercio Exterior, various years.

From 1983 onwards, the trade structure of the Mexican auto industry was rapidly changed. The Mexican auto industry showed the first trade surplus of $342.2 million in 1983. In 1987, the trade surplus increased up to $1.94 billion, showing an annual average growth rate of 117.1 percent from 1983 to 1987. This rapid export growth was accelerated by the rapid growth in engine exports. During the late 1970s, most multinational automobile corporations announced that their Mexican subsidiaries would build engine plants for export.[3] The massive export of engines by

3. Charles A. Ford and Alejandro A. Violante Morlock, "Policy Concerns Over the Impact of Trade-Related Performance Requirements and Investment Incentives on the International Economy: Mexican Automotive Policy

multinational terminal firms materialized in 1983. In 1982, engine exports led by Chrysler and GM were 320,301 units and assumed 47.6 percent of total auto parts export.[4] Soon thereafter, other firms joined in engine export. Engine exports grew rapidly from 320,301 units in 1982 to 1,367,380 units in 1987. Their share of total auto parts export also increased from 47.6 percent in 1982 to 73.5 percent in 1987.

Table 7-2: Mexican Motor Vehicle Exports by Company, 1974-1988

Year	Chrysler	Ford	GM	Nissan	VW	others	Total
1974	187		15	2391	16284	240	19117
1975	172			1538	1122	106	2938
1976	416			3080	659	17	4172
1977	695			5863	5168	17	11743
1978	1785			5652	18348	43	25828
1979	1079			4507	19101	69	24756
1980	489			4252	13142	362	18245
1981	607			4370	9296	155	14428
1982	748			1103	13695	273	15819
1983	2384		4	1107	18690	271	22456
1984	6755		7897	2560	15171	1252	33635
1985	18456		29466	6012	3248	1241	58423
1986	43689		18672	9124	84	860	72429
1987	62849	51773	31990	16053		76	162741
1988	50391	66361	36505	20237	752	510	174756

Source: Motor Vehicle Manufacturers Association of the U.S., Inc., World Motor Vehicle Data (Detroit: MVMA, various years); AMIA, Enero 1989.

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and U.S.-Mexican Relations," *Inter-American Economic Affairs* 36 (Autumn 1982), 22-23.

4. AMIA, *La Industria Automotriz de México En Cifras, Edicion 1988*, 168.

The export of vehicles also substantially increased from 1987. Until 1986, the Mexican auto industry showed a slow increase in its automobile export. But it suddenly doubled in 1987 in contrast to the previous year. The sudden increase in Mexican automobile export can be explained by Ford's engagement in export promotion starting in 1987. While Volkswagen, as a long-time exporter of automobiles, gradually decreased its export efforts, Ford began to export over 50,000 vehicles beginning in 1987. As a result, the Mexican subsidiaries of the three American auto firms assumed 87.7 percent of total vehicle export, as shown in Table 5-5.

It is interesting to observe that the increase in motor vehicles export in the Mexican auto industry is not accompanied by an increase in automobile production. As Table 6-6 shows, Mexican automobile production was at its peak in 1981 and decreased thereafter. Mexico produced 597,118 cars and trucks in 1981. With some fluctuations, automobile production dropped to 339,168 units in 1988. Despite the tendency of decreasing production in the Mexican auto industry, the production shares of foreign subsidiaries are hardly changed. The production share of each foreign subsidiary is more or less 20 percent of total production for the 1980s. In contrast to this balanced production of foreign subsidiaries, there was a loser in that period:

DINA, the only domestic terminal firm that survived in the 1970s.[5]

Table 7-3: Production of Major Mexican Motor Vehicles Manufacturers, 1965-1988 (units)

Year	Chrysler	Ford	GM	Nissan	V.W.	others	Total
1976	56642	46147	37624	34332	83452	66782	324979
1977	57956	50503	33638	37066	51693	49957	280813
1978	76806	67663	49424	39505	93980	56749	384127
1979	90720	74321	54418	50867	109464	64636	444426
1980	106363	86859	38774	51327	127381	79302	490006
1981	116074	111695	67236	72132	138390	91591	597118
1982	73735	88675	44724	67624	144297	53582	472637
1983	42130	43874	32934	51304	86470	28773	285485
1984	62057	49666	53786	57000	102426	33063	357998
1985	86948	74364	85658	73845	98263	39602	458680
1986	87479	41412	54207	73457	71554	12943	341052
1987	102088	84671	68635	58378	48722	32791	395285
1988	80062	61718	47725	84598	60705	4360	339168

Note: The figures in this table are different from MVMA's World Motor Vehicle Data. For the category of each firm, see Figure 3-1.

Source: Asociación Mexicana de la Industria Automotriz, A.C., La Industria Automotriz de Mexico En Cifras, 1978, 1988, and AMIA (Enero 1989).

The Demise of DINA: Even though the Mexican ruling coalition primarily relied upon the private sector for Mexican automobile industrialization, the Mexican state was willing to act as a manager and investor of "last resort" when necessary.[6] In many cases, the Mexican government was

5. Another domestic firm--VAM--was sold to Renault in 1983.
6. Bennett and Sharpe, "The State As Banker and As Entrepreneur: The Last Resort Character of the Mexican State's Economic Interventions, 1917-1976."

ready to bail out Mexican businessmen who failed to establish their auto firms. Disel Nacional (DINA) usually served as a parent corporation that bought those firms and reorganized them.[7] In 1959, Victor Manuel Villaseñor was appointed as director of DINA by President López Mateos. Under his leadership, DINA emerged as a more efficient and profit-making public enterprise. It absorbed bankrupt FANASA and organized Maquiladora Automotriz Nacional with International Harvester to assemble pickup trucks. The role of DINA soon expanded beyond a "last resort" entrepreneur. In joint ventures with NAFIN, DINA established DINA-Komatsu (tractors), DINA-Renault (cars), and DINA-Rockwell (truck and bus axles). DINA participated not only in assemblying vehicles but also in manufacturing diesel engines by acquiring Motores Perkins.

With its effective vertical integration and financial guarantee from the Mexican state, DINA emerged as a public national champion candidate in the Mexican auto market. In 1976, it assumed 11.67 percent of total production by producing 37,954 cars and trucks. DINA's role as a public firm became more important when domestic private firms were wiped out in the auto market. Due to the shortage of

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7. DINA was established by a joint venture of the private sector--Bruno Pagliai and Luis Montes de Oca--and the public sector--NAFIN--in order to assemble Fiat trucks in Mexico. When it was nearly bankrupt in 1958, NAFIN bought the shares of the private sector and turned it into a public firm.

domestic firms, the Mexican state could use only DINA as leverage (i.e., to absorb the production quotas of the foreign subsidiaries without a major disruption of the automobile supply in Mexico) in the event that the foreign subsidiaries refused to follow governmental guidelines and their quotas were confiscated.

However, DINA's role gradually decreased after the mid-1970s. DINA's production share declined to 4.29 percent in 1978 and 0.88 percent in 1987. The upshort is that even as strong a public firm as DINA could not survive in the fragmented small market dominated by the multinational corporations. Under the López Portillo administration, there was another *tecnicos'* effort to create a large public auto firm which could enjoy economies of scale by bringing all separated public auto firms together. However, as well as other previous efforts, this effort also failed to materialize because of the lack of consensus among state investment banks, public auto firms, and government ministries.[8] Thus, this process led to the consolidation of the denationalization of the Mexican auto industry.

The mixed performance of export promotion policies, the rapid growth of engine export, the balanced domination by foreign subsidiaries, and the virtual elimination of a strong public firm from the industry are the major features

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8. Bennett and Sharpe, *Transnational Corporations Versus the State*, 145.

of the Mexican auto industry in the stage of consolidation. These features raise the questions regarding how these results occurred and how they are interrelated. In fact, the denationalization of the Mexican auto industry in the stage of introduction was one of the most important factors that influenced the pattern of the industry in the stage of consolidation. Most Mexican specialists have argued that Mexico had little room to choose its own development path because her economy was dominated by multinational corporations.[9] For example, Bennett and Sharpe argues "Consequently, whether Mexico could capture a significant share of world automotive trade would depend on the dynamics of the world automobile industry and on the place that Mexico occupied in the global strategies of the TNCs. These conditions make it possible to understand why the export promotion policy in the Mexican automobile industry failed to live up to expectations, particularly in 1974-1975."[10]

1.2. The Strategies of Multinational Corporations and Export Promotion in the Mexican Automobile Industry

The denationalization in the terminal industry meant that the locus of key decisions concerning the industry was

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9. Jenkins (1987), Roxborough (1984), Bennett and Sharpe (1985), Aguilar (1982), and the contributors in Kronish and Mericle (1984).
10. Bennett and Sharpe, *Transnational Corporations Versus the State*, 185.

shifted outside of Mexico to a greater extent. For example, major decisions about production specifications were made by multinational managers in Detroit, Wolfsburg, Tokyo and Paris. The dynamics of the world automobile industry, therefore, directly influence the strategies of multinational corporations and, thus, the Mexican auto industry. However, it does not necessarily mean that the interests of multinational corporations are always different from the interests of the Mexican ruling coalition. The interests of multinational corporations have been largely modified and adjusted according to each country's situation. Richard L. Sklar calls it "a corporate doctrine of domicile."[11] As the Mexican auto industry is totally dominated by foreign subsidiaries, it is necessary to understand the dynamics of the international automobile industry and the corporate doctrine of domicile that conditioned the interests of foreign subsidiaries in Mexico.

There are several factors comprising the dynamics of the international automobile industry that contributed to the export boom of the Mexican auto industry in the late 1980s: the oligopoly of the world automobile industry, the

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11. It means "individual subsidiaries of an international business group may operate in accordance with the requirements of divergent and conflicting policies pursued by the governments of their respective host states." Becker, Frieden, Schatz and Sklar, *Postimperialism*, 29.

intense competition among major producers under rising protectionism, and the rapid development of technology.

First, it should be noted that the world automobile industry is an oligopoly comprising eight to ten multinational firms. Ten major multinational automobile firms produced 80.9 percent of total world production in 1965, 70.6 percent in 1975, and 68.3 percent in 1985.[12] Even though their share of total world automobile production is decreasing, they have long controlled the networks of most subsidiaries in foreign countries and transnational suppliers. In many cases, international auto trade is intrafirm trade among the multinationals' subsidiaries and there is only a single buyer for many automotive products.[13]

If new firms from latecomer economies lack economies of scale in their domestic markets and integrated networks of domestic auto parts suppliers, they can hardly survive in such a highly competitive international market. Therefore, Automex and DINA, small firms by international standards, collapsed or declined when they had to meet with export promotion policies without any large scale domestic production. According to Bennett and Sharpe, the same unintended result of export promotion policies occurred in

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12. MVMA, *World Motor Vehicle Data*, various years.
13. Douglas C. Bennett and Kenneth E. Sharpe, "Transnational Corporations and the Political Economy of Export Promotion: The Case of the Mexican Automobile Industry," International Organization 33 (1979): 177-201.

the auto parts manufacturing sector under the export promotion policies.[14] The emphasis upon integration under export promotion policies naturally provided the advantage to foreign subsidiaries and, thus, denationalized the auto parts industry that was once highly localized.

Second, even though the international market has evolved into a carefully balanced oligopoly, there is intense competition among multinational corporations. This international competition has been intensified by the rapid growth of Japanese automobile corporations, the saturation of automobile markets, and the rising Third World protectionism. Japanese automobile manufacturers produced only 2.9 percent of total world automobile production in 1960. However, with their substantial increase in labor productivity and aggressive entrepreneurship, they accounted for 27.5 percent of total world automobile production in 1985. Japan's share of world vehicle exports in units also increased from 24 percent in 1971 to 45 percent in 1983.[15]

The competition among multinational corporations was intensified not only by the rapid growth of Japanese exports but also by the saturation of automobile markets in developed countries. Over 80 percent of all households in the United States already owned at least one passenger vehicle by 1970. Western Europe and Japan were rapidly

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14. *Ibid.*, 176-179.
15. *International Automotive Review*, 1984, 85.

approaching the same situation in the 1980s as shown in Table 7-4. The demand for vehicles became increasingly a replacement demand and the market tended to be more vulnerable to fluctuations in the business cycle.

Table 7-4: Population, per capita GNP, and Car in Use in Selected Countries, 1984

Country	Car in Use (000)	Population (million)	per capita GNP (1985)	Pop/ Car
US	130053.0	236.4	16690	1.8
Canada	11211.0	25.1	13680	2.2
Japan	27144.0	119.9	11300	4.4
West Germany	25377.6	61.4	10940	2.4
France	21175.0	54.9	9540	2.6
UK	17313.4	56.0	8460	3.2
Italy	21000.0	57.0	6520	2.7
Spain	8874.4	38.4	4290	4.3
Venezuela	1955.0	18.6	3080	9.5
South Korea	465.1	42.0	2150	90.3
Argentina	3685.0	30.1	2130	8.2
Mexico	4870.1	77.7	2080	15.9
Yugoslavia	2872.6	23.0	2070	8.0
Brazil	10461.7	134.4	1640	12.8
Nigeria	608.5	88.1	800	144.9
Ivory Coast	160.0	9.2	660	57.4
Egypt	475.0	47.0	610	98.9

Note: the relationship between per capita GNP and Pop/car seems to be curvilinear: R^2 = 0.29. X Coefficient = -64.0.

Sources: MVMA, *World Motor Vehicle Data* (Detroit: MVMA, 1987); World Bank, *World Development Report 1987* (New York: Oxford University Press, 1987).

The intense competition among multinational corporations that is fueled by the Japanese challenge and market saturation has given a new significance to the automobile market in developing countries. As Table 7-4

shows, automobile markets in major NICs such as South Korea, Mexico and Brazil are far underdeveloped in comparison with the markets of the developed countries. With the latent demand for cars, the production share in Third World countries of total world production increased from 0.3 percent in 1950 to 5.4 percent in 1985. One projection argues that 44 percent of the increase in car stock and 48 percent of the increase in the number of commercial vehicles will be in developing countries.[16]

The intense competition among major multinationals sometimes provides nationalist negotiators in the Third World governments with a chance to change the terms regarding the contributions of multinational firms towards their industrialization.[17] While virtually prohibiting all imports of finished vehicles, Mexican technocrats in the early 1960s as well as their Korean counterparts, exploited the rivalry between multinational corporations to induce manufacturing activities in Mexico and Korea, respectively, rather than simple assembly. The major international auto firms responded to the demands of the host governments regarding local manufacturing and local-content requirements as best they could so as not to cede the emerging markets to

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16. Rhys Jenkins, *Transnational Corporations and The Latin American Automobile Industry* (Pittsburgh: University of Pittsburgh Press, 1987), 185.
17. *Ibid.*, 186.

their competitors.[18] This strategy of defensive investment by the international auto firms in Mexico is evident when non-American multinationals such as Nissan and Volkswagen advanced into the Mexican auto industry. While production shares of foreign subsidiaries have maintained their balance, Nissan and Volkswagen have long contributed to Mexican automobile exports as shown in Table 7-2. When the Mexican government urged exports, therefore, the American subsidiaries had to respond to some degree in order to safeguard their import credits and domestic market quotas.

