

Domestic Politics and Foreign Investment:  
British Development of Mexican Petroleum

Jonathan C. Brown  
Department of History  
University of Texas at Austin

Paper No. 87-02

DOMESTIC POLITICS AND FOREIGN INVESTMENT: BRITISH  
DEVELOPMENT OF MEXICAN PETROLEUM

Jonathan C. Brown<sup>1</sup>

The University of Texas at Austin

How do host country politics affect foreign business interests? This question is so complex that, while recognizing some influence, historians still concentrate on profit-making and market forces in order to analyze foreign investment, the growth of the firm, and the economic performance of less-developed countries. Those concerned more with the reasons for business expansion at the source rather than at the destination seldom consider the relationship between host-country politics and foreign investment.<sup>2</sup> Others who do ponder the relationship may emphasize either the domination of local elites by foreign interests or the role of the state in promoting development. Scholarly analysis of the 'politics of modernization' most often centers on economic policies. The tendency is to assume that economic forces in and of themselves explain economic performance - whether one sees that performance in positive or pathological terms. The competition for domestic political power becomes a mere by-product of the profit-making (or capital accumulation) of the foreigners.<sup>3</sup> In other words, economic policy is mistaken for politics. The first represents the government's priorities for

the spending of scarce public capital and the other, politics, is the struggle among power contenders to gain and maintain control of the government.

Latin Americanists of late have been intrigued by the exact relationship between domestic politics, economic policy, and development. They are finding that the half-century prior to the first world was a critical period in which foreign investment contributed to the first intensive process of economic modernization in Latin America.<sup>4</sup> Questions remain. Exactly how much of the outcome of this development process can be attributed to the external forces, represented by foreign investment and technology, and how much by internal forces, represented by economic policy and sheer political will? Can we scholars distinguish the outcome of policy from that of politics?

This article proposes that domestic politicians struggling for power within host countries have had a more important role in shaping their modern economic environment than has been reckoned. This is not to say their control over the course of capitalist development is not ambiguous. The results of their activity (politics) often differ from their intended goals (policies), and the needs of political accommodation even in authoritarian political systems may undermine the most appropriate policies. Latin American economies in particular tend to be highly politicized. Foreign businessmen, therefore, owe much of their success and failure not only to their manipulation of production and markets but also to their individual relationships with domestic politicians.

How else can one explain the success of Sir Weetman Pearson in developing the oil business of Mexico during the regime of Porfirio Díaz? A

British construction engineer with no prior expertise in petroleum, Sir Weetman ultimately formed the largest foreign oil company in Mexico. His success cannot be explained entirely in terms of technological knowhow, access to markets and capital, managerial competence, or entrepreneurial genius - the normal criteria used by business historians. Such an explanation actually would predict his failure, for Pearson's competitors had more of these marketplace advantages. Do Mexican economic policies account for his success? At the time, economic policy encouraged all foreign investment without discriminating as to the source. Actually, the records of Sir Weetman's company, S. Pearson & Sons, Ltd., and British and American diplomatic correspondence suggests another hypothesis.

In part, British success in the Mexican oil industry was willed by influential Mexicans engaged in a nuanced and delicate political game. They desired to utilize economic development to enhance their internal political control yet without seeming to be dominated (and thereby discredited) by American businessmen. Politicians surrounding Mexican President Porfirio Díaz encouraged all foreign oilmen but they promoted Pearson's interests above others. This political support - in combination with Sir Weetman's business acumen - enabled this British entrepreneur successfully to challenge better-placed American competitors.

