UNIVERSIDADE ESTADUAL DE CAMPINAS

INSTITUTO DE ECONOMIA

ALEKSANDRA IVANOVA

THE RELEVANCE OF LENIN'S THEORY OF IMPERIALISM: AN ANALYSIS OF THE MEXICAN BANKING SYSTEM FROM 1980S TO 2021

A RELEVÂNCIA DA TEORIA DO IMPERIALISMO DE LENIN: UMA ANÁLISE DO SISTEMA BANCÁRIO MEXICANO DOS ANOS 1980 A 2021

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Prof. Dr. Bruno Martarello De Conti – orientador

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Resumo

Esta dissertação analisa o quadro teórico do imperialismo e examina a validade da teoria para a análise do desenvolvimento dos países periféricos, como o México, como estudo de caso. Trata das vertentes bancária e financeira da economia, que se supõe um importante canal de manifestação do imperialismo sobre os países periféricos. Na primeira parte desta dissertação, procurámos resumir o quadro teórico do imperialismo, que seria aplicável ao estudo de caso. O cerne do imperialismo, como estágio superior do capitalismo, é o capitalismo monopolista, afirmando-se pela concentração do capital financeiro. O conceito de capital financeiro, construído a partir das categorias marxistas de dinheiro de crédito, capital portador de juros e capital fictício, foi aprofundado por Hilferding e, posteriormente, complementado por Lenin em uma teoria à parte, cujo trabalho é o foco principal da dissertação . Uma das contribuições mais cruciais, feita por Lenin, foi a implementação da categoria de capital monopolista na escala global da estrutura hierárquica do sistema político e econômico, o que resultou no aprofundamento das controvérsias dentro de um sistema altamente desequilibrado de relações socioeconômicas relações. A segunda parte contém um panorama histórico da economia mexicana desde o período de substituição de importações de 1960-1980 até hoje e o sistema bancário do México durante o período de liberalização econômica. O caso do desenvolvimento econômico mexicano forneceu um material empírico para a análise da teoria, que pode descrever e tentar explicar o atual estágio de desenvolvimento do país, seus principais problemas e suas origens. Algumas características particulares do atual sistema bancário mexicano foram resumidas e examinadas na terceira parte da dissertação, que trata precisamente das implicações teóricas específicas nas áreas bancária e financeira. O processo de financeirização, iniciado na última década do século XX, o desenvolvimento do sistema financeiro e o surgimento de diversas entidades não financeiras, levaram o sistema bancário comercial tradicional do México a inovar e diversificar. As principais manifestações imperialistas ajustadas ao atual sistema financeiro inovador foram encontradas em áreas como relações entre países centrais e periféricos no que diz respeito ao estabelecimento de subsidiárias de bancos estrangeiros; e a concentração do capital financeiro realizada através da criação do sistema bancário paralelo e aprofundamento da interpenetração dos serviços bancários com a indústria e o comércio.

Palavras-chavez: imperialismo; Lênin; México; sistema bancário

Abstract

This dissertation analyses the imperialism's theoretical framework and examines the validity of the theory for the analysis of the development of the peripheral countries, such as Mexico, as the case-study. It deals with banking and financial sides of economy, which are presumed to be an important channel for the manifestation of imperialism over the peripheral countries. In the first part of this dissertation, we attempted to summarize the theoretical framework of imperialism, which would be applicable to the case-study. The core of imperialism, as the highest stage of capitalism, is monopoly capitalism, asserting itself through the concentration of financial capital. The concept of financial capital, which is built upon the Marx's categories of credit money, interest bearing capital and fictitious capital, was further explored by Hilferding and, afterwards, complimented by Lenin in a separate theory, whose work is the main focus in the dissertation. One of the most crucial contributions, made by Lenin, was the implementation of the category of monopoly capital onto the global scale of the hierarchical structure of the political and economic system, which results into deepening the controversies within a highly unbalanced system of socio-economic relations. The second part contains a historical overview of Mexican economy from the period of import-substitution of 1960-1980s until today and the banking system of Mexico during the period of economic liberalization. The case of Mexican economic development provided an empirical material for the analysis of the theory, which might describe and attempt to explain the current stage of the country's development, its main issues and their origins. Some particular features of the current Mexican banking system were summarized and examined in the third part of the dissertation, which precisely deals with the specific theoretical implications in banking and financial areas. The process of financialization, started in the last decade of XX century, development of financial system and emergence of diverse non-financial entities, pushed traditional commercial banking system in Mexico to innovate and diversify. The core imperialist manifestations adjusted to the current innovating financial system were found in such areas as relations between core- and peripheral countries in regard with the establishment of foreign banks' subsidiaries; and the finance capital's concentration realized through creation of shadow bank system and deepened interpenetration of banking services with industry and commerce.

Keywords: imperialism; Lenin; Mexico; banking system

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Summary

Introduction

Marxist theories on capital accumulation and the development of capital society have not been proved by the deconstruction of capitalistic system through the raise of socialism, after reaching the stage of imperialism, phenomenon of which was displayed and observed by Lenin in his work "Imperialism, the Highest Stage of Capitalism" (Lenin, 1917). Imperialism that was clearly seen in the beginning of XX century, did not result in the socialistic world's system, as was characterized by Marxist thought, nor, on the other side, proved itself to be very effective in global redistribution of profit margins, gradually decreasing inequality and poverty, according to reformist economic theories.

The question of defining and characterizing the current global economy structure and the relations between international economic actors are ones of the corner concerns of various economic thoughts and schools. Some of the theories study such significant issues as the disbalances in global economy and the underdevelopment of some countries, rising inequality between center and periphery regions, problem of slowing economic growth and the search for the renewed sources of it. The theory of imperialism, studied in the current research, which is a part of a broad scientific framework of Marxism, is taken as the main theoretical approach in this dissertation as it is able to explicitly describe controversies of the global economic development, both at the scale of a single economy and global economic relations between countries, highlighting the financial and monetary side of the economy, role of money and its non-neutral character in the economy. Such categories, as "credit money", "interest-bearing capital" (Marx, [1867] 2020), "fictitious capital" (Marx, [1894] 2020) and "finance capital" (Hilferding, [1910] 1981) became the actual objects within the academic research of this dissertation, due to the increasing role of the financial economy nowadays and the consequences that a process of financialization brings. Banking sector, as claimed by the Marxist theory of imperialism, significantly contributed to the progression of the process of concentration of financial capital, which makes this area to be quite interesting for research.

In order to study the relevance of the theory of imperialism to the current global economic relations, it is important to analyze its theoretical framework within the study of national cases, which can give the most adequate source of the necessary empirical evidence. As one of such cases there was chosen an example of Mexican economic development, particularly, in banking and financial spheres. This choice can be justified by the following arguments.

The country has been developing in the capitalist mode of production, represents an opened economy and it is building strong relations with other international actors. Mexico suffered a colonial period in its history and nowadays is a sovereign country, which makes it a valuable case in defining its actual economic status in the system of global economic relations, assuming the historical legacy.