Third, rapid technological development in the international automobile industry provides automobile manufacturers with the basis for their strategy of world sourcing. Technological development in the world economy gets rid of geographical and technical obstacles to bring about a worldwide integrated global production. The means to draw on worldwide resources to design and build new cars at relatively low cost have been made available through the development of telecommunications, computers, robots, and transportation.

In fact, automobile manufacturing since its birth has required considerable production technologies and managerial skills which seemed neither to be found in developing

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18. Bennett and Sharpe, *Transnational Corporations Versus the State*, 192.

countries nor easily transplanted there.[19] However, with the rapid development of automation technology, even some highly complex tasks in automobile production such as engine manufacturing can be carried out in low-skilled or mixed-skilled areas such as Mexico by using highly automated hardware such as well developed engine transfer machines.

Table 7-5: Major Mexican Engine Plants and Export Commitment, 1987

Company	Site	Projected Volume	Percent Export
Chrysler	Saltillo	300,000	85
GM	Ramos Arizpe	450,000	95
Ford	Chihuahua	500,000	90
Volkswagen	Puebla	300,000	100
Renault	Gómez Palacio	80,000	100
Nissan	Aguascalientes	100,000	100

Note: projected volumes are different from actual production. An estimation of the 1987 engine export from the Mexican plants is 1.6 million units.

Source: Harley Shaiken with Stephen Herzenberg, Automation and Global Production: Automobile Engine Production in Mexico, the United States, and Canada (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1987), 9.

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19. Robert Crandall of the Brookings Institution argues, "If low wages were the principal requisite for success in this industry, you and I would already be driving cars produced in Tanzania or Bangladesh, our government permitting." Robert W. Crandall, "Relative Labor Costs, the New Industrializing Countries, and Competition in the U.S. Automobile Market," speech delivered at the Automotive News World Congress, July 28, 1986, p.3. Cited in Harley Shaiken and Stephen Herzenberg, *Automation and Global Production: Automobile Engine Production in Mexico, the United States, and Canada* (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1987), 4.

For example, Harley Shaiken and Stephen Herzenberg find that the recently established Mexican engine plant achieved machine efficiency, labor productivity, and quality significantly comparable to the U.S. plant within its first two and one-half years of operation.[20]

Another technological factor which influences the engine production of automobile plants in developed countries is the problem of "sunken capital," especially in the United States. Old automobile plants in the United States are too expensive to be converted into new automated plants. For example, the conversion cost of an old U.S. plant into a semi-automated plant is about $150 million while a similar plant operated with most the advanced technologies in Mexico costs about $250 million. After its conversion, however, there are still serious problems for the full automation in the U.S. plant.[21] Despite the "debugging" costs of a new plant, therefore, major world manufacturers find that automobile manufacturing for export in Mexico is possible and profitable. Table 5-8 shows the world auto makers' firm commitment to the world sourcing

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20. For example, the Mexican plant shows 80 percent of the machine efficiency and 75 percent of the labor productivity of the U.S. plant. Shaiken and Herzenberg, *Automation and Global Production*, 10.
21. For example, the U.S. assembly plant has to use iron J-hooks to carry engines while the Mexican plant is equipped with compact flat pallets. Even though iron J-hooks are highly versatile for engine assembly, it is difficult to automate the whole production because the engine is not located precisely in a fixed position. *Ibid.*, 23.

strategy which complies with the export promotion policies of the Mexican government.

Not only the engine manufacturing but also the automobile assembly for export are increasing. Chrysler began to ship 504 K-cars to U.S. dealers in 1982 but significantly increased its export of vehicles up to 62,811 in 1987, including the new Chrysler Le Baron.[22] In 1988 Chrysler began to build the new Dodge Shadows and Plymouth Sundances in Mexico, which boosted its export to the United States to over 50,000 cars. In 1984, General Motors exported 7,897 Caminos and Caballeros for the first time from its northeastern production complex in Ramos Arizpe. Concentrating on a mid-size A body car, Chevrolet Celebrity, General Motors increased its export to 36,505 cars in 1988. In order to incorporate Mexican components not only into U.S. production but also into Canadian production, GM has transferred the management of its Mexican subsidiary to the Chevrolet-Pontiac-Canada group.[23]

Ford showed the most dramatic change in its strategy for its automobile manufacturing in Mexico. Despite considerable pressure from the Mexican government, Ford was not committed to export activities until 1986. However, in 1986, Ford invested $500 million for the most advanced new assembly plant in Hermosillo. According to Ford chairman,

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22. AMIA, *La Industria Automotriz de Mexico en Cifras, Edicion 1988.*
23. *Automotive News*, April 13, 1987.

Donald E. Peterson, "The Hermosillo stamping and assembly plant is not only our newest, it is our most modern, with the best technology and world-class talent embedded in its organization and function."[24] For example, this plant uses 91 robots in the welding area alone and has the capacity to build 130,000 Mercury Tracers a year. With this modern facility, Ford exported 51,773 Tracers in 1987 and 66,361 Tracers in 1988.[25]

Even though the role of the domestic bourgeoisie has diminished and foreign subsidiaries are dominant in Mexican automobile industrialization, there is still an important domestic force which influences the managerial decisions of the multinational automobile corporations: automobile workers. In contrast to the relatively recent activities of the Korean auto workers, the Mexican auto workers have long unionized themselves and influenced the pattern of the Mexican automobile industry. In the next section, we will discuss the activities of the Mexican auto workers and their influence on the pattern of the Mexican automobile industry.

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24. *Automotive News*, November 24, 1986.
25. Ford's Mercury Tracer is a good example of the world sourcing strategy. The Tracer, based on the Mazda 323 model of Mazda with which Ford has an equity relationship, relies on about 60 percent of the car's content from Japan. Another 10 percent comes from the United States and Europe. Only 30 percent of its components are produced in Mexico. *Ibid*.

2. The Mexican Auto Workers' Movements in the 1980s

2.1. Political Economic Crises in the 1980s

While the structure of the Mexican auto industry has consolidated over the period from 1960 to 1980, the new dynamics of political economic change have begun to emerge from the automobile workers. The newly emergent independent unionism in the industry in the 1980s is closely interrelated with political economic crises in Mexico. It signals the upcoming fracture of the two major pillars of the so-called Mexican miracle: political stability and rapid economic growth.

The populist ruling coalition in Mexico, which was created during the Mexican Revolution and institutionalized by Lázaro Cárdenas, had long enjoyed its political stability and high economic growth until the 1980s. The populist ruling structure of the "presidential pendulum"[26] and

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26. One of the Mexican ways to avoid the populist dilemma has been identified as "the presidential pendulum from *cardenistas* to *alemanistas*." Although it is widely acknowledged that an incumbent president has the power to select his own successor, he also has to respond to the demands of various groups in the ruling coalition through a special consultation process. Many observers of Mexican politics point to the oscillations from one *sexenio* (six-year administration) to another, on a rough kind of left-right, progressive-conservative continuum, since the Mexican Revolution. Wayne A. Cornelius and Ann L. Craig, "Politics in Mexico," in *Comparative Politics Today: A World View*, edited by Gabriel A. Almond and G. Bingham Powell, Jr. (Glenview: Scott, Foresman and Co., 1988), 444-445.

corporatist institutions guaranteed the interests of major elites in Mexican society and thus political stability since the Mexican Revolution. Besides political stability, Mexico's record of economic growth has also been prominent among Third World countries. From 1960 to 1970, for example, the average annual rate of GDP growth in Mexico was 7.2 percent and that of the manufacturing sector was 9.1 percent.[27] During that period, the average annual rate of inflation was kept as low as 3.6 percent. Even though this trend was slower in the 1970s than in the 1960s, the Mexican economy showed considerable growth with stability until the 1980s.

This sustained economic growth was based on import substitution strategy. Various protectionist measures, massive public investments in the economic infrastructure, and the development of public enterprises and economic agencies were essential for the strategy in Mexico.[28] On the one hand, public enterprises dominated some strategic sectors such as communications, electricity, roads, railroads, food marketing and energy. Foreign direct investment, on the other hand, became increasingly dominant in the most dynamic sectors such as the automobile and computer industries. As a whole, the industrialization

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27. World Bank, *World Development Report 1982* (New York: Oxford University Press, 1982).
28. David Brooks, "Mexico: Whose Crisis, Whose Future?" *NACLA Report on the Americas* 21 (September/December 1987), 17.

effort by Mexico in the 1960s and the 1970s seemed stable and sustaining.

It is not difficult to understand why some literature about Mexican development in the 1970s were largely optimistic about the future of Mexican development. For example, Roger Hansen criticized Vernon's thesis of "the populist dilemma in Mexico," arguing,

> "Our examination of the Mexican development strategy, its welfare consequences, the operation of the present political regime and the origins and development of Mexican mestizo politics all support quite a different interpretation of the Mexican political system (from that of Vernon). . . . Given the value-orientations of Mexico's mestizo politicians and the norms of Mexican political behavior, *it seems almost inevitable that the mutually profitable modus vivendi between Mexico's new economic and political elites should have developed as it has since 1940*."[29]

However, many Mexican specialists in the 1980s argue that there are serious political economic crises in Mexico and that the Mexican ruling coalition lacks the capability to solve them.[30] The symptoms of Mexico's current economic

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29. Hansen, *The Politics of Mexican Development*, 219-221. Italics are added. David F. Ronfeldt, Daniel Levy and Gabriel Székely shared the optimistic view Hansen. Cf., Levy and Székely, *Mexico*; David F. Ronfeldt, "Prospects for Elite Cohesion," in *Mexico's Alternative Political Futures*, edited by Wayne A. Cornelius, Judith Gentleman, and Peter H. Smith, 435-452 (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1989).
30. For example, see the contributing articles of Barry Carr and Ricardo Anzaldúa Montoya, *The Mexican Left, the Popular Movements and the Politics of Austerity* (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1986). Héctor Guillén Romo,

crisis began to appear in the early 1980s. In 1982, Mexico recorded its first negative annual growth of GDP (-0.5 percent) since the Mexican Revolution. The average annual growth rate of GDP from then to 1987 was -0.2 percent, one of the lowest among Third World countries. Inflation soared from 28.7 percent in 1981 to 130.0 percent in 1987, showing the average annual rate of inflation as high as 80.9 percent. Unemployment also creased from about 1 million people in 1981 to 4.5 million people in 1987, i.e., 17.6 percent of the total labor force.[31]

Table 7-6 shows that there are also some serious interrelationships among the negative current account balance, capital flight, and foreign debts. Since 1970, the balance of payment has shown chronic deficits that Mexico could hardly recover from except for the period from 1983 to 1985. While the economy went into recession, capital flight increased to its peak of $11.6 billion in 1983, just after the Bank Nationalization of 1982.[32]

Orígenes de la Crisis en México: Inflación y endeudamiento externo (1940-1982) (México, D.F.: Ediciones Era, 1984). Jorge G. Castañeda, "Mexico at the Brink," *Foreign Affairs* 64 (Winter 1985/86): 287-303.

31. For the data mentioned before, see Brooks, "Mexico: Whose Crisis, Whose Future?" 23.
32. For a discussion about capital flight, the Bank Nationalization, and the private sector, see Sylvia Maxfield and Ricardo Anzaldúa Montoya, eds., *Government and Private Sector in Contemporary Mexico* (San Diego: Center for U.S.-Mexican Studies, Unversity of California, San Diego, 1987).

Table 7-6: Balance-of-Payment, Capital Flight and Foreign Debt in Mexico, 1976-84 (million US $)

Year	Current Account Balance	Capital Flight (WB est.)*	Foreign Debt (Pub.+Pri.)
1976	-3410	3990	20148
1977	-1849	4985	25227
1978	-3416	1878	30488
1979	-5459	2666	34668
1980	-8162	7363	41287
1981	-13899	8224	53287
1982	-6218	7039	59743
1983	5419	11656	81565
1984	4240	5763	87636

Note: * World Bank estimates.

Source: Current Account Balance and Foreign Debt: World Bank, World Tables 1987, The Fourth Edition (Washington, D.C.: World Bank, 1987); Capital Flight: Donald R. Lessard and John Williamson, Capital Flight and Third World Debt (Washington, D.C.: Institute for International Economics, 1987), 58-59.

Massive capital flight, usually financed by public external debt and interpreted as the "exit" of the private sector from Mexican politics,[33] has initiated a number of negative effects upon the national economy: depression, lower real wages, extreme financial instability, and the generation of a structural fiscal disequilibrium.[34] Along

33. For the concept "exit," see Albert O. Hirschman, *Essays in Trespassing: Economics to politics and beyond* (Cambridge: Cambridge University Press, 1981), "Chapter 9: Exit, Voice, and Loyalty: Further Reflections and a Survey of Recent Contributions."
34. Miguel A. Rodriguez F., "Consequences of Capital Flight for Latin American Debtor Countries," in *Capital Flight and Third World Debt*, edited by Donald R. Lessard and John Williamson (Washington, D.C.: Institute for International Economics, 1987), 142.

with current account deficits and capital flight, foreign debts in both the public and private sectors have rapidly increased from $20.1 billion in 1976 to $87.6 billion in 1984. In 1986, Mexico's public debt was over $100 billion and over 33 percent of total exports were used to pay for debt service.