### THE POLITICS OF DEVELOPMENT

According to strictly business logic, American businessmen such as Henry Clay Pierce and Edward L. Doheny ought to have dominated Mexico's early oil industry. After all, the United States shared 1,952 miles of border

with Mexico. ("Poor Mexico," Porfirio Díaz supposedly remarked, "so far from God and so close to the United States.") American capital already dominated the railways, mining, and public utility industries, all of which greatly stimulated domestic consumption of oil products. When Standard Oil began exporting Pennsylvania petroleum products, Mexico along with Canada and Cuba represented the nearest foreign markets. An American marketing firm with Standard Oil affiliation, the Waters-Pierce Oil Company of St. Louis was a major oil market in the lower Middle-Western states of the United States. Waters-Pierce had developed a virtual sales monopoly in Mexico as early as the 1880s. Aided by Standard Oil, Henry Clay Pierce had even established refineries in Mexico to process imported crude oil. He attempted to solidify his control of the market by purchasing interest in railways that transported and consumed oil products.<sup>5</sup>

Doheny also was an experienced American oilman, in this case, an independent producer, before he entered Mexico. An inveterate prospector, Doheny left the New Mexican mining region in 1892 and brought in the Los Angeles oilfield. He dug his maiden oil well alongside the Los Angeles tarpits then entered the Bakersfield and Santa Maria fields. Searching for markets, Doheny successfully introduced the petroleum-fueled steam engine to the Southern Pacific and Santa Fe railroads. A Santa Fe executive who had constructed Mexican railways brought Doheny to Mexico in 1901 to investigate oil exudes along the right-of-way west of Tampico. He subsequently discovered the country's first oil field. But El Ebano yielded a modest amount of thick crude oil that neither challenged Pierce's domestic sales monopoly nor interested foreign buyers. He used it to pave Mexico's streets.<sup>6</sup> Throughout the remainder of the first decade of the twentieth

century, meanwhile, Doheny and his organization searched for the big oilfield in a race to provide domestic fuel oil for a Mexican railway system that ran on imported coal. Both Pierce and Doheny typify what Mira Wilkins has called the 'spillover' effect of American business expansion.<sup>7</sup> They attempted to make profits in foreign countries almost as an extension of their domestic business activity.

Like other foreign businessmen in the country, Pierce and Doheny benefitted from the generally favorable investment climate provided by the economic policies of the long-standing Díaz regime. In 1877, Porfirio Díaz first came to power a Mexico immiserated by a lengthy series of civil wars, foreign invasions, losses of national territory, and political instability. Díaz benefitted from a major period of national reconstruction begun by a coalition of Liberals under the leadership of Benito Juárez. Consequently, the dominant philosophical current emphasized material progress. Positivism predicted that the progressive age, dominated by a benevolent despot, would herald the end of national weakness and religious obscurantism and would unleash the Promethean forces of wealth. Having turned over government peacefully to a successor for one term, Díaz in 1884 was reelected to a presidential post that he would not give up until forced from office in 1911. The long period of political stability, called the Porfiriato, proved one of rapid economic development responding to increasingly massive infusions of foreign capital. By 1911, the country had attracted an estimated 3.4 billion pesos (approximately \$1.7 billion) in direct investment and foreign loans. Mexican national income recovered to its pre-independence levels and then grew at an unprecedented annual rate of 2.3 percent between 1877 and 1910.<sup>8</sup> Many Mexicans grew to assume that Porfirio Díaz alone had been

responsible for reversing the nation's economic decline. It was a misconception that suited Diaz's political aspirations.

For two generations, economic prosperity served the private interests of Mexican political elites and the more narrow political interests of Porfirio Diaz himself. His was an authoritarian regime, operating under the ostensibly democratic Constitution of 1857. As was the Mexican custom, vote fraud and state political machines dominated by local elites kept Diaz in power, while he used the nation's economic assets for his own political cause. President Diaz also took advantage of the expanding national treasury to centralize national political power. He expanded the bureaucracy, used federal patronage to placate restive state politicians throughout the nation.<sup>9</sup> He succeeded in controlling the election and appointments of governors, congressmen, and *jefes politicos* (district political chiefs). Influential persons loyal to Diaz were permitted to buy public lands, organize government-protected businesses, serve as agents and attorneys of foreign interests, resell government railway and public works concessions to foreigners, speculate in real estate, form banks and brokerage houses, and engage in racketeering.<sup>10</sup> Porfirio Diaz enhanced his own political longevity by being indispensable to the economic prosperity on whose success of these endeavors depended. Everyone knew that foreign capital was responsible for the prosperity. His campaign propaganda even invoked the favorable opinion that foreign businessmen had of Diaz. "The capitalists and great bankers of the world will find in the reelection [of Diaz] another proof of the stability of Mexican political institutions as well as of the sane judgement of the Mexican people," a Mexico City newspaper editorialized during the 1892 campaign.<sup>11</sup>