Due to the geographical position, Mexico experiences strong influence of its northern neighbor – the USA, geographically belonging to North America continent and being included into North American Free Trade Agreement (NAFTA), simultaneously being a part of Latin American part of the world, assuming its cultural and historical background. The USA, being a leader in the region from the point of economic and political power, poses specific conditions for the Mexican development, building hierarchical relations according to the "developed-developing countries'" dynamics.

Mexican development path faces all the issues, listed in a previous paragraph, and is a clear representation of main economic questions arisen in the recent decades. Mexico has attempted several development strategies since the XX century, adopting, eventually, economic liberalization in the end of 1980s, which has demonstrated dubious and contradictory consequences and did not manage to resolve the issues of negative social-economic matters, such as inequality and poverty, and lowered economic growth. Overall, this case provided an empirical material for the analysis of the theory of imperialism, which might describe and attempt to explain and understand the current stage of the country's development, its main issues and their origins.

Therefore, we attempt to answer the following questions. How can the theory of imperialism still be a valid framework for the analysis of the development of the peripheral countries? And how can banking system might be an important channel for the manifestation of imperialism over the peripheral countries, such as Mexico?

It is worth to note that while we take the banking system as our unit of analysis, we still cannot separate it from the financial system as a whole, especially in the context of the modern implication of imperialism in the world, as we follow the dynamics of evolution of banking instruments, their diversification and creation of multifunctional financial groups. Although, we mention our focus as being on the banking system, we take into consideration the financial system in general as well, with which banks are highly intertwined.

Thus, the main purpose of the study is to analyze the dynamics of Mexican banking system from the end of 1980s and its current structure through the lenses of the Lenin's theory of imperialism. Thereby, the unit of analysis can be presented as the evolved forms of imperialism's manifestations, as they were described by Lenin, in the current banking system structure of Mexico, as our case-study.

The study follows a set of objectives, partly correlating with a structure of the research which is to be described further. These associated objectives are the following ones:

1. to follow theoretical discussions related to framework of the theory of imperialism and to distinguish the most crucial and relevant features of the theory;
2. to give a description of historical retrospective of the Mexican economy from the period of import-substitution of 1960-1980s until today and the banking system of Mexico during the period of economic liberalization (from 1989 until today);
3. to specify economic indicators that might possibly reflect the features of the theory in today's country banking and financial system and the international relations between center and periphery over the banking sector;
4. to collect the relevant data, connected to the Mexican banking system, verify and track possible manifestations of imperialism and evolution of its forms and instruments and deliver conclusions on the observed data.

Having the defined set of objectives and research question, we can define the hypothesis of the dissertation, which states that the theory of imperialism is still relevant scientific framework for the scrutiny of current Mexican banking system.

The study aims to give an analysis on the current trajectory of the development of banking system of Mexico, which adopted the neoliberal economic and political framework. If the features of Marxist perspective on imperialism are found in the current processes in financial system of the country, this may give a base for the further contemplating of possible trajectories of development for the region and show that the adopted neoliberal framework could be a step for uncontrollable process of wealth concentration and monopolization.

The structure of the dissertation partly repeats the set of objective and lead, coherently, to the answer of the research question. The theoretical chapter gives important background for the further discussion of the theory of imperialism's application in the modern economy. The chapter opens with a search for the theoretical origins of the phenomenon of imperialism through main Marxist literature, such as Marx ([1867] 2020; [1885] 2020; [1894] 2020) and Hilferding ([1910] 1981) and Lenin (1917), the theoretical approach of whom constituted a base for the current research. There are academic debates presented between several economic schools, such as classical school (Hobson (1902)), other branches of Marxism, represented by Kautsky (1914), Luxembourg ([1913] 1951), as well as current academic researchers, who were regarding to this topic. The main interest for the dissertation appeared to be contribution of contemporary economists Guillen (2012) and Chesnais (2016), who referred to the process of the financialization and the possible ways and forms of imperialism's evolution in the financial economy.

The historical-empirical chapter follows a brief observation of the historical retrospective of the Mexican economy and banking system since the 1960s until nowadays. It consists of the two parts: first deals with the brief historical examination of the main tendencies of Mexican economy from 1960s; and the second part focuses directly on the banking and financial sector since the start of the liberalization process in the end of 1980s until today. The most beneficial literature for this dense analysis became Mexican and Latin-American researchers, such as Kaufman (1979), Moreno-Brid and Ros (2009), Girón (2014), Correa and Girón (2013), Blecker (2022), Huerta (2022), Hernández-Murillo (2007).

The third chapter comprises the result of the work from the part of theoretical debates of the first chapter and facts and data analysis, collected through the studies, conducted in the second, historical-empirical chapter. We started the chapter with summarizing the possible set of indicators, related to the banking and, partly, financial sectors, as they tend to be tightly intertwined in the contemporary economy, which are formulated as a continuation of the theoretical propositions in the possible forms of their current application. Then some of the concrete theoretical propositions and the correspondent indicators were taken as an example of more detailed analysis of the possible imperialism's manifestations over peripheral banking system, particularly, the Mexican one. The indicators are supposed to demonstrate the banking system in the following theoretical aspects: concentration of the financial capital, realized by the "cartelized" economy's structure and more power exercised by the financial capital over the industrial one; the concentration of the banking capital through the building of the system of affiliated financial institutions; and the relations between the center and periphery through the export of capital, performed in a form of establishing of a net of foreign banks' subsidiaries.

Chapter I. Theoretical discussions on the theory of imperialism

Introduction

The current chapter aims to cover some theoretical aspects of the broad framework of imperialism in academic literature. The aspects that are put forward and analyzed hereon are related to the purpose of the current work and contribute to the understanding of what are the criteria chosen for the empirical analysis of imperialism's manifestations and the reasons of them being of interest until today.

Thus, the purpose of the chapter is to analyze the theoretical framework of the imperialism throughout the history, from Marx until contemporary authors that refer to this topic, with a particular focus placed on the analysis of Lenin's theory of imperialism.

The chapter is divided into six parts: analysis of Marx's categories of "roles of money" and "fictitious capital"; analysis of some aspects of Hilferding's work "Finance Capital"; analysis of Lenin's theory of imperialism; comparative analysis of some aspects of imperialism in the approaches of Lenin and Hilferding; comparative analysis of some aspects of imperialism in the approaches of Lenin and Hilferding; parts, briefly covering other theoretical branches, studying imperialism; and contemporary topics on the theory of imperialism.

1.1 Analysis of Marx's categories of "roles of money" and "fictitious capital"

In Marxist theory capital, on the side of value, consists of two important variables: "constant capital or value of the means of production, and variable capital or value of labour power" (Marx [1867] 2020, p. 128). The last component carries one of the most crucial definitions in Marxist theory – surplus value that is "extracted unpaid labour directly from labourers, produced and owned by the capitalist" (*op.cit.*, p. 351). As Marx highlights, "production of surplus value is the absolute law of this mode of production" (*op.cit.*, p. 129). Surplus value is an outcome of capitalist production, whose "fragments fall to various categories of persons, and take various forms, independent the one of the other, such as profit, interest, merchants' profit, rent, etc." (*op.cit.*, p. 351).

The next most fundamental notion in the theory is accumulation of capital. It is the process of "employing surplus-value as capital, reconverting it into capital" (*op.cit.*, p.362), and it acts as a base and engine of capitalist economy.