The private sector has not been the only sector that has violated the "modus vivendi between Mexico's political and economic elites." The workers and the middle class in urban areas, who have long been loyal to the Revolutionary Coalition, have also begun to challenge the ruling coalition's legitimacy. Even though the decline of the PRI's domination over Mexican society has not necessarily meant political instability, as some commentators have argued, the recent developments in the Mexican political system has been characterized as a "political earthquake."[35] The results of the 1988 presidential election show that the popular support of the PRI has rapidly deteriorated. After an irregular delay of the election for one week, and following reports of widespread vote fraud, the Mexican Federal Election Commission finally announced that the PRI candidate, Carlos Salinas de Gortari, won the election by

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35. Wayne A. Cornelius, Judith Gentleman, and Peter H. Smith, "Overview: The Dynamics of Political Change in Mexico," in *Mexico's Alternative Political Future*, edited by W.A. Cornelius, J. Gentleman, and P.H. Smith (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1989), 14.

receiving the lowest percentage of popular votes in Mexican history: 50.46 percent out of about 20 million votes.[36]

The political revolt among urban workers, who have long served as a major pillar of the Mexican populist regime, can be explained by the fact that they have been main victims of the recent economic crisis. Unemployment and decreasing purchasing power have rapidly deteriorated the workers' quality of life. The fiscal crisis of the Mexican government no longer meets the corporatist demands of direct redistribution, while the demands from the private sector (productive and taxable activities) are increasingly countenanced. This general trend against the workers' demands has tended to create "a vicious circle of popular mobilization and official intransigence," resulting in an increasingly authoritarian system.[37]

Even though urban workers are victims of the recent economic recession and inflation, as resource-mobilization theorists argue, those economic grievances only partly account for the revolt of urban workers against the Mexican ruling coalition.[38] The ruling coalition's choice of the

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36. Pedro Jose Alisedo and Homero Campa, "El PRI resultó un partido rural, desairado en las capitales," *Proceso*, July 18, 1988, 22-25.
37. Joe Foweraker, "Popular Movements and the Transformation of the System," in *Mexico's Alternative Political Futures*, edited by Wayne A. Cornelius, Judith Gentleman and Peter H. Smith (San Diego: Center for U.S.-Mexican Studies, University of California, San Diego, 1989), 112-113.
38. Susan Eckstein, "Power and Popular Protest in Latin America," in *Power and Popular Protest: Latin American*

pro-capitalist path in the 1980s as a way to escape from the populist dilemma also accounts for the reason why workers have revolted in the recent general election. In fact, the historical condition of the automobile workers is a part of the Mexican workers' historical condition. To review the conditions of the auto workers, therefore, is helpful towards understanding how a country's industrial pattern is influenced by the workers' responses in the stage of consolidation.

2.2. Wages and Working Conditions of the Mexican Auto Workers

The Mexican economy has been increasingly industrialized since the Mexican Revolution. The industrial sector absorbed 15.05 percent of the economically active population in 1910 and 26 percent in 1980, while the share of the primary sector decreased from 67.15 percent to 32.00 percent during the same period. In particular, the manufacturing sector grew rapidly, assuming 18.50 percent of the total work force in 1980.[39] The number of workers in the automobile sector also has increased since 1960.

Social Movements, edited by Susan Eckstein (Berkeley: University of California Press, 1989), 6.

39. AMIA, *La Industria Automotriz de México en Cifras, 1982*, 4. The estimate of the work force in the economic sectors, however, is different from source to source. See SPP. *Estadísticas Históricas de México, Tomo I*, 252, and AMIA's data in 1982 and 1988.

Terminal firms employed 7,072 workers and auto parts firms 3,500 workers in 1960. In 1981, terminal firms employed 60,359 workers when the automobile production in Mexico was at its peak.

The wages and working conditions of the auto workers are known as higher than those of average industrial workers. The standard work hours are 45 hours a week, while workers in Mexico City often clocked 40 hours a week.[40] Wages and benefits were approximately in the top third of manufacturing wages in Mexico. According to AMIA's data in Table 6-10, there are some particular patterns in the number of workers, labor productivity, and real wages. The number of auto workers is directly linked to the production cycles of the Mexican auto industry.[41] For example, the number of auto workers was at its peak of 60,359 in 1981 when auto production was at its peak. As the level of automobile production declined to 472,637 and 285,485 in successive years, however, the number of auto workers also decreased to 46,958 and 44,570, respectively.

While the relationship between the number of auto workers and production levels is strong, Table 7-7 also shows that there is a considerable decline of labor productivity. For example, a Mexican auto worker produced

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40. Shaiken and Herzenberg, *Automation and Global Production*, 50.
41. R^2 between total production and total workers is 0.754. X coefficient = 0.08. Standard Error of Coefficient = 0.0118.

9.97 cars in 1982 but 7.00 cars in 1986. Considering the general tendency towards the increasing automation of automobile production, this tendency of declining productivity is mainly explained by the fact that the number of workers do not decline as rapidly as production declines.

Table 7-7: Workers and Average Monthly Incomes in the Mexican Auto Industry, 1970-1986

Year	Number of Workers	Labor Productivity (Index)	Monthly Average Income* Nominal	Real	GNP Defl. (Index)
1970	23825	100	4106	4106	100
1971	25809	103	4730	4481	106
1972	28042	103	5224	4659	112
1973	35551	101	5691	4489	127
1974	37115	119	6105	3937	155
1975	35731	125	7892	4389	180
1976	36105	113	9652	4497	215
1977	34216	103	12813	4571	280
1978	38472	126	15117	4626	327
1979	44026	126	16413	4182	392
1980	50697	121	20713	4101	505
1981	60359	123	30484	4745	642
1982	46958	127	39521	3815	1036
1983	44570	81	51969	2608	1993
1984	51461	88	80430	2495	3224
1985	51624	111	158522	3189	4971
1986	48349	89	333737	3782	8825

Note: * Nominal incomes (Pesos) are deflated by GNP deflator; Index: 1970=100.

Source: AMIA, La Industria Automotriz de Mexico en Cifras, 1982, 1988 (Mexico City: AMIA, 1982, 1988); World Bank, World Tables 1987.

Job security is one of the most typical issues in the Mexican auto industry. The total number of workers includes

both permanent and temporary workers. Even though most of the Third World countries practice similar labor control techniques, the Mexican government allows these two basic types of employment contracts in the automobile industry.[42] *Planta* (permanent) workers are hired for an indefinite period and can be fired only with proper reasons. *Eventual* (temporary) workers are hired for a fixed and specified work, or for a time period of less than one year. The former has better job security and various other compensation than the latter. The purpose of the *eventual* workers status is to enable companies to adjust their labor supply quickly to meet the changing labor demand.

The existence of *eventual* workers provides a mixed motive for auto workers and companies. A typical pattern is for those temporary workers to be hired for eleven months and then fired for a month in a given year. After several years, some of them can be promoted to *planta* status. In economic recession, these *eventual* workers will be the first to be laid off. In 1974, the percentage of workers on *eventual* contracts was 15 percent in Nissan, 25 percent in DINA, 50 percent in Ford, 50 percent in GM in Mexico City, and 45 percent in VAM in Mexico City.[43] With the existence of temporary workers, permanent workers feel safe in their jobs during economic recession and companies can evade from

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42. Roxborough, *Unions and Politics in Mexico*, 61.
43. *Ibid.*, 63.

disruptive labor disputes caused by job security. However, *eventual* workers also have been used to impede the workers' unity and serve as a leverage for employers to keep workers' demands lower. Therefore, most of the independent labor unions have more *planta* workers than *eventual* workers.[44]

As a whole, the Mexican auto workers have belonged to the highest-paid sections of the Mexican working class. According to the Secretaría de Programación y Presupuesto's report, auto workers received 27.6 pesos per hour in 1975, while beer brewery and printing workers received 17.0 and 15.2 pesos, respectively.[45] By the standards of 1975, workers in large-scale modern establishments such as auto workers earned three times more than workers in small-scale industries.[46] However, there are big wage differentials within the auto industry.[47] For example, there are 14 different categories of different wages that range between 2,395 pesos and 4,564 pesos per day in GM. The first 9 categories assume 66 percent of total wages. In Chrysler plants, there are 10 different categories of wages that span between 2,290 pesos and 5,400 pesos per day.

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44. *Ibid.*, 62.
45. Secretaría de Programación y Presupuesto, *Trabajo y salarios industriales 1975* (México, D.F.: SPP, 1977), 6-8.
46. Roxborough, *Unions and Politics in Mexico*, 28.
47. Arnulfo Arteaga, "Innovación Tecnológica y Clase Obrera en La Industria Automotriz," in *Testimonios de la Crisis: 1. Reestructuración Productiva y Clase Obrera*, edited by Esthela Gutiérrez Garza (México, D.F.: Siglo Veintiuno Editores, 1985), 165.

Interestingly, 75 percent of the total workers belong to the lowest 3 categories and receive 71 percent of the total wages. In sum, the pattern of wages is highly skewed toward the lowest categories in these auto companies and is designed to contribute to the deceptive notion that auto workers are more highly paid than they are in reality, even while they are paid higher than in other jobs.

As Ian Roxborough points out, the higher wages of the workers in modern industrial sectors are related to the levels of unionization in those sectors.[48] Despite the fairly low level of unionization in the economy as a whole, over a third of the industrial workers were unionized in 1975. In that year, over 50 percent of the industrial work force were employed in small establishments that were hardly unionized. In addition, Mexican labor law provides a closed-shop provision for most industrial workshops. This means that most of the modern larger-scale industrial workers are nearly 100 percent unionized.

2.3. Trade Unionism, the Crisis of Populist Labor Control and the GM Strike in 1980

Trade unionism has been a major part of the politics of industrialization in Mexico. Old revolutionary generals coopted leaders of trade unions as junior partners in their

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48. Roxborough, *Unions and Politics in Mexico*, 28.

ruling coalition in post-revolutionary Mexico. The populist legacy bequeathed by Cárdenas also has conditioned the relationship between modern Mexican rulers and Mexican workers on the issue of legitimacy. Facing the populist dilemma under capitalist development, however, recent governments have weakened their ties with the trade unions and improved their relationship with the private sector. As a result, the effects of the trade unions apparently decreased and the structure of the old populist regime is undergoing the process of transformation. In order to understand the recent development of the auto workers' conditions and movements, therefore, it is necessary to understand the structure of the old populist regime and the causes of its collapse.

The collaboration between trade unions and revolutionary generals began when the Casa del Obrero Mundial in Mexico City formed seven battalions to support the Constitutionalist forces in the Mexican Revolution. Founded in 1912, the Casa affiliated thirty-six local unions and organized over 80,000 members by 1915.[49] A shrewd politician, General Alvaro Obregón recognized the value of labor support in his battles in the Revolution. When he and Venustiano Carranza took Mexico City in 1914, he donated

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49. Hobart A. Spalding, Jr., *Organized Labor in Latin America: Historical Case Studies of Urban Workers in Dependent Societies* (New York: Harper & Row, 1977), 100-101.

a building for the Casa and guaranteed his support for the demands of the Casa workers. In return, the Casa workers provided him with workers' armies to defeat Pancho Villa's forces at Celaya and Emiliano Zapata's peasant army at Veracruz, the latter forces being considered by many to be the most truly revolutionary armies of the people.[50]

As Hobart A. Spalding, Jr. argues, the Casa's role in the Revolution is important because its policy of collaboration with the bourgeois government not only contributed to the defeat of alternative revolutionary forces but also set a crucial precedent that sectors of Mexican labor have followed ever since.[51] Obregón kept his words in the Constitutional Convention at Guerétaro in 1917. The 1917 Constitution, influnced by reformists like Obregón and Francisco Múgica, largely established the modern labor provisions. Article 123, in particular, guaranteed an eight-hour day, protection of children and women workers, profit-sharing, and safety provisions. Moreover, the Constitution guaranteed all workers the right to organize, set up the governmental Conciliation and Arbitration Boards to solve labor disputes, and provided various guidelines in labor disputes, including legal paid strikes.

Even though the Constitution guaranteed basic rights for workers, however, it included a serious obstacle to the

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50. Levy and Székely, *Mexico*, 58.
51. Spalding, Jr., *Organized Labor in Latin America*, 102.

development of the labor movement: the effectiveness of the constitutional rights depends upon the "good will" of the government.[52] Various governmental boards hold the power to rule on the legality of labor strikes and unions. Once some labor movements are declared illegal by the governmental boards, they are then subjected to state repression. Because the Constitution only sets guidelines for labor disputes, the federal and local governments set up their own labor laws and enforce them accordingly. There are wide variations in labor provisions from area to area and in most areas the powerful boards impose only the laws which favor their interests. As a result, the Mexican Constitution has become a document which clearly reflects the system of cooptation and repression by Mexico's populist regime.

Indeed, the "good will" of the Cárdenas government not only upheld the Constitution but also pursued a divide-and-rule policy towards the popular sectors. Even though Cárdenas helped to set up the powerful Confederación de Trabajadores de México (CTM) led by Lombardo Toledano and sided with the demands of workers in many cases, he did not allow CTM to incorporate peasant leagues but helped peasants to organize their own union: the Confederación Nacional Campesina (CNC). Furthermore, Cárdenas separated governmental workers from the CTM and helped to set up its

52. *Ibid.*, 103.

own organization: Federación de Sindicatos de Trabajadores al Servicio del Estado (FSTE). What he did was to invite those three large organizations into an official party.

Since Cárdenas, no Mexican president has shown such good will towards the workers. As Spalding points out, Mexican presidents since 1940 have concentrated on rapid capitalist development.[53] As the Mexican government acts as the supreme arbiter over national labor affairs, the militancy of workers has been tamed and repressed through various legal and organizational practices. On the one hand, the Revolutionary family has used the official party (PRI) as a clearinghouse for all officially recognized interests. Workers who belonged to official unions such as the CTM received rising economic and political benefits. On the other hand, more independently oriented workers were subjected to increased repression that was meted out to those not conforming to official dictates. The Federal Labor Law of 1931 was revised in 1942 in order to further limit the autonomy of labor unions and erode labor's rights.[54]

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53. *Ibid.*, 129; Also, see Hansen, *The Politics of Mexican Development*.
54. For example, the new provisions made it easier for employers to fire workers and restricted public employee's strike. *Ibid.*, 131. Ian Roxborough does not agree with this general picture of "contained labor movements." In his study of Mexican auto workers, he argues, "Contrary to much current thinking on the subject, the Mexican state appears to allow considerable autonomy to many unions, intervening only in major national conflicts." Roxborough, *Unions and*

The term "Charrismo" has been used to describe the Mexican practice of union management. For example, when Mexican rail workers, who traditionally maintained an independent union during the 1920s, broke with the CTM in 1948, the government arrested its leaders and installed Jesús Díaz de León as the head of the union.[55] Díaz, nicknamed "El Charro,"[56] used physical force and outright bribery to turn the union officials into government supporters.

"Charros" trained under governmental unions, sometimes infiltrate other troublesome unions. For example, in January 1962, the DINA union unanimously voted to disaffiliate from the CTM and elected Juan Ortega Arenas as its legal adviser.[57] In February, the new leadership decided to call a strike. Soon after the call for a strike, the company and a business association known as the Centro Patronal del DF demanded the government's intervention, arguing that Ortega Arenas was a Communist and unpatriotic agitator.[58] The Federal Board of Conciliation and Arbitration declared the strike "non-existent" and gave

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Politics in Mexico, 26. However, his observation seems to exaggerate labor autonomy because: 1) his study is concentrated in highly autonomous auto unions and 2) his focus itself is on independent union movements rather than a description of Mexican labor movements in general.