The president's closest supporters came to represent the foreigners in Mexico. Attorneys Pablo Macedo, Pablo Martínez del Río, and Joaquín de Casasús, who acted as the agents of oilmen Pierce and Doheny, enjoyed access to the highest public officials in the land. After all, they were close friends of Díaz himself.<sup>12</sup> His permissive attitude toward influence-peddling among his supporters permitted Díaz, a former army general, to rule with a minimum of force. The army remained small, in part to prevent rise of a military competitor for power; and development of the rural police balanced the influence of the federal and state military forces. Díaz made certain that both army and police officers were indolently corrupt. Para-military thugs harassed opposition politicians; newspapers were subsidized by the government.<sup>13</sup> Corruption, patronage, and government contracts enhanced both Díaz's political power and the centralization of the state. They, in turn, depended upon economic expansion, which relied upon foreign investment.

While the liberals under Díaz encouraged investment, one should not conclude that foreign capitalists received a *carte blanche* to manipulate the Mexican economy and to pursue their own profits. Díaz's political goals had to be served as well. Part of the rationale for development had to do with national security, to be able to resist further conquest of Mexican territory by the United States.<sup>14</sup> Given Mexico's loss of territory to its neighbor, Díaz risked political suicide if it appeared that the nation had become too dependent on the Americans. His administration prevented the Guggenheim interests from moving into central Mexico after having consolidated much of the smelting industry in the North. The president consistently promoted British railway interests over those of the Americans, but powerful state political interests often championed American interests as a barrier to

federal power. Northerners from Monterrey and San Luis Potosí, who in any case resented Díaz, a Southerner, in 1880 resisted the President's attempts to grant the railway concession to a British group. In the interests of turning power over peacefully to his successor, Díaz gave in, so that a defeated presidential hopeful from Monterrey, General Gerónimo Treviño, benefitted financially from selling the concession to American interests.<sup>15</sup> Ultimately, the central government of Díaz feared that, despite its best efforts, American 'monopolists' would gain control of Mexico's railway system. His powerful finance secretary, José Yves Limantour, began purchasing railways and consolidating a national railway system under government ownership. Between 1902 and 1910, Limantour borrowed in France so that the state could buy majority stock in several separate lines. Eventually, Limantour consolidated two-thirds of Mexico's steam railways into the government-owned Ferrocarriles Nacionales de México.<sup>16</sup> The railway nationalization was as much a political as an economic measure.

The government's concern about American control of the older railway and mining sectors also produced an ambivalent attitude among Mexican officials toward American oilmen. On the one hand, the liberals had revised a number of colonial mining laws to permit private ownership of subsoil minerals. On the other, the government retained the right to regulate mining (and petroleum) industries and revoke a company's title. The legislature in 1901 placed under federal control those mineral deposits found on 'national lands,' defined on vacant land, lakes, lagoons, and riverbeds.<sup>17</sup> Mexico's government found it expedient to utilize its legal and political powers to prevent American interests from controlling the Mexican oil industry, especially fearing the Standard Oil 'trust'. Finance Secretary Limantour

attempted to undermine Doheny's early exploration, even to the point of forcing the resignation of a government geologist who had reported enthusiastically about Doheny's oil prospects. When this failed, Diaz simply asked Doheny never to sell his Mexican oil assets to the Standard Oil Company.<sup>18</sup> Ultimately, the political expediency of the Diaz politicians turned from opposing American oilmen outright, a plan that threatened to alienate all foreign investors, toward supporting competition from British interests. Mexicans were aware of the delicate connection between economics and politics in their nation. As historian Clifton Kroeber writes, "there had never been a time in Hispano-Mexican history when government and private enterprise had been thought of as separated spheres of action or of decision."<sup>19</sup> In other words, in Porfirian Mexico, the economy was politicized. Diaz did not wish to discredit himself either by forcing foreign capital to abandon Mexico or by permitting American businessmen to control the domestic economy. Such an investment environment did indeed affect the success of foreigners who, like Sir Weetman Pearson, came to do business there.