Capital accumulation has in its core the endless capitalist need for constant growth of profits. This leads to the various consequences and the capitalist economy's effects, one of which is the imperialism theory, or the ever-growing process of accumulation and concentration of production.

Foremost, we aim to observe the role of money and its evolution in capitalist economy, which makes the accumulation of capital possible and, simultaneously, poses several limits on it.

Money as a medium of circulation, according to Marx's political economy critique, is seen differently from the classics' eyes: the "quantity of the circulating medium is determined by the sum of the prices of the commodities circulating, and the average increasing more rapidly, than prices" (Marx [1867] 2020, p. 66). As oppose to the quantity theory of money[1] Marx considers reversed causal relationships between the variables: the quantity of precious metal circulating is a variable depending on prices, volume, velocity of transactions (Brunhoff, 1976, p. 32). The fluctuating quantity of money in circulation may not be represented directly in changes of prices, as the difference in quantity of money does not affect its function as general equivalent or measure of value but affects it as an instrument in circulation. This conclusion directly connects with the existence of different functions of money, identified by Marx, and its different forms.

Money does not have its main role as a medium of circulation, thereby serving just as a transitory mean in commodity circulation. Marx strictly differentiates roles of money as a medium of circulation and a measure of value, a mean of payment and a mean of hoarding.

The hoarding role of money includes into the theory of credit money or money as a mean of payment (Brunhoff, 1976). In this sense money represents the absolute commodity and, even though, continues to serve and be the fundament for social relationships between people and provides the commodity's circulation in economy, it fully finds itself in the absolute representation of its function as a mean of measurement. Due to the increase in trade, manufacturing and, generally, amounts of money needed in circulation, payments operated with metallic money limited the opportunities of exchange. So, the credit opportunity emerged, when in order "to meet the maturities money enters into circulation as means of payment, it appears to be an absolute commodity, but within the sphere of circulation, not outside it as with the hoards" (*op.cit*., p. 44). Evolving from the role of the third-party in circulation, money becomes the self-purpose, an absolute commodity, money becomes a general representative of wealth, especially appreciated during the period of economic crisis (*op.cit*.).

[1] QTM is primary research area for monetary economics, which states that general price level of goods and services is proportional to the money supply in an economy, assuming the level of real output is constant and the velocity of money is constant.

The monetary theory developed in Marx is one the most important and fundamental parts of his theory. If a development of social-economic relations and economy's adjustment to their complex structure led to a perception of money as an absolute commodity, the capital accumulation, as an engine and working mechanism of capitalist economy, seeks revenue through acquiring this absolute commodity, universal money.

The function of money as a mean of hoarding arises from its unique qualities as an absolute commodity and leads to the accumulation of wealth, collection of treasure that excludes money from the circulation. The surplus value, acquired from the combination of productive capital and labor, can be used in different ways: invested in further production or consumed as a part of accumulated wealth. Therefore, not all money that was saved is to be used in a further production to create more surplus value, as it is for Ricardo, and, consequently, there are different demands for money (Brunhoff, 1976, p. 43). Demand for money as a mean of hoarding, or as following Marx "exclusion of money from circulation would also exclude absolutely its self-expansion as capital" (Marx, [1867] 2020 *apud* Brunhoff, 1976, p. 55) and can absorb the excessive supply of money arisen from the need for it for transactions. In this regard Brunhoff also mentions that the quantitative analysis of quantity money is not quite sustainable (Brunhoff, 1976, p. 44).

So, the development of money's role in capitalist society also adds importance to its function as a mean of hoarding: demand for money as "absolute commodity" becomes the ultimate purpose of all economic activity.

With the development of the commodities circulation the phenomenon of money as a mean of payment appears; "credit-money springs directly out of the function of money as a means of payment - Certificates of the debts owing for the purchased commodities circulate for the purpose of transferring those debts to others". (Marx, [1867] 2020, p. 73)

Usage of credit at individual level credit money hugely helps in downsizing expenses coming out from money circulation. It diminishes real expenses not only due to cutting down on production of metallic money that in its turn also bears some costs, but also accelerates the speed of circulation. The acceleration in this sense seen by Marx in two aspects: technical acceleration, which implies that "with the same magnitude and number of actual turnovers of commodities for consumption, a smaller quantity of money or money tokens performs the same service – […] credit accelerates the velocity of the metamorphoses of commodities and thereby the velocity of money circulation" and the acceleration of "individual phases of circulation or of the metamorphosis of commodities or capital, with acceleration of the process of reproduction in general" (Marx, [1894] 2020, p. 301).

The last effect of credit led to consequent "contraction of reserve funds: reduction of the circulating medium; and reduction of that part of capital which must always exist in the form of money" (*op.cit.*)

In this regard, role of money, apart from the use-value, implying that they can be exchanged for another commodity, get an additional use value as they function as capital and can produce income (interest) for their owner. This use value as capital appears only during the so called "exchange" between owner and debtor, which is in fact the legal agreement, after expiration of which the initial capital must be returned by debtor along with additional value in the form of interest. Thereby, this developed credit's shape has its potential in creating additional use value without being put into production. The two above mentioned extensions of money as a mean of payment eventually led to an emergence of fictitious capital - the interest being artificially separated from the actual capital, which it was accrued on, starts to circulate as an independent "commodity".

Fictitious capital, according to Marx's theory sets strong consequences to the ever-growing and expanding possibilities of the capital accumulation, which tracks us back to the beginning of the chapter.

In normal circumstances surplus value created by labor has some qualitative limits to the accumulation of capital, settled by the market structure, labor conditions, economy's and sectoral productivity. However, surplus value gained by the interest on a capital is not restrained in such way: the size and level of development of the productive economy is not directly proportionate to scale of capital's accumulation, thereby qualitative limits do not pose a real constraint on it.

Simultaneously with the development of credit observed within the individual relations, credit system was formed at the national level. While, for Marx money is a by-product of social relations and not created exogenously above a national economy, government and national financial system both support and ground capital accumulation and circulation of money.

As Marx points, government bonds sold by a state are one of the forms of fictitious capital. Government "borrows" money by issuing its bonds, however while continuing to circulate, these bonds are never paid back by a government. In this case, "the capital, as whose offshoot (interest) state payments are considered, is illusory, fictitious capital. Not only that the amount loaned to the state no longer exists, but it was never intended that it be expended as capital, and only by investment as capital could it have been transformed into a self-preserving value" (Marx, [1894] 2020, p. 321). These bonds become a commodity (legal titles) for exchange.

These ideas were expanded and explained a little more in the work of Brunhoff (1976), where he further observed fiat money – legitimized by government national unit of account – serving as a government debt as well. These money representatives start to circulate as money itself and government acts as a grand debtor. Brunhoff notices that government in Marxist theory operates in several ways. The first motive includes that inside nation-society government seeks the need for power of general equivalent to spread its own power over the national territory. The second motive explains an aspect of a global economic system: a state acts as one of economic agents and is included into the hierarchical international monetary system, where it needs money as a universal mean of payment to be able to settle international transactions (*op.cit.*, p. 47).