55. Spalding, Jr., *Organized Labor in Latin America*, 136.
56. He got this nickname because he liked a certain cowboy style attire.
57. Roxborough, *Unions and Politics in Mexico*, 96.
58. *Excélsior*, 14 February 1962.

workers twenty-four hours to return to work. In addition, a new union election held under governmental supervision elected Luis Gómez, a leader of the railway workers' union, as the new legal adviser.[59]

Corruption and nepotism play important roles in labor peace in Mexico. Corruption is a major political dynamic in the Mexican cooptation system, and it is sometimes considered legal. As Ramón Beteta confesses, "There are many less vulgar ways, unethical but legal, in which a public official can acquire wealth."[60] Local union positions are not only an opportunity for the promotion to the hierarchy of national labor aristocracy but also for the skimming of various financial benefits at the local level. As Jesús Silva Herzog points out, "Politics is the easiest and most profitable profession in Mexico."[61]

Together with the illusive phenomenon of corruption, nepotism also plays a clear role in labor peace. Table 7-8 shows that the GM union in Toluca is exceptionally calm throughout the 1970s. In fact, four brothers who began union careers with the CTM formed a hierarchy in the CTM apparatus in Toluca. The first was the legal adviser to the CTM, the second General Secretary of a number of unions, the third the section leader for the GM section of the

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59. Arenas soon recovered his position through a new election in June 1962.
60. Wilkie, *The Mexican Revolution*, 8.
61. Hansen, *The Politics of Mexican Development*, 125.

metalworkers' union and also a regidor (local municipal councillor) and the fourth a deputy in the state Chamber of Deputies. Some relatives of theirs such as cousins and nephews also worked in the CTM offices. As Roxborough observes,

> "All this is, of course, highly impressionistic evidence. But precisely because of this, it must surely understate the web of power and influence which these four brothers have woven in Toluca. The fact that it is a family concern is not really the most important point. What is important is the way in which a small group of union leaders (a) hold multiple union offices, (b) simultaneously hold political offices and (c) operate a pyramidal structure of union power which makes any rank-and-file challenge difficult to organize."[62]

This populist control system of the labor movement by the trade union bureaucracy in Mexico has not gone unchallenged. Even though independent unionism has always been a feature of the Mexican labor movement, in the 1970s, there was a wave of breakaway movements from the old populist hierarchy.[63] Except for the GM union in Mexico City, all auto workers' local unions belonged to the official national union--the CTM. The state-owned DINA workers in Ciudad Sahagún, however, had split away in 1962 and joined the Unidad Obrera Independiente (UOI). The VW workers in Puebla and the Nissan workers in Cuernavaca followed the example of DINA in 1972. Auto workers in

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62. Roxborough, *Unions and Politics in Mexico*, 82.
63. *Ibid.*, 32.

other plants such as Nissan in Toluca and Ford in Mexico City attempted to disaffiliate from the CTM but failed.

Table 7-8: Strikes and Duration in the Mexican Automobile Industry, 1970-1980

Year	Nissan I	Nissan II	DINA	VW	Ford	GM I	GM II	Chrysler	VAM	Total No.	Total Day
U/A(I)	CTM	CTM	CTM	CTM	CTM	CROC	CTM	CTM	CTM		
U/A(II)	UOI	CTM	UOI	UOI	CTM	CROC	CTM	CTM	CTM		
1970								32*		1	32
1971										0	0
1972	1									1	1
1973	1					1&6#				3	8
1974	21		14	7						3	42
1975						30		2*		2	32
1976	46		1	8	30					4	85
1977	1		6	1		62				4	70
1978	1		3	15	1					4	20
1979		6*	1			22				3	29
1980					12	106				2	118
Total											
No.	6	1	5	4	3	6	0	2	0		
Day	71	6	25	31	43	227	0	34	0		

Note: Nissan I = Nissan in Cuernavaca: Nissan II = Nissan in Toluca: GM I = GM in Mexico City: GM II = GM in Toluca. # There are two strikes that year in GM I, one for 1 day and one for 6 days. * Unofficial strikes against union leadership. U/A (I) = union affiliation before 1972 (except DINA: 1962); U/A (II) = union affiliation after 1972.

Source: Compiled from Ian Roxborough, Unions and Politics in Mexico, 48, 156, and various other sources.

The general pattern was that insurgent workers in individual factories set up their own independent unions and voted to disaffiliate from the CTM. There were three major factors which influenced the new movement towards independent unions in the early 1970s. First, as the auto industry rapidly developed, the number of workers swelled. For example, there were about 30,000 workers in the industry in 1972. In every plant, several thousand auto workers joined the local unions and created pressures for union reforms. Second, great tension was generated by the rapid economic growth, urbanization, persistent unequal distribution, and the authoritarian control system. Since the so-called "Tlatelolco massacre" in 1968, in particular, growing numbers of workers were disillusioned with Mexico's populist regime. Lastly, the new President, Luis Echeverria Alvarez, put some distance between himself and the CTM and gave tacit support to the workers' movement.[64] As discussed before, there were hardly any new directions for the labor movement in Mexico without the "good will" of the government. Feeling a serious erosion of legitimacy, Echeverria put himself on the leftist pendulum of the Mexican presidency.[65]

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64. The very fact that Echeverria distanced himself from the CTM and its leader, Fidel Velazquez, indicates the division within the ruling coalition.
65. Levy and Székely, *Mexico*, 36.

The emergence of these independent unions on a wide scale in the 1970s, however, does not necessarily mean the imminent collapse of Mexico's labor control system. Rather, the survival of the official unions against the challenge from independent unionism throughout the 1970s and the 1980s proves the strength of Mexico's populist regime. The GM strike in 1980 is a good example about the limits of independent union movement and the strength of Mexico's complex labor control system.

Since it was formed in 1937, the GM union in Mexico City has been mostly independent and democratic. Its General Secretary, Luis Araiza, played an important role in the rise of the Confederación General de Obreros y Campesinos de México (CGOCM) in 1933. This union later joined the more independent union--the Confederación Revolucionaria de Obreros y Campesinos (CROC)--rather than the CTM. By developing a particular electoral procedure for union offices, the union has long enjoyed the reputation that it has never fallen into a union bureaucratic oligarchy.[66] Even though there were always the tendencies toward oligarchy, each time a dissident group appeared to gather rank-and-file support and thus overthrew the old union officials.

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66. Ian Roxborough argues that the practices of the union really have been "an undisciplined libertarianism." Roxborough, *Unions and Politics in Mexico*, 86.

GM workers decided to strike in 1980. Demanding the bargaining rights for the new plant in Ramos Arizpe, the union went on strike for three months as Table 6-11 shows. The GM strike in 1980 was important to Mexico's independent unionism partly because it was the longest strike in the history of the Mexican auto industry. As Javier Aguilar García points out, it was also important because (1) it was a serious effort by Mexican auto workers to get an independent and powerful union by combining divisive unions under the same company and (2) the result of this strike would effect the future direction of Mexico's labor movement in general.[67]

The bargaining rights for the new plant were important for the old assembly plants workers such as the GM plant in Mexico City in the context of Mexican auto industrialization. As the development strategy of the Mexican ruling coalition is changing from import-substitution to export promotion beginning in the mid-1970s, there emerged a regional division between the plants in the central region and the plants in the northern region.[68] While the old plants in the central region produced for the domestic market through the old and inefficient facilities,

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67. Javier Aguilar García, "Enseñanzas de la Huelga de 1980 en General Motors de México," *Investigación Económica* 161 (July/September 1982), 59.
68. Guadalupe Cortés A. and Oscar Alzaga, "Las Luchas de los Trabajadores de la Industria Automotríz en 1987 y 1988," Facultades Ciencias, Políticas y Sociales, UNAM, *photocopy*, 2.

the new "maquiladora" plants in northern region were equipped with new facilities for export. Because of the saturation of the domestic market and production costs, the multinational subsidiaries tended to close the plants in the central region. Therefore, it is vital for the auto workers in the central region to control the new unions in the northern plants.

From the point of view of the auto firms, the establishment of new plants in the northern region would provide various opportunities to enhance the interests of the firms. First, it is more efficient for firms to establish new plants than to renovate old plants for the production of cars for export. For example, Ford's new plant in Hermosillo produces more cars than its similar plant in Cuautitlán even though the former employs only 900 workers vis-a-vis the latter's 3,200 workers.[69]

Second, by asking rival unions to organize new plants' unions, a company can diminish the power of the old unions in the central region and cut labor costs.[70] This managerial strategy is made possible through the massive

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69. *Ibid.*, 7.
70. Ian Roxborough seems to miss this point. He says, "The reasons why a separate union was established in the Toluca plant after it began operations in 1965 are not entirely clear. The union leadership of the Mexico City plant apparently made no effort to prevent this happening." Roxborough, *Unions and Politics in Mexico*, 81. However, under Mexican labor law, the company can choose different unions to set up unions in their new plant.

layoff of auto workers in the central region, by the divisive character of the labor movement in Mexico, and by the Mexican legal system. Auto firms usually offer labor contracts to the labor unions in their new plants that are different from those in the old plants, as they are legally allowed to do. Exploiting the rivalry among them, auto firms can easily dismiss auto workers in the central region. Because Mexican law provides a close shop to current local unions, *planta* workers in the old plants cannot claim the same status in the new plants even if they are rehired in the new plants.[71]

The same managerial strategy was applied to the GM union in Mexico City. GM established a new plant at Ramos Arizpe in 1979, reduced the workers in Mexico City by half, and offered a new labor contract to the CTM.[72] As a result, the wages at GM's new plant in Ramos Arizpe are one-fourth to one-fifth of those in Mexico City.[73] In the late 1970s, by contrast, the GM union in Mexico City was well prepared to promulgate a new initiative in Mexico's labor movement. During the 1970s, the so-called Democratic Currents

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71. The case of Ford is the most blatant one. In 1987, Ford closed the Cuatitlán plant and rehired them in a new plant. In this case, the ratio of *planta* workers decreased from some 50 percent to only 10 percent. Ninety percent of the workers were hired as *eventuales*. Cortés and Alzaga, "Las Luchas de los Trabajadores de la Industria Automotríz en 1987 y 1988," 12-13.
72. *Excélsior*, February 5, 1980.
73. James D. Cockcroft, *Mexico: Class Formation, Capital Accumulation and the State* (New York: Monthly Review Press, 1983), 224.

(corrientes democráticas) within the union formed an important organization: *Departamentos Unidos* at shop floor level and a newspaper *La Matraca*. The shop floor cell units expanded the democratic participation of the auto workers in the policy-making process of the union. The newspaper provided assorted information and comments concerning workers' participation.

The union leadership led by Joaquín Zapata received a mixed reputation through the strike in February 1979. While he succeeded in negotiating a wage increase of 17 percent, his agreement with the company to suppress article 5, which guaranteed the bargaining right of the union for new plants, and his financial scandals accelerated discontent among the auto workers.[74] As a result, in June, the general assembly of the union voted down Zapata's executive committee and elected a new executive committee led by Rodolfo Malagón Salazar. This new committee promised to democratize the union and review the old policy which maintained a "good relationship" with the company.

However, the most important task for the new committee was to resolve the problem caused by the company which permitted a new union in Ramos Arizpe to affiliate the CTM at Saltillo in March 1979. Because the company's choice of the CTM was legal but violated its contract with the GM

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74. Aguilar, "Enseñanzas de la Huelga de 1980 en General Motores de México," 60.

union in Mexico City, the union gave notice of the possibility of a strike to the Ministry of Labor in January 1980. On February 5, 1980, the union leadership called a union assembly and explained the problem of the labor contract in Ramos Arizpe. On February 9, the union assembly decided to strike, which turned out to be the longest strike in the history of the Mexican auto workers' movement. Even though the union decided to strike and repeated the importance of the issue, it also tried to keep the issue as localized as possible and emphasized that the union had no intention "to attack anybody."[75]

As Aguilar points out, the strike began with a great unity between the union leadership and the auto workers together with various outside support.[76] The Executive Committee, the Commission of Inspection, and the Strike Committee generally showed unanimous agreement concerning major issues. Various local and national unions, political parties, newspapers, student organizations, and local authorities announced their support on behalf of the strike. In March 20, the Strike Committee published a solidarity document signed by 33 social and political organizations.[77]

Under the heavy pressure of public opinion, Fidel Velázquez of the CTM argued that the CTM had not struggled

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75. *Excélsior*, February 9, 1980.
76. Aguilar, "Enseñanzas de la Huelga de 1980 en General Motores de México," 64.
77. *Excélsior*, March 6 and March 20, 1980.

to get the affiliation of the GM plant in Ramos Arizpe and that the new plant's affiliation to the CTM did not harm the unity of the GM unions, and thus the CTM would keep its affiliation.[78] He also expressed his displeasure over the fact that GM workers in Mexico City did not ask his assistance for their strike. Even the CTM at Saltillo announced that it was ready to help the GM union's strike.[79]

Despite their placatory comments on the strike, neither GM nor the CTM were willing to concede the labor contract of Ramos Arizpe to the GM union in Mexico City. The position of the Mexican government on the issue was clear: GM's choice of the CTM was legal. Although the government did not declare the strike as "non-existent," it was never favorable towards the GM workers' demands. Despite the considerable support from various social forces for the strike, therefore, the GM workers soon found that their demands would fall on deaf ears without any new strategy.

As the strike continued for a month, Rodolfo Echeverría Ruiz, the Undersecretary of Labor, submitted a new proposal for the GM workers: the creation of a national union in GM plants. The basic idea of this proposal was that the GM union would belong to neither the CTM nor the CROC but would create its own independent national union, assuming that both national unions would not have any particular interest

78. *Uno más Uno*, February 14, 1980.
79. Aguilar, "Enseñanzas de la Huelga de 1980 en General Motores de México," 64.

in the GM unions.[80] Even though the workers' assembly in March 22 rejected the proposal, leaders of the GM union in Mexico City showed much interest in that proposal because they could not find any other breakthrough.

Fidel Velázquez, a shrewd politician, found the merit of that proposal for the CTM and announced that he was willing to help realize that proposal. On March 25, Velázquez suggested that he would increase his support for the strike and help GM workers to form a national union, and that the CTM would provide the necessary support for the formation of the union if asked.[81] Because Velázquez's proposal was so attractive to the GM union leaders, there was soon a flood of proposals and counterproposals concerning various conditions for the new national union between the union and the CTM. After union leaders had indulged in a very delicate negotiation with the CTM leaders for almost three months, however, the shop floor workers' enthusiasm for the strike had drastically diminished. The strike has lasted too long for the workers to endure and the proposal became too complicated for the workers to understand its necessity. In fact, Velázquez's proposal was a Trojan horse for the GM union leaders.