### AN ENGINEER OF ENERGY AND INFLUENCE

Although Pearson had had no prior experience in the oil business, he did offer the *porfiristas* a number of advantages. He was a successful businessman and engineer, and he was free of connections to outside oil companies having unsavory reputations. Moreover, Sir Weetman was British and a more-polished gentleman than either Pierce or Doheny. As grandson of the founder of a modest Huddersfield construction firm, S. Pearson & Sons,

young Weetman declined to take training at Oxford or Cambridge Universities in order to enter his grandfather's firms.<sup>20</sup> His family believed that sons should "learn their business in the business," as the saying went. At 23 years old, Pearson had become a partner. Soon he was managing the engineering and construction of the drainage system at Ipswich and a dock at King's Lynn. Pearson moved the firm to London in 1879 and in the next decade, gained construction contracts throughout the world: docks and harbors in Egypt and Canada, rail lines in Spain, and the Hudson Tunnel in New York City. Taking over construction from less capable companies became Sir Weetman's specialty. A combination of technological innovation and sober management practices, in the meantime, had earned Pearson's company an international reputation in engineering.

Porfirio Díaz himself was responsible for bringing Sir Weetman to Mexico. In 1889, the Mexican President sent emissaries to New York in an effort to interest the famous engineer in salvaging Mexico's Grand Canal project. The American firm having the government concession to construct the Mexico City drainage system had floundered, abandoning the growing capital city to its centuries-old problem of flooding. Pearson drove a hard bargain, obtaining in negotiations with Díaz much autonomy in the construction work. Completion of the 29-mile drainage canal made Pearson the champion of Díaz. His direct link to Díaz also insulated the British engineer from having to submit to the corruption of the bureaucrats surrounding the president.

In the canal and succeeding projects, the Mexican government and the Pearson firm became partners. Mexico provided the capital and Sir Weetman, the engineering. At the time, the Díaz administration enjoyed

budget surpluses and had an impeccable credit rating in European money markets. Mexico was one of the few countries to be able to borrow at the preferential rate of five percent. Pearson also had independent sources of capital. His company at any one time had from £5 to £10 million worth of contracts, and London bankers and the stock market provided Pearson additional capital.<sup>21</sup> Pearson thus was able to buy the 41-mile Veracruz-to-Alvarado railway and build and own various Mexican tramways and utility companies. Pearson had concentrated his interests increasingly on Mexico even before he entered the petroleum business. Díaz willingly used the British engineer as a foil to the Americans, who already dominated the smelting and railway businesses. Pearson was Díaz's choice to construct the modern harbor and dockworks at Veracruz, converting the open roadstead in front of the port into a protected harbor by means of an artificial jedy.<sup>22</sup> His connections in England impressed many a Mexican. The wealthy businessman in 1895 had won a seat in the House of Commons, where he was known as "the Member for Mexico."

In the meanwhile, the Tehuantepec railway was turning out badly. The government had given the concession to another British firm in order to break the American-owned Panamanian Railroad's monopoly of trans-Isthmanian transport.<sup>23</sup> Once competed, the 190-mile line was plagued with frequently breakdowns, roadbed washouts, insufficient port capacities, and undersized railcars. Díaz in 1898 summoned Pearson to the rescue. Once again, the government provided the capital - \$32.5 million to be exact - often paying Pearson in silver bars. ("Unless special facilities had been given by the Government and subventions," Pearson wrote later, "no railways in Mexico could have been constructed."<sup>24</sup>) But the British company managed