As it was seen above, acceleration in money circulation and downsizing the reserves greatly supported the development of the banking system. Here are several effects on the economy due to the banking system operation.

Banking capital is concentrated and put into use at the immense scale, in other words, invested or lent as money capital, productive capital or trading and for banks as well for proper owners of lending capital, idle reserves function now as interest-bearing capital. The last remark can be divided into two aspects: the proper source of banking capital and the expression of profit made by banks. The equity of banking capital is formed by the deposits of money capitalists and collected by in-flow of small sums of money from small depositors, which in other cases could not ever be used as interest-bearing capital.

Additionally, there is another form of credit evolving – share capital. Credit's evolution led to quite effortless accumulation of the necessary money capital without a need to own the capital. Due to the characteristics of share capital, implying that it can be collected during short time and in large quantities, it provides for the creation of scaled and highly technological enterprises and organizations that would be impossible for the individual capital.

As it has been pointed, this phenomenon occurred due to the division of capital's ownership: a capitalist, who at first was directly involved into production, turns into a part of administrative personnel managing a share capital of money capitalists, the real owners of a production. This also implies the transformation of once individual, private proprietorship into the public one, although still existing in a capitalistic economy. Means of production are expropriated from the real producers and revenue is represented by pure interest on capital, which allows existence of such enterprises even when they bring only interest.

Marx, following a consideration of relative “separation” of financial and productive economy, discusses the process of price formation of shares (stocks).

> “The independent movement of the value of these titles of ownership [government bonds and stocks] adds weight to the illusion that they constitute real capital alongside of the capital or claim to which they may have title. For they become commodities, whose price has its own characteristic movements […] Their market-value is determined differently from their nominal value, without any change in the value (even though the expansion may change) of the actual capital” (Marx, [1894] 2020, p. 322).

Their market price is set speculatively, considering several determinants: real income of the capital represented by the legal title; expected income, which is calculated in advance; and an interest rate of a security.

Securitization of a private property is a part of a general process of expropriation of individuals from the means of production: property is divided into shares and is bought and sold via special mechanism of a stock market price formation. Marx also emphasizes that this fragmentation of property into small parts gives an illusionary impression of democratization of property, while indeed the big shareholders often win their profit over the small ones and due to their participation (*op.cit*., p. 304). Thus, we can summarize the effects of evolution of credit and fictitious capital: intensified process of reproduction influenced by credit and system of share equity; huge concentration of capital which is not in an individual, private property, but in shared, collective property; enterprises becoming more risky, since they operate with collective equity, and possibly less profitable, aiming to function for the sake of shareholders; resulting from the last, financial capital’s thriving, creating vast gap between nominal owners of a production and real producers, banking system seeking money capital applications; over-production and high speculation activity in economy, which is forced by accessibility and elasticity of credit.

Although Marx initiated research of the financial capital, he does not indulge into this matter thoroughly, however, highlighting in the Chapter 27 of the “Capital” the dualistic nature of credit system, which is, from the one side, develops the “engine” capitalist production – accumulation of wealth via exploitation of labor and decreasing the number of exploiters; and, from the other side, due to the controversial nature of capitalism destructs the system from inside in a form of financial crises (*op.cit*.).

1.2 Analysis of some aspects of Hilferding’s work “Finance Capital”

Hilferding ([1910] 1981) dedicates his main work “The Financial Capital” to the examination of the main tendencies in the development of the capitalist mode of production, as somewhat an "extension" of Marx's theory, with an emphasis put on the role of money capital and growth of credit money, process of securitization of property, analysis of the role of the banks in the mobilization of capital along with the development of large corporations. This section will first discuss the aspects of securitization process and the determinants of the stock's price formation; and second, analyze the phenomenon of imperialism, as discussed by Hilferding.

1.2.1 Aspects of securitization process and determinants of the stock's price formation

Hilferding continues Marx's research on the issue of stocks' price formation. Although, during the XIX century share capital was not a dominant type of proprietorship, Hilferding grounds Marx's conclusions, emphasizing the shift of importance from production capitalist to financial capitalist and the growing importance of stock market as a basement of stock circulation (Hilferding, [1910] 1981).

Hilferding, in a contrast to Marx, already sees in the interest on share capital (dividend) a special economic category, a form of fictitious capital, which gives birth to the whole separated market with its own economic rules. He develops an economic category, called "promoter's profit"[2], which we will see down below.

Interest on share capital is an income that is paid due to stocks' circulation and does not constitute the primary money capital that was invested into production via the issuance of shares. The issuance of stocks and their first public offering forms the "promoter's profit" – the difference between the functioning equity and fictitious capital that appears because of the creation a joint-stock company or its expanding.

Promoter's profit is calculated by the following equation:

$$P=100Y/d - 100Y/p,$$

where d is the dividend (the interest rate); p is the average profit (or dividends in relation to the equity); and Y is the yield of the enterprise (*op.cit.*, p.156).

So, the actual price of a stock depends on the following: the interest it brings or the dividend rate and the yield of an enterprise. Hilferding's equation supports Marx's conclusions, but gives more considerations concerning the price formation in the stock market. Usually we have "p>d", but there is a tendency for their identity (p=d), and the stocks' price tends to be set in

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[2] Hilferding, [1910] 1981, p. 156.

the way to equalize values. So then, price of a share decreases when it brings a higher dividend and vice versa.

Thus, the quantity of credit lent depends not directly on the value of the commodity that is due to be produced and was serving as an insurance of borrowing, but on the value of their share capital. The latter in its turn also depends on the yield of an enterprise, which depends on the sale of the value of the products produced by the joint-stock company, i.e. on the sale of goods at their cost. Consequently, these credit money are indirectly collateralized by the value of commodity.

Despite the observation that production is owned by the money capitalists and separated from the financial markets, it is indirectly reflected at stock market, and not always this reflection represents a factual situation in the production. Hilferding noted:

> "on the stock exchange capitalist property appears in its pure form, as a title to the yield, and the relation of exploitation, the appropriation of surplus labour, upon which it rests, becomes conceptually lost. […] Property ceases to express any specific relation of production and becomes a claim to the yield, apparently unconnected with any particular activity. Property is divorced from any connection with production, with use value. The value of any property seems to be determined by its yield, a purely quantitative relationship" (op.cit., p. 149)

All securities are divided into the groups of the ones with a fixed interest, preferred shares, and the ones with the volatile interest, common shares. The last group is what constitutes and causes financial speculation and provides for the existence of stock markets. The interest rate which fluctuates within the common shares not only considers the yield of an enterprise, but also the credit money interest rate and the mechanisms of demand and supply established inside the stock market as well. Since the process of buy and sell of common shares and speculation occurs mostly at stock exchange it requires a lot of non-used money capital, which is often provided by banks, concentrating the finances of both individual capitalists and commercial public organizations. The banking system phenomenon in capitalist economy will be analyzed further on in this chapter.

So, in the respect of the credit money interest rate, there are huge amounts of credit provided for the need of stock market operations, which deals with the special interest rate established during its functioning. It is defined by the changes in the demand for money, which in its turn depends on cyclical behavior of the economy or any relevant exogenous influences. Also, there is another demand and supply for the stocks themselves, representing the increase in demand when the price is higher and its fall with the consequential drop in demand.