As the workers' support for the strike apparently diminished, the Mexican government, the company, and the

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80. *Ibid.*, 65.
81. *Ibid.*, 67.

established national unions began to attack the GM unions. Pedro Ojeda Paullada, the Minister of Labor, who was never favorable to the strike, threatened the union to stop the strike lest the government make an unfavorable decision against the union. The company also encouraged "Charros" such as ousted Joaquín Zapata to break the strike, by persuading workers to defect from the current union leadership. Abhorring the idea that the GM union in Mexico City had indulged in a negotiation with its rival national union, even the leaders of the CROC such as Alberto Juárez Blancas charged that the GM union was being manipulated by communists.[82] Finally, Fidel Velázquez asked the union leaders to stop the strike and negotiate the terms of a new national union again.

After a strike of 106 days, the GM union gave up its demand for the new plant in Ramos Arizpe. The only demand that remained was a wage increase. The company and the union finally agreed to a 23 percent wage increase and cessation of the strike in May 21.[83] As the GM union had become so weak, the company not only attacked the union leadership and but also tightened working conditions. Major union leaders were suspended and Joaquín Zapata was installed as the head of the union. Many job transpositions occurred, the contracts of *eventuales* became more harsh and

82. *Ibid.*, 71.
83. *Excélsior*, May 30, 1980.

selective, and the speed of the assembly lines became more rapid than before the strike.[84]

The failure of the 1980 GM strike exemplified the limits of the independent union movement and the strength of Mexico's complex labor control system under the López Portillo administration (1976-1982). In fact, the effort of GM workers to unite different plants in the same company into a national independent union and negate the company's right to offer different labor contracts was a serious challenge to the existing labor control system in Mexico.

The strength of the Charrismo labor oligarchy as a major part of the labor control mechanism of the ruling coalition should be emphasized. Fidel Velázquez of the CTM clearly understood the nature of the dispute and skillfully managed it to calm labor militancy. Closely cooperating with the government and GM, Velázquez and the CTM leaders coaxed, deceived, and threatened the leaders of the GM union to cancel their effort for a new independent national union. Vis-a-vis the strength of these Charros, the GM union leaders lacked a good strategy and the resources to continue their strike. Rather than develop a strategy to basically challenge the current legal system, the GM union leaders

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84. Aguilar, "Enseñanzas de la Huelga de 1980 en General Motores de México," 75.

were instead entrapped in the fruitless negotiations with the CTM officials.

However, this temporary failure of the independent union movement does not necessarily mean that the labor control mechanism of Mexico's ruling coalition will always be successful. The crisis of the labor control mechanism come from economic depression. Moreover, the Charrismo can be weakened not only by the cardenista President Luis Echeverría who restored popular support but also by the alemanista President Miguel de la Madrid who reduced the influence of labor leaders in national politics. Finally, as Guadalupe Cortés and Oscar Alzaga point out, despite its temporary failure in the early 1980s, the struggles of the auto workers will become more intense and widespread in the late 1980s because the working conditions and status of auto workers have deteriorated.[85]

3. Summary

The two basic structures of the Mexican auto industry that were decided in the stage of introduction were further consolidated in the next stage. First, the collapse of Automex resulted in the virtual absence of the domestic

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85. Guadalupe Cortés A. and Oscar Alzaga, "Las luchas de los Trabajadores de la Industria Automotríz en 1987 y 1988," Facultad Ciencias, Politicas y Sociales, UNAM, 1988, photocopy.

bourgeoisie from the Mexican auto industry and its domination by foreign subsidiaries since 1969. Even Mexico's strong state hardly attempted to restructure the auto industry. Second, because Ford's export plan was adopted as a major strategy for the auto industry, the general direction of governmental automobile policies also became export-oriented.

In fact, DINA, as a powerful public auto firm, might have provided Mexico with one more chance for the establishment of a national champion. Even though the Mexican ruling coalition primarily relied upon the private sector for Mexican automobile industrialization, the Mexican state created public auto firms as a means of bailing out bankrupted private auto firms. DINA usually served as a parent corporation for that purpose. Under the leadership of Villaseñor, DINA emerged as a more efficient and profit-making public enterprise.

When domestic private firms were wiped out in the auto industry, DINA might have emerged as a public national champion. It could have had a substantial auto manufacturing capability, and also could have provided a strategic leverage to induce the conformity of multinational subsidiaries to Mexico's export promotion policies. However, this idea never appeared within the ruling coalition, except in a similar idea involving the creation of a state holding company that emerged and disappeared

during the López Portillo administration. Thus, DINA has kept its last-resort character as a haven for failed private auto firms and old *políticos* who are looking for jobs.

Therefore, even though the 1972 and 1977 decrees imposed mandatory export and higher local content, the export of vehicles from Mexico did not proceed until multinational auto firms found that the export of vehicles would serve their interests. In fact, Mexican technocrats such as Guillermo Becker believed that the Mexican auto industry was not sufficiently developed to commence export-promotion and that an export-promotion policy would not serve the Mexicanization of the industry. However, since 1969 the low economies of scale, the domination of the local market by foreign subsidiaries, and the complete reliance upon foreign technology have limited the range of policy options.

From 1983, the Mexican auto industry has shown rapid export growth not only in auto parts but also in vehicles. The export of auto parts increased from 0.6 billion U.S. dollars in 1983 to 1.9 billion U.S. dollars in 1987. The export of vehicles also increased from 84.2 million U.S. dollars in 1983 to 1.3 billion U.S. dollars in 1987. In 1987, the trade surplus increased to 1.94 billion U.S. dollars, showing an annual average growth rate of 117.1 percent from 1983 to 1987.

This chapter further analyzed the nature of the export growth and its meaning for the auto industry. First, the increase in motor vehicle export was not accompanied by an increase in automobile production. Second, engine exports made up 73.5 percent of total auto parts exports in 1987. Third, the Mexican subsidiaries of the three American auto firms accounted for 87.7 percent of total vehicle exports in 1988. Fourth, foreign subsidiary auto firms in Mexico began to build new plants in the Northern border area with the most advanced technologies for the purpose of export promotion. Fifth, DINA, a powerful public firm, was virtually sold out to Chrysler by Miguel de la Madrid. The share of domestic firms in the auto parts industry is rapidly decreasing. With this export promotion strategy, the Mexican auto industry is further denationalized and firmly incorporated into the international market.

While the role of the private sector has diminished and foreign subsidiaries are dominant in the auto industry, auto workers are still an important domestic force that influences both the managerial decisions of auto firms and the development strategy of Mexico's ruling coalition. The 1980 GM strike exemplifies the struggles among foreign auto firms, the ruling coalition, and auto workers.

The 1980 GM strike occurred when GM gave labor contracts of the new Ramos Arizpe plant to the CTM. GM exploited the opening of this new "maquiladora" plant to

undermine strong unionism in the central region and to lower its labor costs. Combining the adoption of technologically advanced facilities and managerial practices for union-breaking, the wages at GM's new plant are one-fourth to one-fifth of those in Mexico City.

Even though these practices by GM violated its previous contracts with the current independent GM union, the Mexican government and the CTM argued that GM's practices were legal. Whether GM's practices were legal or illegal, the Mexican government and the CTM were never favorable towards the GM union. In fact, the effort of GM workers to unite different plants in the same company into a national independent union and end the company's right to offer different labor contracts was a serious challenge to the existing labor control system in Mexico.

GM workers's movements cannot be separated from Mexico's independent union movement in general. The newly emergent independent unionism, existing apart from the official CTM in the 1980s, is closely interrelated with the political economic crises in Mexico. For instance, workers's grievances about the corruption and injustice of the Charrismo union leadership contributed to a mass defection from the CTM, one of the cooptive systems of the ruling coalition. Like the 1984 Daewoo strike, the GM strike drew considerable support from various local and

national unions, political parties, newspapers, student organizations, and even local authorities.

However, the GM workers failed to establish a unified GM union for Mexico City and Ramos Arizpe even after the longest strike in the history of Mexican auto workers. The failure of the 1980 GM strike exemplified the limits of the independent union movement and the strength of Mexico's complex labor control system. Charrismo labor leaders such as Fidel Velázquez exhibited considerable ability in understanding the nature of the dispute and in creating an effective network among the auto firms, the government and themselves that enabled them to threaten, deceive, and coax the GM union leaders to end the strike. Vis-a-vis the strength of these Charros, the GM union leaders had not developed a strategy to basically challenge the current legal system but instead were easily entrapped in fruitless negotiations with the CTM officials.

Chapters VI and VII discussed how the structural dilemma of Mexico's ruling coalition influenced its automobile industrialization. Poor policy coordination and intra-coalitional struggles caused by the dilemma between populist legitimacy and capitalist development contributed to the failure in the development of a national champion in Mexico's auto industry as evidenced in the examples of the rejection of the 1960 NAFIN report and the collapse of Automex. Even the export promotion in the 1980s and the

1980 GM strike were an integral part of Mexico's automobile industrialization strategy chosen by its ruling coalition.

However, a systematic comparison of Mexico and South Korea within the theoretical framework of ruling coalition analysis is necessary to further understand the two cases that usually have been studied separately by different theoretical traditions.[86] The comparison of these two cases will be the most theoretical part of this study.

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86. As briefly discussed in chapter I, the Mexican case has mainly been studied in dependency literature, while the Korean case has mainly been studied in statist literature. As a result, the role of multinational corporations is emphasized in the Mexican case, while the role of the state is stressed in the Korean case. As Peter Evans argues, we need more integrative research that will move us closer to an adequate general understanding of late industrialization. This study is a part of those efforts. See Peter Evans, "Class, state, and dependence in East Asia: lessons for Latin Americanists," 203.

Chapter VIII. The Limits and Successes of the Mexican and Korean Automobile Industrialization

1. Development Strategies

Both Korea and Mexico were well aware of the importance of national champions in automobile industrialization. Of course, there were various constraints and opportunities for the establishment of national champions in such latecomers as Korea and Mexico. The development strategies in automobile industrialization, therefore, consisted of government policies and corporate policies for the establishment of national champions. This study finds that the strategies of auto workers also heavily influenced the industrial patterns not only in the populist regime in Mexico but also in the pragmatic regime in Korea. A typology is unnecessary in this study because this study deals with only two cases and finds that even the old typology, which consists of the dichotomy of import substitution versus export promotion strategies, is incorrect with respect to the two countries' development strategies in automobile industrialization. For convenience, this study delineates a Korean style versus a Mexican style of development strategy.

1.1. Governmental Policies

To reiterate the basic assumption of statism, the governments in both countries have pursued their own goals with particular means. Both governments have maintained a strong presidentialism throughout the period, with the president serving as the ultimate arbiter of governmental automobile policies. Both governments have pursued a high degree of local content and export in the automobile industry, despite some resistance from the multinational corporations and local businessmen. Even though there are some variations, both governments also have pursued economies of scale, vertical integration of terminal firms and auto parts firms, and the localization of ownership. The major goals of these policies, in brief, are the rapid and stable growth of an independent automobile industry through the establishment of local ownership and economies of scale, i.e., the establishment of national champions.

The policy means of both government were various but purposeful. From indirect incentives in tax and tariff to direct intervention of the market share and ownership, the Mexican and Korean governments have used various means to implement their goals in their automobile industrialization process. These state policies involved protectionist measures that used either high tariffs or an outright ban on imports of items competitive with local motor vehicle

production, a requirement of local content over a significant period, and preferential tariffs for parts and components as well as imported capital goods. In addition to controlling trade measures, both Mexico and Korea provided direct subsidies and tax exemptions for their local automobile companies.

One commonality between the two governments was that there were policy alliances or political factions established on a case-by-case basis: for example, the confrontation between the "merger coalition" and the "export coalition" over the Automex proposal in the late 1960s in Mexico, and the confrontation between the "neoclassical coalition" and the "nationalist coalition" over the heavy-chemical adjustment plan in the late 1970s in Korea. These coalitions were not necessarily regarded as permanent and corrupt forces among major political economic elites. But, the outcome of the confrontations directly influenced the future direction of the automobile industry in both countries.

However, there were vastly divergent patterns of governmental policies between the two countries. First, while the Mexican policies were relatively general, the Korean policies were detailed. In general, the Korean automobile policies provided item-by-item and firm-by-firm designation, while the Mexican automobile policies largely emphasized the directions and philosophies of the policies.

Second, contrary to the general perception about the two countries' development strategies, in the automobile sector, the Mexican government launched its export promotion policies earlier than the Korean government. Despite its frequent lip-service concerning "export" in the automobile industry, the Korean government did not select the car industry as a strategic sector for export until 1977, while Mexico's 1972 decree wholeheartedly emphasized export promotion of the automobile industry.

Third, interestingly, the Korean government placed lesser emphasis on the localization of ownership than the Mexican government and encouraged foreign direct investment in some cases. Throughout the whole period, both governments were reluctant to recognize foreign majority ownership of the domestic auto firms. However, in some critical periods such as in the early 1970s, the Korean government was willing to induce foreign direct investment and recognize foreign majority ownership, but it signaled not so much a change in the nationalist attitude of a latecomer but rather its pragmatism on the issue.

A common phenomenon in the two countries' automobile policies was their frequent "policy failures." The goals of both countries were largely too ambitious to be implemented in their given situation. Major goals of the Mexican and Korean automobile policies between 1960 and 1985 could not be fully implemented and even policies that were adopted had

to be cancelled before implementation in some instances because of various internal and external problems. Despite these setbacks, the overall effects of those policies should still be emphasized. Clearly, there is not quite as strong a causal relation between governmental policies and the patterns of automobile industrialization as some statists have argued.

Governmental policies, even though they are specific on issues, are hardly specific to the performance of each auto firm in Mexico and South Korea, while industrial patterns are directly linked to the performance of each firm in Mexico and Korea. In most cases, the real source for the competitiveness of each firm is its technological, managerial, and financial superiority over other firms. For example, the rapid growth of production and export in the Korean automobile industry is largely due to the superior performance of Hyundai over other firms, even though the Korean government also encouraged the other firms. The denationalization of the Mexican automobile industry was mostly exemplified by the collapse of Automex in the late 1960s in spite of the strenuous localization effort of the Mexican government.

1.2. Corporate Policies

One of the major focuses of this study is the role of automobile corporations' policies as a major component of development strategies. Corporate policies have been as important as governmental policies in the automobile industrialization of both countries. As long as these two countries chose the capitalist path of industrialization, the private sector has been constantly created, supported, and positioned at the center of industrialization efforts. In both countries, the state and major corporations comprise the two major participants within ruling coalitions. Government policies are sometimes the result of coalitional consensus and sometimes the beginning of coalitional bargain at the initiative of the state.

