

Domestic Politics and Foreign Investment:
British Development of Mexican Petroleum

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DOMESTIC POLITICS AND FOREIGN INVESTMENT: BRITISH
DEVELOPMENT OF MEXICAN PETROLEUM

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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.² 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.³ 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.⁴ 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