Only the yield of an enterprise might indicate the real economy conditions, but usually, as Hilferding notices, detailed and the most objective information about the state of an enterprise is highly complicated to be obtained and usually is available only for controlling stock's shareholders and those who are close to the founding board of directors (Hilferding, [1910] 1981, p. 137). This consideration implies the wide range of financial fraudulences, connected to securitization and speculation, as well as huge amounts of money used in non-productive way as for the instrument of operating in the stock market.

It is important to highlight that it is not the fictitious capital that plays the main role in fostering the capitalist economy, but, returning to the beginning of the current work, the inherent ability for the capital to accumulate and its tendency to concentration.

1.2.2 Hilferding's approach to the definition of the phenomenon of imperialism

In the last chapter of "The Financial Capital" new forms and evolutions of capitalism express themselves in the phenomenon of imperialism, which was absent in Marx's fundamental work (Hilferding, [1910] 1981).

Imperialism for Hilferding, is an opposite for both the idea of democratic equality and the old liberalism ideology. The roots and fundamentals for imperialism is the power of financial oligarchy, which unites former separated interests of productive, trade and banking capital. The prerequisites of imperialism's development are a tendency to cartelization and monopolization in an economy, which is possible, as we have seen above only through the banking capital accumulation for crediting purposes and development of financial system – stock markets, securitization of equity, etc. In the countries with less developed individual capital accumulation, which was a characteristic of old economic systems of liberal and free trade concepts, such as Germany and the USA interests of capitalist manufactures, and enterprises were acting in a tight connection with governmental policy. Here Hilferding also points out another important prerequisite for the imperialism development: government actions and legislation put in alignment with the interests of bourgeoisie, the most basic of which are the protectionist tariffs and financial support for the heavy industry – the forefront area of the newborn, but already vastly growing bourgeoisie economy.

Protectionist tariffs in this case are not the same as the so-called "educational protectionism"[3], aiming to help the leading industries to become competitive in the world market and open for export. The other, "production protectionism" not only continues, as soon as the purpose of taking over the world market niche is achieved, but even reinforces to establish excessive profits

[3] Hilferding, [1910] 1981, p. 365.

in the inner market, due to high protectionist tariffs and then expands more at the global scale.

This conclusion goes along with the following idea: it is vital for a cartel to maintain constant production costs lowering, which can be achieved by the expanding scale of the latter. Since the organic structure of mature capital is highly disproportional and tends to decrease the share of variable capital against the constant capital, there is a relatively insignificant possibility to raise the markup of an enterprise through lowering the value of variable capital, or the labor. So, the tendency to constant production cost lowering interrupts only when there is a reduction of sales.

Regarding this major obstacle, there are several challenges for newly cartels in capitalist economy to overcome. Firstly, in case a cartel is not strong enough, it struggles to expand inside the national market, merging with smaller manufactures. When there are already monopoly prices set in the domestic market, it is necessary to protect an industry from the foreign competition and acquire excessive profits. As soon as there is a solid cartel emerged in the domestic market, it needs to expand itself outside the national economy and from this moment the protectionist tariffs function as a tool for the further expansion and more profit: due to the high price at domestic market being able to compete with the world's lower prices.

Following the logic of previously showed cartel's functioning, imperialism is distinguished by the concentration in several dimensions: money capital accumulation, mostly at major banks, which start to credit not only the working capital, but also invest long-term, allowing production to concentrate in its turn; as a consequence of this there is a financial concentration, supported by domestic protectionist policy, which overtakes significant world's market shares – by the export of capital.

Because of the protectionist barriers for trade being established worldwide, international sales are becoming less profitable and more complicated, which leads the matured domestic capital to seek new ways for maintaining the high level of profitability. These ways consisted of the following: export of banking capital, which was suitable for the countries with big amounts of accumulated wealth and export of productive capital with its further securitization and opportunities to have profits via "promoter's profit" and ownership of controlling stake.

So, the purposes of financial capital are, firstly, the creation of the largest possible economic territory in the domestic market protected from foreign competition by customs in order to turn the national economy into an area of exploitation for national monopoly associations. Secondly, the tight collaboration settled between government and new bourgeoisie is of value for both sides: accumulated and centralized capital starts to conquer the world' market along with the foreign territory and its resources. Lastly, financial capital in imperialism, for Hilferding, is characterized by one more important thing: the ever-increasing scale of industry and financial concentration is an economic necessity, so it can't be stopped: "the delay lowers the profit of finance capital, reduces its competitiveness and can eventually transform a smaller economic area a tribute to a larger one" (Hilferding, [1910] 1981, p. 330).

1.3. Analysis of Lenin's theory of imperialism

In comparison to Hilferding, Lenin in his work "Imperialism, the Highest Stage of Capitalism" (Lenin, 1917), instead of focusing mostly on the financial side of a matured capitalistic economy, names several separated characteristics of imperialism and unfolds them meticulously in each chapter. In the end of his work, he develops a specific chapter dedicated to imperialism' features in a brief form, which we present down below.

> "[...] we must give a definition of imperialism that will include the following five of its basic features: (1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital, and the creation, on the basis of this "finance capital", of a financial oligarchy; (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international monopolist capitalist associations which share the world among themselves; and (5) the territorial division of the whole world among the biggest capitalist powers is completed. Imperialism is capitalism in that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun; in which the division of all territories of the globe among the biggest capitalist powers has been completed" (*op.cit*., p.92).

In the following parts we will try to unfold and interpret the main ideas of the theory, observe main cause and effect relations between the imperialism's features, as it was seen by Lenin, derive from the theory some other aspects important for our research, and track Marx's ideas and Hilferding's contributions in the Lenin's theory.

Imperialism in Lenin's scientific paradigm, in a contrast with Hilferding, is not the last stage of capitalism, but the highest. This implies major difference between the understanding of the phenomenon of imperialism by the two authors (Smith, 2021). Lenin sees imperialism rather not as a stage of development of capitalist mode of production, but as a result of highly developed mercantile system in capitalism, and he is observing its occurrence, emphasizing that "the growth of internal exchange, and particularly of international exchange, is a characteristic feature of capitalism" (Lenin, 1917, p.70).

For Lenin, imperialism in its core is the monopoly capitalism, and, in our opinion, can be examined in two aspects: geopolitical and economic, which, obviously, is tightly intertwined with each other in the theory.

Thorough its economic application, imperialism in Lenin's approach, following the Hilferding's logic, grew out of the development of "capital of the monopolist associations of industrialists (industrial capital) and capital of a few very big monopolist banks" into their eventual merger in a form of finance capital (Lenin, 1917, p. 91). Financial capital emergence was based on the several phenomena, being observed in the economic system. Firstly, there is a concentration of production at a very high stage of the development, which refers to the monopolist capitalist associations, cartels, syndicates and trusts and, secondly, the separation of ownership of capital from the application of capital to production. The latter characteristic of the capitalist system, which as we have seen was introduced by Marx, in imperialism, according to Lenin "reaches vast proportions", leading to the "supremacy of finance capital over all other forms of capital" (*op.cit*., p. 67).