In Korea, Hyundai, Daewoo, and Kia have dominated the automobile industry throughout the entire period. In particular, the policies of Hyundai and Daewoo, as the two major conglomerates, had a profound impact not only upon the industry but also upon the Korean economy in general. Until the mid-1960s, Automex and other domestic assemblers such as VAM, DINA, Planta Reo, and Delta dominated the Mexican auto industry. All of the corporate leaders in those auto firms in Korea and Mexico had close friendships with the President and the ministers in their respective governments. In both societies, all the business leaders

kept various institutional links not only with the government bureaucrats but also with the political, economic, social, and cultural elites.[1]

In particular, a comparison between Hyundai Motor Corporation and Fábricas Automex--two national champion candidates--is useful for understanding the overall strategies of both auto firms. Both companies possessed tremendous organizational capability from being the major firms established by business groups in both countries. However, Fábricas Automex was not as well incorporated into a large industrial group as Hyundai Motor Corporation. In fact, Mexico's business groups took the form of a holding company with subsidiaries that were linked mainly by financial ties. For example, like other major Mexican business groups such as the Garza Sada Investment Group and the Banco de Londres-Sofimex Group, the Azcárraga family held equities in Automex, Somex, Banamex, and Televisa: it thus had not created a coherent industrial group, as was the case with Hyundai. Alice Amsden argues that this difference

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1. This does not necessarily mean that there are Mills' type of coherent power elites in both societies. In fact, business leaders have been frequently derided and purged by military bureaucrats in the case of Korea. The relationship between major business leaders and government has been largely uncomfortable under Mexico's populist government. Therefore, this study argues that there exists the "ruling coalition" among major political elites rather than the "ruling class" or the "power elites."

might contribute to the risk-taking attitude of each business group.

> "The chaebol were able to manage their diverse holdings by virtue of their ability to borrow abroad and buy industry-specific technical expertise from foreigners. This allowed them to grow very large, at first 'organically,' and at the same time remain under the control of their original family founders. The chaebol soon became the most progressive firms and attracted the best-salaried supervisors, managers, and engineers. A continuity in ownership and control contributed to a uniform group culture and a centralized knowledge of group resources. Both facilitated the intragroup transfer of money and personnel. An economy of scope arose in the form of the capability to diversify. Entering new industries at minimum cost and at lightning speed raised the firm's ability to compete in many markets. With state subsidies and a diversified structure, *the chaebol became willing and able to undertake risk*."[2]

The financial strategies of the two companies were also different. Because there were few available financial sources in the domestic capital market, both Hyundai and Automex had to rely on foreign savings to create their auto manufacturing plants. However, Automex heavily relied on Chrysler's direct investment and lending, while Hyundai relied on foreign borrowings from international financial institutions. The financial strategies of both companies were almost identical with the general financial strategies of both countries. For example, Korea was exceptionally dependent upon financial borrowing instead of foreign direct investment during the whole period.[3]

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2. Amsden, *Asia's Next Giant*, 151. Italics are added.
3. Jeff Frieden, "Third World Indebted Industrialization: international finance and state capitalism in Mexico,

Because of the increasing financial squeeze due to low profit and increasing costs in the late 1960s, Automex borrowed over 350 million pesos in the shortterm and 73 million pesos in the long term from Chrysler. Automex's strategy of financial dependency upon Chrysler resulted in two outcomes. First, with the deepened financial transaction, Automex became completely dependent upon Chrysler--not only in technology but also in capital. In general, latecomer auto firms heavily depend upon multinational corporations for their technology for automobile manufacturing, beginning with the assembly of knock-down kits. Unless the latecomer firms were foreign subsidiaries, however, technological dependency was not necessarily accompanied by financial dependency, as the Korean case shows. Because Automex chose Chrysler as a source of capital, it doubled its dependency upon Chrysler.[4]

Second, with its double dependency upon Chrysler, Automex became vulnerable to the populist criticism led by Villaseñor. Villaseñor, in fact, was more concerned about the fate of DINA in the case of the merger plan proposed by Automex. However, he mobilized a nationalist rhetoric

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Brazil, Algeria, and South Korea," *International Organization* 35 (Summer 1981): 407-431.

4. Whether Chrysler was a more reliable and convenient source of capital for Automex or not is a controversial issue, because Chrysler was relatively weak in its finance and there were various international lending institutions that might have been more favorable towards Automex than Chrysler. This issue has not been discussed in this study.

rather than raised the issue of economic efficiency, and argued that Automex was already a subsidiary of Chrysler. Villaseñor's criticism of the merger plan was based on an implausible argument. Clearly, even if Automex was really a subsidiary of Chrysler, the establishment of a national champion was still more likely in the context of the domination of the domestic market by one multinational firm--Chrysler--rather than by five--Chrysler, Ford, GM, VW, and Nissan. Therefore, Villaseñor's nationalism would more likely have been satisfied by the merger plan than by the export plan. Nevertheless, Villaseñor's populist critique of the merger plan worked.

Hyundai's financial position was not much stronger than Automex's. For example, for the development of Pony, Hyundai borrowed about 73 percent of the total of $71.25 million from foreign sources. Rather than rely upon its foreign partner, Ford, Hyundai applied for the Korean government's loan guarantee and borrowed the necessary capital from various foreign lending institutions. There are several reasons for Hyundai's preference for foreign borrowing over direct investment.[5] However, according to

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5. Hyundai's preference was influenced by the sizable difference between the interest rate of domestic loans and the preferential rate of foreign loans for exporters such as Hyundai, the existing extra market costs for foreign direct investment, the state's preference for control over the domestic economy, and the nationalist critique from the anti-ruling coalition forces. See Haggard, "Pathways from the Periphery," 148-149; Benjamin I. Cohen, *Multinational Firms and*

this research, Hyundai's concern to gain managerial control was the prime motive for the preference. According to Hyundai's argument, the establishment of domestic ownership and managerial control was one of the most important prerequisites for the development of appropriate models and rapid export promotion.

Hyundai's strategy has been consistently maintained even in the development of the export model--*Pony Excel*. In order to advance into the North American market, Hyundai had to import the most advanced technologies of front-wheel drive cars from major multinational corporations. In its negotiation with multinationals, Hyundai found that Volkswagen proposed the lowest royalty payment and the attractive export guarantee of 10,000 cars. Despite Volkswagen's most attractive proposal, however, Hyundai selected Mitsubishi as its partner because Volkswagen requested management participation while Mitsubishi did not.

Asian Exports (New Haven: Yale University Press, 1975). Frieden's thesis about the Third World authoritarianism-international financial system linkage is particularly useful in understanding the overall picture of the case. By borrowing money from international financial institutions without relying on heavy taxation, Third World authoritarian regimes could foment their ruling coalitions over a long period. Jeff Frieden, "The Brazilian Borrowing Experience: From Miracle to Debacle and Back," *Latin American Research Review* 22 (1987), 96. Further discussion is provided in pp. 156-157 in this study.

1.3. Labor Strategies

The labor movement has been a central battle zone between the ruling coalition that wants to secure its power and the anti-ruling coalition that tries to undermine it. Major structural studies exclude the labor movement, as the part of the anti-ruling coalition, from the political scene and, thus, underestimate its political and economic effects upon major political economic decisions. However, the process of automobile manufacturing is not only economic but also political. Auto workers have never failed to work as a political economic force. As the proportion of the automobile industry within the national economy increases, the national influence of the labor movement among auto workers also increases. These efforts have led to serious attacks against the stability of the industry and, ultimately, the ruling coalition itself.

Most labor unions in both countries, except some co-opted ones like the CTM, work not only as organizations that represent the economic demands of the auto workers but also as a major part of the anti-ruling coalition forces. Most labor disputes in both countries began with the economic demands of auto workers but soon became the political battle towards the democratization of the whole society, as reflected in the Daewoo strike in 1984 and the GM strike in

1980. Labor leaders are well aware of the importance of the support from society. Various political groups such as other labor unions, student activists, middle class organizations, and religious organizations are usually willing to become involved and lend their support on behalf of the auto workers' struggles.

Both governments and the auto firms created various legal, institutional and ideological means to alienate the auto workers from other social forces. Co-optation and repression were common means of labor control in both countries. However, official labor leaders and unions that were loyal to the causes of the ruling coalitions came under their legal protection and skimmed profits and benefits through nepotism and corruption. Both governments promulgated numerous laws that restricted the financial and organizational activities of independent labor unions. Whether domestic or foreign, auto firms have also developed various means for destroying labor unions and strikes: bribes, transposition, dismissal, threat of dismissal, scandal-mongering, and physical repression. The military, police, secret police, thugs, and white collar workers were used for the physical repression of the labor movements. The charges of Communism against labor militants through the official mass media were often used to alienate auto workers from their leaders. Confucian ethics in Korea and populist

rhetoric in Mexico, sometimes, were adopted to encourage the compliance of the auto workers.

However, there are still some differences in the general strategies of the labor movement, as shown in the two major cases of the automobile workers' strikes in Mexico and Korea. First, Mexican auto workers tend to use more legal and institutional means to express their demands than Korean auto workers. Second, the Korean auto workers' labor disputes are more violent than the Mexican auto workers' labor disputes. Third, the political and social impacts of the labor disputes was broader in Korea than in Mexico. These different strategies of the labor movements in both countries are the reciprocal results of both countries' labor control systems.

Mexico's populist system has long maintained a largely open and well-organized labor control network. Mexican auto workers have been organized under the leadership of legal labor unions such as the CTM or the CROC, which are powerful because of their affiliation with the government. As shown in the case of the GM strike in 1980, Pedro Ojeda Paullad, the Minister of Labor, refrained from declaring the strike "non-existent," even though the demands of the union were a fundamental challenge to Mexico's labor control system. Therefore, the process of the labor dispute soon became a long-hauled and complicated negotiation between two labor unions. Decreasing labor militancy and confusion over

the complicated issues of union politics contributed to the end of the strike without any change to the national labor control system.

In contrast to their Mexican counterparts, the official automobile labor unions in Korea are regarded as too loyal to the Korean authoritarian regime to represent the demands of the auto workers. Independent unions organized by labor activists were not accorded legal status until recently. As a result, labor disputes in Korean auto plants usually occurred outside of the existing legal system. In the case of the Daewoo strike in 1984, labor activists, Song and his supporters, began by demanding a halt to the company's illegal practices. However, they found that there was no legal system to properly process their complaints. Along with increasing labor militancy and outside support, the demands of those labor activists were expanded and, finally, created a political crisis. In fact, the Daewoo strike contributed to an extended political crisis that led to the collapse of Chun's regime in 1987.

2. Patterns of Late Industrialization and the Structure of Ruling Coalitions: testing hypotheses

This study emphasizes the extent of the conflicts between the structure of ruling coalitions and their development strategies as the major variable that decides

the particular pattern of late industrialization. Because of the nature of the industry and the structure of the international regime, for example, the goal of automobile industrialization in latecomers such as Korea and Mexico was already a given: a rapidly growing, internationally competitive, and locally owned automobile industry. The establishment of national champions was the common intermediate goal for Mexico and Korea prior to achieving that ultimate goal. However, as shown in the discussion of industrial patterns in chapter 3, Mexico failed to establish its national champions while Korea succeeded. There are various economic, cultural, and structural factors that influenced the success or failure. This study proposes that the greater the discrepancy between the ruling structure and the development strategy of a ruling coalition the less successful will the results be in late industrialization.

2.1. The populist dilemma

The concept of the populist dilemma derived from Vernon's *Mexican Dilemma* is useful to identify the structural and ideological conflicts in Mexico and the difference in nature of these conflicts from those in Korea. Mexico's populist dilemma was derived from the contradiction between the populist legitimacy inherited from the Mexican

Revolution (completed by Cárdenas) and the capitalist development which has encouraged the development of Mexico's private sector. This populist Mexican system gradually loses the dynamics of political economic development, because it simultaneously alienates the populist masses and the private sector. Ultimately, this system will be destabilized by its economic failure if it keeps the populist ruling structure or by its loss of political support if it abandons the populist ruling structure.

Mexico's "presidential pendulum" of conservative and progressive policy orientations was one of the major strategies of the ruling coalition for coping with the populist dilemma. Echeverría's leftist foreign policy and López Portillo's bank nationalization in 1982, for example, were the most dramatic cases manifesting the recovery of populist legitimacy by the regime. However, these policies aggravated the schism between the populist government and the private sector, as indicated by the extent of massive capital flights.

The failure of public auto firms exemplifies the effects of the populist dilemma in the industry. Mexico has formed public auto firms like DINA and VAM. However, Mexico regarded the firms as a last resort for unsuccessful private auto firms rather than as major automobile manufacturers. The function of the firms was to produce buses, trucks, and special vehicles which were unprofitable for private firms.

The Mexican government rejected even the plan espoused by Villaseñor whereby public firms would have been merged to achieve economies of scale, while private firms like Automex handily secured its manufacturing license for passenger cars and preferential production quotas. These public firms sooner or later became a last resort business enterprise for retired *politicos*.[6] The Mexican government neither allowed public firms to engage in profitable business nor abolished them. These structural problems combined with some managerial problems drove public firms into being large debtors. As a result, these public firms have become targets of the recent privatization policy.[7]

In contrast, Korea has constantly depended upon the private leadership for its automobile industrialization. As shown in the historical review about the current Korean ruling coalition, Park and Chun tried to incorporate the private sector as fully as possible and hardly attempted to establish public auto firms. The Korean way for bailing out

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6. Even Victor Manuel Villaseñor, the director of DINA for twelve years (1959-1970), was not a *tecnico* but a labor activist and a party intellectual. He was the only one director with a long tenure. There were three directors under Echeverria and two under López Portillo.
7. Even though Villaseñor's merger plan was mentioned in the section concerning the collapse of Automex, the failure of Mexico's public firms deserves greater scholarly attention. See Bennett and Sharpe, *Transnational Corporations Versus the State*, 141-146. VAM was sold to Renault in 1982 and DINA became a major target of the recent privatization policy. See *the Economist*, May 7, 1988, 65.

unsuccessful private auto firms was different from the Mexican way. Rather than nationalizing them, the Korean government looked for other private firms that could take over the unsuccessful firms, as shown in the case of the Saenara Auto Corporation. In this case, the Korean government provided various fiscal, monetary, and institutional incentives to the buyer of the firms.

Interestingly, the findings pertaining to Mexico's populist dilemma comply with the findings of the rational choice model of ruling coalition studies. Many coalition studies confirm the Riker/Gamson proposition that a ruling coalition should be as small as possible.[8] Such a grand coalition as Mexico's, therefore, will have to confront the difficult choice between its evolution into the minimum winning coalition and its increasing authoritarianism in order to cope with the increasing problems of a weaker "reigning" coalition.[9] The failure of national champions

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8. William A. Gamson, "A Theory of Coalition Formation," *American Sociological Review* 26 (June 1961): 373-382; William H. Riker, *The Theory of Political Coalitions* (New Haven: Yale University Press, 1962); Mark N. Franklin and Thomas T. Mackie, "Reassessing the Importance of Size and Ideology for the Formation of Governing Coalitions in Parliamentary Democracies," *American Journal of Political Science* 28 (November 1984): 671-692.
9. Kenworthy, "Coalitions in the Political Development of Latin America," 113. However, there is still considerable durability to the ruling coalition. The durability of the Mexican populist ruling coalition since the Mexican Revolution can be explained by its ideological cohesiveness. In regard to ideological cohesiveness as a prerequisite for a winning coalition,

in Mexico has partially contributed to the internal struggle within the weaker "reigning" coalition.