The process of concentration of production is summarized in a single chapter "Concentration of Production and Monopolies" and is observed through multiple aspects. Marx's examination of the process of accumulation – reinvestment of profit –, leading to growth of the stock of capital and accompanied by a higher rate of surplus-value, is continued by Lenin, who is observing the concentration of production as grown out of the Marx's accumulation of capital and the concentration of money capital, achieved by the development of banking system. Later on in the chapter, we shall see separately the role of banks in the concentration of money capital and the establishment of monopoly capitalism.

Based on the above-mentioned "capitalist laws" and tendencies, to the formation of monopolies also contribute the evolution of the enterprise's structure and its business strategy: there are tendencies towards combination of different branches of production and investment in R&D – research about market niches, which are possible for acquisition, and creation of more surplus value.

Not a least important remark in this regard throws us back to the Hilferding's work, when as a one of the factors of the constitution of monopolies was named a policy of industry protection and introduction of high tariffs. Lenin also refers that "first steps towards the formation of the cartels were taken by countries enjoying the protection of high tariffs (Germany, America)" (*op.cit*., p. 119). However, spread of monopoly capitalism over the other countries was inevitable for Lenin in order to be able to withstand the competition, for example, "Great Britain, with her system of free trade, revealed the same basic phenomenon, only a little later, namely, the birth of monopoly out of the concentration of production" (*op.cit*.). Moreover, Lenin implying the existing antagonism between the cartelized and non-cartelized industries, when stating the following: “at the same time the monopolies, which have grown out of free competition, do not eliminate the latter, but exist above it and alongside it, and thereby give rise to a number of very acute, intense antagonisms, frictions and conflicts. Monopoly is the transition from capitalism to a higher system” (Lenin, 1917, p. 91).

1.3.1 Concentration of banking system

As for the participation of banking system in the financial capital concentration, described in the part “Banks and their new role” of “Imperialism…”, we will summarize several main points of this chapter down below, which, as well, are more thoroughly revised in Table 2, which is opening the third chapter of this dissertation.

The main statement of Lenin in this part is that: “banks greatly intensify and accelerate the process of concentration of capital and the formation of monopolies in all capitalist countries, notwithstanding all the differences in their banking laws” (*op.cit.*, p. 50). This tendence is reflected through several processes, occurring in the capitalist economy.

Firstly, the concentration in the banking system is contributed by the establishment of dependent or “affiliated banks”: “the big enterprises and the banks in particular, not only completely absorb the small ones, but also “annex” them, subordinate them, bring them into their “own” group or “concern” (to use the technical term) by acquiring “holdings” in their capital, by purchasing or exchanging shares, by a system of credits, etc.” (*op.cit.*, p. 46).

Further development of banking system allows banks via establishing a “personal link-up” with industry and commerce, and the government to “subordinate […] all the operations, both commercial and industrial, of the whole of capitalist society; for they are enabled — by means of their banking connections, their current accounts and other financial operations” (*op.cit*): by merger of banking and industrial capital, banks receive a controlling power over the borrowers – commercial and industrial circles.

Moreover, the above mentioned process also transforms banks into “institutions of a truly "universal character"”: banks stop specializing in a particular area of business or industry, as they strive to make their ties with industrial enterprises as diverse as possible in terms of place and type of production. In this regard, Lenin poses an issue, that “whether or not the banks, as credit institutions, will suffer from this intervention in industry, […] engagement in a field of activity which has nothing in common with their role as middlemen in providing credit, […]

where they are more than ever before exposed to the blind forces of trade fluctuations" (Lenin, 1917, p. 56).

Moreover, Lenin mentions the process of banks' further involvement into various financial operations, growing complexity of financial sector. Lenin states that "Every bank is a Stock Exchange, and the bigger the bank, and the more successful the concentration of banking" (*op.cit.*, p. 51), referring again to that banks are not just serving as clearing institution[4], but also are engaged into the security dealing themselves.

This eventually leads to the development and expansion of financial capital. The concentration of financial capital, as well, takes different forms. Lenin illustrates them throughout the theory, giving examples of mostly industrial companies, however, assuming the intertwined relations between banking and industrial capital, we assume that there are similar tendencies inside banking and financial institution system as well.

Observing the phenomenon of stock exchange and creation of capital markets, Lenin talks about the effects of the process equity flotation[5] of joint-stock companies and, particularly, mentions "holding system":

> "holding 50% of the capital is always sufficient to control a company [...] This "holding system" not only serves enormously to increase the power of the monopolists; it also enables them to resort with impunity to all sorts of shady tricks to cheat the public, because formally the directors of the "mother company" are not legally responsible for the "daughter company" (*op.cit.*, p. 59).

Other "small, scattered shareholders find it impossible to attend general meetings, etc.", so the "democratization" of stock is "in fact, one of the ways of increasing the power of the financial oligarchy" (*op.cit.*)

The process of financialization of economy and "speculatively" applied capital (into stock exchange and financial transactions) is a separate concern, highlighted in the theory. The separation between the ownership of capital and the its supplication to production leads towards "predominance of the rentier and of the financial oligarchy; it means a small number of financially "powerful" states stand out among all the rest. The extent to which this process is going on may be judged from the statistics on emissions, i.e., the issue of all kinds of securities" (*op.cit.*, p. 67). In these passages Lenin includes the idea, which was put froward by Hilferding, and emphasizes the role and effect of "promoter's profit" in the process of financial capital' concentration.

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[4] A clearing institution is formed to facilitate the exchange of payments, securities, or derivatives transactions, it acts as a mediator between any two entities that are engaged in a financial transaction.

[5] Flotation is the process of issuing and selling shares to public investors at stock exchange market.

Lastly, there is a tendency of "contraction" of banking system and economy as a whole in crisis in terms of the number of participants, due to the process of mergers and acquisitions – "reconstruction" and "reorganisation", which we have seen again in Hilferding – big banks acquire "holdings" in unsound and bankrupt businesses by buying them up. Lenin put this forward as important factor of banking concentration and increasing role of financial capital:

> "In the "reconstruction" of undertakings which have been running at a loss, the share capital is written down, that is, profits are distributed on a smaller capital and continue to be calculated on this smaller basis. Or, if the income has fallen to zero, new capital is called in, which, combined with the old and less remunerative capital, will bring in an adequate return." (Lenin, 1917, p. 65)

1.3.2 Imperialist relations between core and peripheral regions

The development of monopoly capitalism must be seen through geopolitical aspect. From this aspect, imperialism implies the implementation of "colonial policy of monopolist possession of the territory of the world which has been completely divided up" (*op.cit.*, p.92).

As per Lenin, "under capitalism the home market is inevitably bound up with the foreign market", as monopolies divide the inner market of a country and possess an industry, capital seek its outer placements in order to continue to sustain the former level of profit and expand (*op.cit*., p. 75). Furthermore, "as the foreign and colonial connections and 'spheres of influence' of the big monopolist associations expanded in all ways, things 'naturally' gravitated towards an international agreement among these associations, and towards the formation of international cartels" (*op.cit*.).

However, Lenin's theory does not support the idea, where this "agreement" is undertaken via non-captive way. Lenin emphasizes, that "the capitalists divide the world, not out of any particular malice, but because the degree of concentration which has been reached forces them to adopt this method in order to obtain profits. And they divide it 'in proportion to capital', 'in proportion to strength'" (*op.cit.*, p. 81). The situation, where main resources and territories are already explored, the clashes of interests will take place: the competition between nations, international monopolies and industries, which can take different forms – peaceful, such as economic, or military conflicts. Capitalism is developing at different speed and scale in different parts of the world, which, with the emergence of financial capital and monopolies, causes friction between non-corresponding development of productive forces and the accumulation of capital in various regions. There are several instruments in order to soothe these discrepancies: occupying "spheres of interest" through the economic expansion of matured financial capital or the war and opened military conflict.

It is interesting to mention, that Lenin does not associate imperialism, as a colonial policy, with the capitalism in first place, but does speak about commodity production and exchange relations under capitalism having a tendency to transform into imperialism.

> "Colonial policy and imperialism existed before capitalism. […] Even the capitalist colonial policy of previous stages of capitalism is essentially different from the colonial policy of finance capital […] monopolies are most firmly established when all the sources of raw materials are captured by one group, and we have seen with what zeal the international capitalist associations exert every effort to deprive their rivals of all opportunity of competing" (Lenin, 1917, p. 87).

In the following part of the chapter, for the sake of our research, we shall examine imperialism through other lenses: from the perspective of country with advanced economy and from the perspective of peripheral country.

It must be noted that there is no strict and highlighted distinction between these two perspectives in the theory. Moreover, imperialism, being a theory, describing dependent and hierarchical relations, mostly is explained through the processes, occurring in the economy of a core-country, since peripheral countries were not broadly distinguished amongst themselves in terms of level of their development at the time, unlike nowadays. However, it is still possible to track and examine the existing distinction in the work of Lenin.

From the side of a core-country, there are some specific features of it, when it is entering in the imperialist relations, some of which were presented above. They are: concentration of production, strengthen by the protectionist policy, concentration of banking system and financial capital, emergence of big monopolies, leading to huge accumulation of capital, which results in the excess of capital. This "excess of capital", as a rule, is not placed into the local economy for its further befits as it is not leading to higher profits, but initiates a "colonial policy" of financial capital, imperialist policy, one of the forms of which is "capital's export".

There are several factors, motivating a financial capital to seek placements outside. Firstly, they are lower costs of production process in peripheral countries, and, consequently, higher markup. Secondly, there is a speculation of international concessions when lending to the country-recipient of capital: "the capital-exporting countries are nearly always able to obtain certain 'advantages' […] Often, the export of capital abroad becomes a means of encouraging the export of goods abroad" (*op.cit.*, p.73). Thirdly, there is a social-political motivation for capital export – it is a desire to avoid a social pressure in an exporting country, critical economic and social inequality. Lenin highlights this statement, using the words of Cecil Rhodes, British mining magnate and politician in southern Africa: "we colonial statesmen must acquire new lands to settle the surplus population, to provide new markets for the goods produced in the factories and mines […] If you want to avoid civil war, you must become imperialists" (Lenin, 1917, p. 84).

The policy of capital's export, eventually, is followed by creation of various forms of political and economic dependency between core and peripheral countries, which is defined by different instruments of capital exporting, as we shall see below.

Previously, however, it is necessary to emphasize one issue, which was not particularly discussed by Lenin – the degree of openness of economy towards the global economic and political influence. Although, as it was stated, that under capitalist economic system an economy cannot be developing in isolation, but, at the same time, the issue about the effect of different degrees of openness on one country's development remains rather intact – not examined in more details in the theory. We can suspect, that in a view of Lenin, in the beginning of the XX century, peripheral countries were viewed as not capable of initiating a protectionist policy and creating strong monopolies for competing at the global scale. However, as we shall observe further in this work, some peripheral countries, such as our case-study Mexico, were able to comprise multiple, somewhat contradictory, features.

From the side of a peripheral country, the tendencies are quite similar to the ones presented above, but there are some major differences. Lenin mentions, that countries-recipients experience a necessity in the foreign capital, which pushes them to negotiate a capital inflow under specific conditions, which are put forward by an exporting country. As a consequence, "the export of capital influences and greatly accelerates the development of capitalism in those countries to which it is exported", which is, as we have seen it above, in previous parts, further concentration of production and financial capital (*op.cit.*, p. 72). This transformation in its turn tend to deepen inequality and uneven development in the country.

The capital's export, according to the theory, might be performed in several ways: as an element in a production chain (we may possibly view it as FDI into productive economy); through the direct establishment of subsidiary banks (FDI into financial economy); and as a borrower of an international loan. The first two forms of capital's export might be viewed as process of FDI inflows. This is how Lenin describes direct investment in productive economy:

> "In these backward countries profits are usually high, for capital is scarce […] The export of capital is made possible by a number of backward countries having already been drawn into world capitalist intercourse; main railways have either been or are being built in those countries, elementary conditions for industrial development have been created, etc." (*op.cit.*, p. 71).

The same process concerns banking system: "Thus finance capital, literally, one might say, spreads its net over all countries of the world. An important role in this is played by banks founded in the colonies and by their branches" (Lenin, 1917, p. 73).

By a way of summarizing the above mentioned, we are left with the recipient-countries experiencing partial or full loss of political and economic independence. The loss can be expressed in the form of colonial dependence; and different degrees of financial and monetary dependence, which might result in a partial factual loss of political and economic independence. At the time, Lenin mentions various countries, which are identified with the last group and which are not named as one of "great powers" (England, Germany, France). Mostly, they are countries, which apparently, lost their own sources of capital's accumulation, and are seeking for outer resources of capital, as noted by Lenin through the citation from the review of Die Bank: "numerous foreign countries, from Spain to the Balkan states, from Russia to Argentina, Brazil and China, are openly or secretly coming into the big money market with demands, sometimes very persistent, for loans" (*op.cit*., p. 72).

Assuming the changed international political scene, we can assume, basing on the theoretical propositions, that colonial dependence is not an actual form of dependence nowadays, since the post-colonial countries are officially sovereign and not anymore politically dependent on the metropolitan power. However, in some cases, as we will see later on when examining the works of Nkrumah (1965) they might still suffer from the significant constraint of political will.

Nonetheless, excluding political dependence, the most focus is placed towards the financial and monetary dependence, leading to the economic ties with developed countries. The degree of this dependence and severity of its consequences for the political and economic sovereignty of one country must vary quite significantly and constitute a unique case of each of economy. Although, the focus of Lenin's point is not the degrees, but the very own existence of a precedent of dependence.

1.4. Comparative analysis of some aspects of imperialism in the approaches of Lenin and Hilferding

Let us compare Hilferding's and Lenin's observations in regard to some of Marx's ideas.

Firstly, Marx ([1894] 2020) points out that all real owners of productive capital – shareholders – are money capitalists and all the profit is represented for them in the form of an interest (dividend). Former productive capitalists are expropriated from their proprietorship rights, and these were given back to public. However, public property again makes a cycle of transformation and becomes hold by a new minority.