However, historical factors are still important in the explanation of Mexico's populist dilemma. For example, the rational choice model of coalition studies hardly pays attention to the power of multinational corporations nor to the historical alternatives to development strategies. In contrast, the historical comparison between two countries' experiences can elicit and highlight some historical alternatives not only to the formation of a ruling coalition but also to the formation of development strategies.

2.2. National Champions

Local ownership and economies of scale--the establishment of national champions--were the common goals for both countries. Local ownership as a developmental goal was predetermined by the nationalism of the ruling coalitions. Nationalism is a particularly important ideology in Mexico and South Korea. Because of frequent foreign interventions since the Mexican Revolution, the protection of national sovereignty became one of the most important principles for the ruling coalition. Following the Japanese colonialism, nationalism also became one of

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see Robert Axelrod, *Conflict of Interest* (Chicago: Markham, 1970).

fundamental ideologies in Korea. Moreover, Lee's and Park's ruling coalitions consistently mobilized nationalism to cultivate the legitimacy of their authoritarian rules.

However, as Chung Joo Young argues, local ownership has produced its own economic consequences. For example, the development of domestic models would hardly have been possible without local ownership. Because of scale economies, multinational auto manufacturers have hardly produced specific models for the domestic market of Third World countries. In Mexico, there has not been a true domestic model except for some variations of the existing models. In Korea, Hyundai developed its domestic model, while Daewoo, a joint-venture with GM, did not develop a domestic model until Daewoo's imported models could not compete with the domestic models. Even though Daewoo recently developed a new model--Leman--for the domestic market, this model is still based on the world sourcing strategy of GM rather than on the Korean automobile market.

Economies of scale were required as an economic prerequisite for the efficient and rapid growth of such a capital-intensive industry in a country with a small and underdeveloped domestic market. Especially, technocrats in both countries have strenuously emphasized economies of scale in the industry. Its large initial investment for automobile manufacturing and the substantial risk of failure

drove technocrats and businessmen to achieve sufficient economies of scale in production and sales.

Therefore, the establishment of national champions, tied to local ownership and sufficient economies of scale, became a practical goal of the development strategies of both ruling coalitions in the stage of introduction. In Mexico, the first initiative for the establishment of national champions came from Mexican technocrats in the form of the NAFIN report in 1960. The four major goals--economies of scale, vertical integration, standardization, and Mexicanization--in Mexico's auto market that was overcrowded by twelve assemblers and twenty-nine importers were promulgated in the 1962 Auto Decree. The second initiative for the establishment of national champions came from the private sector in the form of Azcárraga's merger plan in the late 1960s. This merger plan aimed to merge four Mexican auto firms into a single Mexican-owned firm affiliated with Chrysler.

Both initiatives failed to establish national champions in Mexico. As shown in the discussion of the Mexican case, four Mexican auto firms--Automex, DINA, Promexa, and VAM--fitted the general scheme of the first initiative. However, not only those four firms but also five other firms were approved as automobile manufacturers under the 1962 decree. Moreover, Azcárraga's merger plan was replaced with Ford's export plan that was aimed at maintaining the

existing structure of Mexico's automobile industry. As a result, a strong candidate for national champion--Automex--collapsed and was sold to Chrysler in 1971.

Various reasons can be offered for explaining these failures: pressures from foreign governments, opposition from multinational corporations, corruption, the incompetence of technocrats and businessmen, the lack of capital and technology, or even cultural traits. However, this list of reasons is not helpful in correctly understanding the cases. This study cautions against two methodological pitfalls. First, the causes and effects should be distinguished clearly. Second, false causation should be avoided in the comparison of the Mexican case with the Korean case.

For example, the impact of external factors such as opposition from foreign governments and multinational corporations should not be overemphasized. In the case of the 1962 decree, as Bennett and Sharpe argue, there were considerable alternatives to resisting these often quoted "obstacles" to late industrialization. Mexicanization does not necessarily mean the exclusion of all multinational corporations. One multinational corporation can be approved while another is rejected. Therefore, multinational firms might be played off one against another, thereby undermining the foreign governments' assertions of discrimination

against foreign investment by its nationals.[10] Or, the initiative of private firms could be adopted, as in the negotiation between Hyundai and Ford. All joint ventures were legally allowed but individual firms rejected the terms of the agreements in those joint ventures.[11] As a result, Ford could not advance in Korea in the early 1970s.

The low capacity of the Mexican state as a major factor seems to be controversial. If state capacity is defined as the ability of states to assert control over policy outcomes,[12] Korean technocrats probably committed more policy failures than Mexican technocrats. Korean technocrats promulgated more decrees to establish national champions than Mexican technocrats: the 1964 decree for Sinjin, the 1969 decree for Sinjin, Asea, and Hyundai, the 1972 decree for Hyundai, Kia, and GM-Korea, and the 1980 decree for Hyundai. For each decree, there were different candidates for national champions. Only the 1972 decree fulfilled its policy goals. However, these frequent policy failures by the Korean technocrats do not necessarily mean a lower state capacity in the Korean government than in the

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10. Bennett and Sharpe, *Transnational Corporations Versus the State*, 111-112.
11. It is controversial whether this type of consensual rejection against foreign goods and capital is a kind of non-tariff barrier or not.
12. G. John Ikenberry, "The State and Oil Shocks," *International Organization* 40 (Winter 1986), 133. Ikenberry's definition is largely tautological because the capacity of the state is usually expressed by policy outcomes.

Mexican government, but are a function of the number of efforts within the constraints of similar policy environments.

The success of Hyundai's *Pony* seems to mirror the reverse side of the Mexican failure of national champion-making. In fact, this case provides a good example of how a latecomer overcomes various obstacles of late industrialization and creates a national champion. First, the coalitional consensus regarding developmental goals among major members of the ruling coalition is important. After the failed negotiation of the joint venture with Ford, Hyundai decided to develop its own model in March 1973. Two months before, Park, who was under heavy pressures to end his personal dictatorship not only from anti-ruling coalition forces but also from his own ruling party, had unveiled the Declaration of Heavy-Chemical Industrialization against the dubious "external threats" caused by the fall of South Vietnam. As usual, however, Hyundai's plan for the development of the domestic model was soon incorporated into the main part of the national heavy-chemical industrialization plan.

In terms of the coalitional consensus for developmental goals, the Mexican ruling coalition was in considerable confusion between the populist legitimacy and capitalist development. Even though major state elites and businessmen agreed about the necessity for the establishment of national

champions, the Mexican state was reluctant to elevate Automex to a national champion. Rather, the populist attack against Azcárraga's merger plan gained support within the government. Any other alternative--DINA's old proposal for a public national champion, for example--was possible if a private firm was barred from being a national champion. However, DINA's proposal was not seriously considered as an alternative to Automex's proposal and, instead, Ford's export plan was accepted, which must have been the worst option for the establishment of a national champion.

Second, the coalitional consensus regarding policy means is also important. Under Park's ruling coalition, major domestic entrepreneurs enjoyed various incentives and subsidies for their automobile manufacturing. However, these incentives and subsidies were not enough to support such a high capital-intensive industrialization as automobile manufacturing. In the early 1970s, major auto firms such as Sinjin and Hyundai were ailing with huge corporate debts. A dramatic move by the Korean state followed the demands from the business groups. Preempting the demands and pressures from the Korean Business Association, Park promulgated an emergency order to freeze all curb markets in August 1972. Although most manufacturing firms were major beneficiaries of the order, Hyundai was by far the leading beneficiary. With that order, Hyundai was freed from the heavy debt trap of several

billion Won and accumulated capital for the development of its own model.

A comparison between Park's order of freezing the curb market and López Portillo's order of bank nationalization is useful for understanding the nature of Park's order. Both orders were dramatic, sudden and dictatorial. Both policies restricted the property rights of individuals and strengthened the state's control over the private financial system. However, the former was designed to release the private sector from its financial crisis while the latter was meant to reduce the role of the private sector in the national economy. As a result, the former consolidated the political support of the private sector for Park's regime while the latter seriously undermined the political support of the private sector for the Mexican regime.

Finally, the "timing factor" should be considered. The basic difference between the two cases is the existence of the multinational firms when the respective ruling coalitions began their automobile industrialization. Korea's ruling coalition did not encounter the pressures from multinational corporations in the early 1960s, while Mexico's ruling coalition already had to cope with the external pressures. In the Mexican case, even the 1962 decree might have had a better chance than Azcárraga's merger plan in the late 1960s. In the early 1960s, Ford and GM maintained only small assembly plants. However, after

the 1962 decree, major multinational corporations invested a bulk of capital in order to establish manufacturing plants. It seemed contradictory and unfair to the multinational corporations that the Mexican government asked multinationals to discard their huge investments that the government had approved only a few years ago.

Just as in the Mexican case, General Chun's order for the merger of the two largest auto firms in Korea--Hyundai and GM-Korea--into one firm--a new Hyundai--in 1980 was unsuccessful. In 1972, GM was enthusiastically invited into South Korea as a sign of U.S.'s concern to Korea's national security. However, with changing political climate, the new ruler ordered GM to get out or minimize its role in the domestic market. GM was clearly reluctant to comply with this order. In the end, the merger order did not materialize because of the disagreement between Hyundai and GM-Korea over the terms of the join venture.

Therefore, these findings partly confirm Gerschenkron's thesis that the later industrialization occurs, the more coalitional consensus is needed. Gerschenkron points out, "Closely related to the preceding but enormously more momentous in its effects is the fact that great delays in industrialization tend to allow time for social tension to develop and to assume sinister proportions. As a mild example, the case of Mexico may be cited, where the established banks have been reluctant to cooperate in

industrialization activities that are sponsored by a government whose radical hue they distrust."[13]

2.3. Export Promotion

The success or failure of national champions in the stage of introduction had an enduring impact upon various patterns of the industry in both countries. Indeed, vertical integration, local contents, economies of scale and domestic model were far better in the Korean case with its national champion than in the Mexican case.[14] However, other issues such as export promotion seem to be irrelevant to the existence of national champions. In fact, the records of export promotion were spectacular in both countries. Is it true that there is no causal relationship between export patterns and the existence of national champions?

The Mexican and Korean governments were concerned about their balance-of-payment problems and tried to reduce their trade deficits. Trade balance is particularly important for such heavily indebted countries as Mexico and Korea. Since the mid-1970s, the automobile industry has been

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13. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge: Harvard University Press, 1966), 28.
14. In fact, it is tautological because the existence of national champions means high local contents, larger economies of scale, and an increased possibility of domestic models.

selected as a candidate that would contribute not only to the sector itself but also to the national balance-of-payment.

Such expectations for the trade surplus in the industry was largely fulfilled in the 1980s. After a long history of trade deficits, the automobile sector in both countries began to show considerable trade surplus beginning in the early 1980s. The volume of trade surplus in the sector also rapidly increased. For example, Mexico showed a surplus of $342 million and Korea $112 million in 1983. In 1987, however, the trade balance in the automobile sector showed a surplus of $1.9 billion in Mexico and $2.7 billion in Korea. These figures are equivalent to about 23.0 percent of total trade surplus in Mexico and about 44.2 percent in Korea.

In detail, however, the two countries show different patterns in the trade of vehicles and parts. First, Mexico developed a more balanced trade of vehicles and parts than Korea. Since 1983, Mexico has shown a trade surplus in both sectors while Korea has developed the export of vehicles rather than parts. Second, the export of vehicles in Mexico began only recently, while Korea has the longer record of motor vehicle exports. Mexico's motor vehicle exports volume was below 80,000 vehicles until 1986 but suddenly increased to over 160,000 vehicles in 1988. This sudden increase of automobiles from Mexico is due to Ford's

newfound commitment to automobile export after its long reluctance to comply with the export promotion policies of the Mexican government. Korea's motor vehicle exports, however, constantly increased from 52,350 vehicles in 1984 to 572,000 vehicles in 1988. Third, the export of motor vehicles in Mexico was equally shared by major foreign subsidiaries while that of Korea was dominated by Hyundai. For example, in 1988 the share of Mexico's motor vehicle exports by companies ranged from 11.5 percent (Nissan) to 37.9 percent (Ford). In contrast, motor vehicle exports in Korea was dominated by Hyundai (71.3 percent). The exports of two other firms were below 15 percent each.[15]

This detailed analysis again confirms that the denationalization of Mexico's automobile industry in the stage of introduction is one of the most important factors that influenced the pattern of the industry in the stage of consolidation. The mixed performance of export promotion policies in Mexico's auto industry indicates the successes and limits of a latecomer's development strategy where the latecomer does not have national champions. Since 1972, the Mexican government has emphasized export promotion to improve the balance-of-payment in the industry. However, the increase in automobile export was made possible only recently, after a change in the multinational corporations's

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15. Until 1986, Hyundai had produced from 75 percent to 97 percent of the exported vehicles.

strategy. In the case of Korea, the factors affecting automobile export were not the change in the multinational corporations's strategy but the competence of Hyundai's international marketing and the international market conditions.

Due to various reasons such as technological development, low wages, environmental control, and rising protectionism, multinational corporations began to prefer offshore manufacturing for the international market in the 1980s. This preference for offshore manufacturing is harmonious with their doctrine of domicile. It should be noted that this strategy of the multinational corporations was what Hyundai proposed to Ford in their second phase of negotiation for a joint venture in the early 1970s. In that case, however, Ford did not show any interest as it did later in the case of Mexico. However, Ford made a similar contract with Kia fifteen years later in Korea as Ford began to manufacture automobiles for export in Mexico. Ford's strategy for offshore manufacturing in both countries has been chronologically consistent.

2.4. Labor Control

The last hypothesis of this study is about the changing issues in the different industrial stages. For example, the establishment of a national champion was a dominant

issue in the stage of introduction. Export promotion was a passing issue in both stages. Labor control became a particularly important issue in the stage of consolidation. This study finds several reasons why labor control became a particularly important issue in that stage.

First, once the structure of the industry is consolidated, low labor cost is the remaining major issue. Since the early 1970s, on the one hand, there were no major changes in the ownership structure and the number of firms in both countries. From that period, even foreign subsidiaries in Mexico were struggling against the demand for export promotion from the Mexican government rather than against the populist threat of exclusion from the Mexican market. On the other hand, a disciplined labor force is always important in automobile manufacturing even though direct labor costs are a relatively small proportion of the total manufacturing costs, as discussed before.

Second, the collective power of the auto workers grows as the number of auto workers increases. In the early stage of CKD assembly, the auto industry in both countries did not have more than several hundred workers in the auto plants. However, the number of auto workers has rapidly increased since the beginning of automobile manufacturing. Since the mid-1980s, Korean automobile plants have had more than 55,000 workers and Mexican automobile plants have had more than 45,000 workers. Even though these numbers are very

large in terms of the size of the work force in an industry, by the very nature of the industry, each plant consists of a considerably homogeneous and strong work force of 5,000 workers to 25,000 workers. As a result, auto workers tend to gain significant collective power when they are unionized.

Third, anti-ruling coalition forces became increasingly involved in labor disputes when the ruling coalition did not successfully solve the contradictions in the workers' conditions. As shown in the cases of the Daewoo and GM strikes, there were various contradictions and problems that had to be solved regarding the labor process in the industry. As the ruling coalitions--particularly, the auto firms--in both countries failed to solve the contradictions, the anti-ruling coalition forces became involved in the labor movement. Labor activists from other labor unions, student activists, and middle class organizations educated and encouraged auto workers to unionize for the improvement of their collective power.

Three major means of labor control were identified: physical, legal-institutional, and ideological. As discussed before, the means which the ruling coalitions adopted were interrelated with the development strategies of the state and the auto firms, and the labor movement. For example, the Korean ruling coalition tended to rely more upon physical means rather than legal-institutional and

ideological means, while the Mexican ruling coalition tended to rely more upon legal-institutional and ideological means rather than physical means. The brutality of the Korean labor control, called "bloody Taylorism" by the French regulation school, was the historical choice made by Park's militarized ruling coalition among various alternatives rather than a prerequisite of export promotion policies or "industrial deepening." As shown in the most dramatic case in this study, Park's heavy chemical industrialization drive was designed to provide the legitimate goal for his renewed authoritarian rule rather than cope with any economic structural problems, even though there were still various developmental alternatives at that time.[16]

3. Conclusion

Since the early 1960s, Korea and Mexico have pursued the rapid development of the automobile industry. The ruling coalitions of these two countries made choices for automobile industrialization in the form of various governmental and corporate policies. These choices, often called development strategies, are constrained by domestic and international structures, which are economic, political,

16. For the alternatives, see Hyug Baeg Im, "The Rise of Bureaucratic Authoritarianism in South Korea," *World Politics* 39 (January 1987), 256-257.

social, and sometimes cultural. This study focuses upon how and why two countries show different patterns of development strategies and automobile industrialization.

The choices and the structures, of course, are interrelated in the manner of historical dialectics: the current structures are the historical accumulation of past choices as shown in our cases.[17] For example, the export promotion policy of the Mexican state since the 1970s is controlled by the interests of multinational automobile corporations. The domination of Mexico's automobile industry by multinational corporations in this stage of consolidation, however, is the result of Mexico's failure to form a coalitional consensus for the establishment of a national champion in the stage of introduction. In the 1960s, for example, Mexico's ruling coalition chose the export plan rather than the merger plan. This choice resulted in the collapse of Automex--a candidate for national champion in Mexico.

The pattern of the recent automobile export and market structure in Korea is dominated by Hyundai--a national champion in Korea--not only because of its dominant share in these sectors but also because of its leading role in the

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17. Cf. Marx's famous maxim: "Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past." Karl Marx, *The 18th Brumaire of Louis Bonaparte* (New York: International Publishers, 1869, 1984), 15.

defensive investment strategy of other firms. The establishment of Hyundai as a national champion was made possible by the coalitional consensus between Hyundai's entrepreneurs and the Korean state. The corporate strategy of Hyundai's Chung brothers is distinguished as the most important factor that decided the fate of Hyundai, especially in the negotiation with Ford and the development of the *Pony* and *Pony Excel*.

The structure of domestic ruling coalitions as a major unit of analysis is used here to understand the whole picture of historical interaction in the process of automobile industrialization. A certain ruling coalition has its own structural problems. For example, the Mexican ruling coalition has to contend with the populist dilemma between its capitalist development strategy and populist legitimacy. The choice of the export plan by Mexico's ruling coalition in the late 1960s, which led to collapse of Automex, was an outcome of the populist dilemma. In other words, the considerable discrepancy between the ruling structure and the development strategy in Mexico resulted in the collapse of a national champion candidate. In the late 1980s, the Mexican ruling coalition has apparently chosen to give up its populist legitimacy. This choice does not only reflect the changing structure of the coalition but also will accelerate major changes within the coalition.

The findings of this study provide some significant implications about the relationship between capitalism and late industrialization. Latecomers have to confront not only various constraints but also a few opportunities. Latecomers often lack the capital and technology for "industrial deepening" such as automobile industrialization. Powerful multinational corporations already control the international automobile regime. In the case of Korea, however, the open and competitive international automobile regime was willing to provide the capital and technology for the development of even internationally competitive domestic models. Excessive determinism based on the world system could thus be avoided. For example, the option of national champions is not specific to Japan or South Korea. This option is still open to many latecomers if they are able to establish a coalitional consensus for national champions.

Another implication of this study is the relationship between late industrialization and democratization. If democratization is defined as a political process under which a regime increases its accountability to its people, then late industrialization is not necessarily competing with democratization.[18] Simply, coalitional consensus is

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18. See Richard L. Sklar, "Developmental Democracy," *Comparative Studies in Society and History* 29 (October 1987): 686-714; Jong Gook Back, Politics of Democratization in Mexico and South Korea, A Paper presented at the 1989 Annual Meeting of the Western Political Science Association, March 1989, Salt Lake City, Utah.

not a function of authoritarianism but a function of the discrepancy between the ruling structure and its development strategy. Even though this study does not expand its realm of research into that topic, the proposition of better coalitional consensus in more democratic regimes is still worth putting to the test. In conclusion, what this study shows is that late industrialization is not a determined process under a certain set of rules but an open process for various alternative development strategies.

Chronology

[Mexico]

Year	Events
1958.12	Adolfo Lopez Mateos became President of Mexico.
1959	Ministry of Industry and Commerce reorganized.
1959	Nationalization of the electric-power industry.
1960	Nacional Financiera Report about Automobile Industry.
1960.4	Ford report was presented.
1962	Ruben Jaramillo (a land reform activist) and his family were killed by the army.
1962	Strike in DINA.
1962.8	First Automobile decree promulgated. Nine firms were approved; Ford Motor Co. (founded in 1925), GM de Mexico(1935), Fabricas Auto-Mex (1938), International Harvester (1944), Willys Mexicana (1946), Diesel Nacional(1951), Representaciones Delta (1955), Planta Reo de Mexico(1955), and Promexa(1961).
1963	Impulsora Mexicana Automotriz changed its name to Fabrica Nacional de Automobiles, S.A. (FANASA).
1963	Planta Reo de Mexico collapsed.
1963	Vehiculos Automotores Mexicanos (Willys) sold its 40% equity to American Motors, and 60% to Mexican government.
1963	CCI (Confederacion Campesina Independiente) formed.
1964.1	Promexa sold its 100% equity to Volkswagen. Its name was changed to Volkswagen de Mexico.
1964	Nissan Mexicana opened.

1964.12	Gustavo Diaz Ordaz becomes President of Mexico.
1964.12	Diaz Ordaz appointed Campos Salas as Minister of Industry and Commerce.
1965	Strike in GM de Mexico.
1968	Chrysler increased its equity of Fabricas Auto-Mex to 45%.
1968-69	"Azcarraga/Chrysler" Plan (merger plan) and "Campos/Ford" Plan (export plan) emerged.
1968.10	Tlatelolco massacre.
1968.10	Olymphic Games in Mexico.
1969	Impulsora Mexicana Automotriz (later, FANASA) collapsed. Plants sold to DINA (DINA-MAN & DINA-Rockwell).
1969.10	New automobile policy (Acuerdo) was set.
1970	Strike in Fabricas Auto-Mex.
1970.12	Luis Echeverria Alvarez became President of Mexico.
1971	Chrysler increased the equity of Fabricas Auto-Mex to 99% (renamed to Chrysler de Mexico).
1972.10	Second Auto-Decree promulgated.
1973	Strike in GM de Mexico.
1973.9	Eugenio Garza Sada (a leading figure of the Monterry group) was assassinated.
1974	Strikes in DINA, Nissan, and Volkswagen.
1975	Strike in GM.
1975	All business organizations, except CANACINTRA, formed CCE (Consejo Coordinador Empreserial).
1976	Strikes in DINA, Nissan, Volkswagen, GM, and Ford.
1976.3	Third Auto-Decree (draft) circulated.
1976.7	Excelsior's coup (the ouster of Julio Scherer Garcia and his supporters).

1976.9 Devaluation of Peso.

1976.12 Jose Lopez Portillo became President of Mexico.

1977 Electoral Reform.

1977 Strikes in DINA, Volkswagen, and GM.

1977 Mexican government increased its equity of VAM to 94%.

1977.6 Third Auto-Decree (final) promulgated.

1978 Strike in DINA.

1978 Renault acquired 40% equity of DINA (renamed to Renault de Mexico). DINA continued to produce only trucks.

1980.2 Strike in GM.

1980.8 Mexican government publicated its "Engine Resolution."

1981 Mexico joined France in a declaration recognizing FMLN in El Salvador as a representative political force.

1982.9 Nationalization of Mexican banks.

1982.12 VAM was sold to Renault.

1982.12 Miguel de la Madrid became President of Mexico.

1983.5 National Development Plan (PND: 1983-1988) released.

1983.9 Fouth Auto-Decree promulgated.

1985.11 The earthquake in Mexico City.

1987 Strikes in Ford, Nissan, VW, and DINA.

1987 Renault closed auto plants in Mexico.

1988 Strikes in VW, GM, Ford, and Nissan.

1988.5 DINA sold its passenger vehicle plants to Chrysler.

1988.7 **Carlos Salinas de Gortari was elected as President of Mexico with 50.36 percent of total vote.**

[Korea]

Year	Events
1961.5	Military Coup d'etat of Park Chung Hee.
1961.6	Korean Central Intelligence Agency founded.
1961.7	Geongje'gihoegwon (Economic Planing Board) founded.
1961.8	Han'guk Gyeongjein Heobhoe (Korean Businessmen Association:KBA) founded.
1962.1	First National Plan of Economic Development released.
1962.1	Foundation of Saenara Motor Corporation
1962.4	Five-Year Motor Vehicle Industry Plan; Three assembly firms approved: Sibal (large cars), Saenara (small and medium cars), and Choseon Machine Manufacturing (diesel cars); cancelled in 1963.
1962.5	Promulgation of Motor Vehicle Industry Protection Law. (cancelled in December 1967).
1963.10	Presidential Election between Park Chung Hee and Yun Bo Sun.
1963.12	Guideline for Motor Vehicle Industry Unification; ten assemply firms merged into one firm; cancelled in August, 1964.
1964.2	The Saenara scandal was published.
1964.6	National Martial Law promulgated.
1964.8	A General Plan for Motor Vehicle Industry Promotion promulgated; Sinjin purchased Saenara's assembly plants: vertical integration of 75 parts firms into one assembly line: technological cooperation of Toyota.
1965.1	Dispatch of Korean army to Vietnam.

1965.6 Diplomatic relation between Korea and Japan was normalized.

1965.7 Foundation of Asea Motor Corporation.

1966.7 Second National Plan of Economic Development released.

1967.4 Regulation for Motor Vehicle Manufacturing Industry promulgated.

1967.12 Hyundae founded.

1968 KBA renamed to Jeon'gug Gyeong'jein Yeonhabhoe (National Businessmen Association :NBA).

1968.1 North Korean commandos attacked Seoul.

1968.2 Seoul-Pusan Highway Construction Begins.

1968.2 CKD agreement between Hyundai and Ford.

1969.12 The Basic Plan for Motor Vehicle Industry Promotion released. Three stages for domestic production of motor vehicles: I (67-69), II (70-73), and III (73-76).

1971.4 Presidential Election between Park Chung Hee and Kim Dae Jung. Park won in suspicion of fraud.

1971.10 Martial Law in Seoul.

1971.12 President Park declared a national emergency.

1972.1 Executive Order for Shut-Down Small-Size Motor Vehicle Manufcturers; Four firms approved: Sinjin, Hyundai, Asea, and Kia.

1972.6 Foundation of GM-Korea By Joint Investment between GM and Sinjin Motor Corporation(50:50).

1972.8 Excutive Order for Freezing Curb Market.

1972.10 [Yushin Coup d'etat.]

1973.1 President Park declared "Promotion of Heavy-Chemical Industry."

1973.1 Licence of Hyundai's cooperation with Ford was cancelled.

1973.4 List of Anti-national Businessmen released.

1973.10 Permition for Hyundai's technology import of Car and Engine Design.

1974.1 Excutive Order for National Emergency I & II promulgated.

1974 The Long-term Plan for Motor Vehicle Industry Development.

1975.1 Dong-A Ilbo accident.

1976.2 Hyundai produced the first Korean-owned model car: Pony.

1976.11 GMK changed its name to Saehan.

1977.11 Car industry was selected as a strategic sector for exports.

1978.7 Daewoo Corporation undertook Saehan.

1979.10 Busan-Masan Uprising.

1979.10 Assassination of President Park.

1980.5 Military Coup d'etat of Chun Doo Hwan and Gwangju Uprisng.

1980.8 Executive Order for Motor Vehicle Industry Unification; Merger of Hyundai and Daewoo: Specialization of Kia, Asea, Dong-a, and Sinjin.

1981.2 Executive Order for Motor Vehicle Industry Rationalization; Hyundai and Daewoo approved as passenger car, bus and trucks producers; A merger of Kia(Asea) and Dong-a for bus and trucks only; Sinjin for Jeeps only.

1982.7 Merger of Kia and Dong-A cancelled.

1982.3 Hyundai sold its 10% equity to Mitsubishi.

1983.11 Car imports liberalized.

1984.11	Strikes in Daewoo.
1985	Samsung/Chrysler plan emerged and rejected.
1985.4	Hyundai founded Hyundai Motors of America (HMA).
1985.7	Kia particiapted in "Division of Labor in Production" Agreement with Mazda and Ford.
1985.8	Agreement of production between Daewoo and Iszu.
1985.12	Strike in Daewoo.
1986.1	Hyundai began to export Excel to U.S.A.
1987.1	Rationalization of Car Industry promulgated: no restrictions on models.
1987.6	People's uprising and the Constitution was revised.
1987	Strikes in Daewoo, Kia, and Hyundai.
1987.12	Roh Tae Woo was elected as President of Korea with 35.98 percent of total vote.
1988	Strikes in Daewoo and Hyundai.

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