Hilferding ([1910] 1981) continues this research, claiming that securitization of a company's equity deals with many other operations connected to this process. Firstly, a lot of common shares are in the hands of one group of financiers and provide them with a majority in a decision-making process. Secondly, since the price of common shares always fluctuates, from one side, it allows the founders of a joint-stock company to harvest excess profits, managing the favorable market conditions and inner policy of a company, and from the other side to cover any fraudulent transactions. While the public either gets a fixed interest not quite bigger than nominal or participates in stock market operations losing the differential profit – not the surplus value created, but a revenue received from the loss of the other.

Lenin (1917) also makes remarks about this, correlating with Marx in the passages, regarding that the capital is socialized, but “distribution of means of production is private, i.e., it conforms to the interests of big capital, and primarily, of huge, monopoly capital”; writing about the phenomenon of democratization of shares and “holding systems”. Moreover, Lenin, in comparison with Hilferding, presents this part in a worldwide perspective. He connects the phenomenon of “participation system” with the export of banking capital. Thereby, this system is adopted at the international scale, where countries with mature capital “own” most of the banks of a foreign country, which in turn operate like the “subsidiaries”.

This connects with the economy’s behavior during its cyclical dynamic, particularly, the process of monopolization. Hilferding ([1910] 1981) writes about the tendency of increasing of interest rate that banks set along with the cyclical movement to rise in economy, its falling and recession. Banking credit is demanded by speculation needs in the stock market at the highest point of an economy’s cycle and the trade speculation for holding commodities outside the market. This leads to gradual rise in the interest rates.

Hilferding and Lenin both share the same consideration: the higher the level of interest, the higher the share of financial capital in the outcomes of a high market environment: while the upturn continues, the share of money capital in the profit of productive capital increases.

Interestingly, Hilferding and Lenin’s views on the role of banks differ during economic crises starting with insolvency of enterprises. Hilferding ([1910] 1981) critiques the limited banking crediting during the crisis which only worsens the production’s crisis, where industry urgently demands more commercial credit in terms of lack of working credit and own free finances. If it was not for the lack of means of circulation, it would be possible to avoid money and bank crises and consequently, to soothe the industry’s struggles. This phenomenon Hilferding connects with the corrupted dependencies of the high powered money: they were defined not by those commodity values that were in circulation, but by the metal stock of money or by government bonds (as in England and the USA), which became highly limited during the recession. Although, nowadays the dependency relations between high powered money and metal stock is not the case, the point that Hilferding makes does not lose its value, considering that the relations around fiduciary money and other economic categories became more complex.

However, Lenin (1917) does not see the banking system as a possible tool for the improvement of critical situation. He sees banks as a factor in the cyclical nature of economy: eliminating of weaker economic agents and expanding the financial monopolization occurring during crises; an opportunity to benefit either from crediting enterprises and binding them further or limiting credit and having profit from high interest rate and opportunity to buy back impaired shares.

Lenin does not assume that the strong dependency between countries, based on the capital's export might be partially solved by the establishment of dependency relations between the volume of commodities transactions and quantity of money titles, that ideally should have represented the actual goods' swaps. Although there are some transactions that happen in the productive economy, there are also swaps happening with fictitious capital, which also require credit. In Lenin's work the hypothesis of orientation on crediting needs in economy is not developed and rather neglected.

Moreover, in chapter 27 of "The Capital" there is another important role of credit emphasized ([1894] 2020), p. 304). Credit endows a capitalist with the right to manage another's capital and property and, thereafter, the another's labor. They take risks in operating with the public property, but not their own, which might be extremely small in comparison with the credit obtained or even absent. The result of this is that credit is the main engine of overproduction in economy and excessive trade speculation. As Marx puts it: "an increase in the value of capital allows real, free development only up to a certain limit and, therefore, in reality creates immanent fetters and limits for production, constantly interrupted by credit" (*op.cit.*, p. 278). The process of reproduction is forced by credit to an immense extent being in a public property. Banks in Marx's work are the representatives of public capital: apart from the money trade, they as well manage the interest capital.

Hilferding ([1910] 1981) emphasizes the functions of banks and their influence more precisely in his work. Hilferding highlights especially, banks deliver capital mostly not by lending it, but by converting money capital into industrial and fictitious capital and performing this transformation by themselves.

Hilferding also researches the stock market functioning and banking system, explaining their interconnectedness. Along with the development and consolidation of banking capital, banks have a huge influence on prices of stocks: by investing the non- compensated funds into securities. Operating with big sums of money capital, banks transform themselves into a stock market, processing securities' "buy and sell" at a large scale. Thus, banks once started to play a major role in launching issuance of shares, becoming more influential in the process of setting up prices in the stock market. Consequently, they seek both for more profitable pricing policy and increase in profitability of companies, the shares of which they have the ownership.

In the work of Lenin (1917), there is also the strong participation of banks in the stock market highlighted. However, Lenin mostly concentrates not on the process of establishing this connection and the mechanisms, but on the consequences of such banking pervasion for the economy. Industry affected by "money capital" awareness and decisions of banking capitalists leads banks into an area where it is more subservient to the blind domination of the industrial environment: imbalance in investment distribution between industries which focus on higher markup opportunities than on developing less profitable and perspective industries.

Moreover, both Lenin and Hilferding agree on the importance of international credit and existence of different export item's groups: commodities and capital, the latter, as Lenin puts it, can have a form of loan capital (government loans) or productive capital (invested in industrial enterprises). Capital export, as Lenin and Hilferding write, allows countries with a sufficiently developed economy (centralized banking system, government debt system and accumulated national reserves) to act like a bank towards other countries with certain financial needs and provide them with production, trade, or banking credit.

Hilferding ([1910] 1981) considers that when goods are exported as capital, the volume of exports becomes independent of the commodity production of a still underdeveloped country, so even if the trade balance of a country of matured economy is negative, positive balance of payments reflects that there is a significant income, coming from an interest collected from exported capital. This allows developed countries to have a privileged position in relation to peripheral countries. Even is their trade balance is negative, they are able to receive constant and high yields.

Lenin (1917) explains the same phenomenon quite differently. He makes a consideration that capital's export allows a country to guarantee the export of its commodities by the established dependency between credited country and creditor and binding a borrower with some specific conditions. However, he sees the necessity of an economy to expand, assuming the thesis on overaccumulation of capital in all countries of matured capitalism, constantly seeking an ever-increase of profit rate.

1.5 Imperialism in the eye of other theories and authors

We have briefly observed the main features of imperialism in the eye of the Marxist theory, represented by the works of Hilferding ([1910] 1981) and Lenin (1917), who share the similar view, except for some differences which will be seen further on. There will be described other views on the phenomenon of imperialism through the lens of other theories and authors.

The first usage of "imperialism" and its interpretation was given by John Hobson, English economist, in the beginning of XX century (Hobson, 1902). Being an apologist of classical school of political economy and of free trade policy, he vastly criticizes imperialism and the modern governmental policies at the time. Hobson was the first to connect imperialism with the policy of territorial expansion, which is defined by the economic interest of ruling classes and the interest of capital that seeks the profitable usage. Accordingly, the main subject of the new economic relationship is mainly a capitalist-financier exporting not commodities, but money and productive capital. These ideas lie down in the following imperialism's theories, and the school of revolutionary Marxism as well.

Moreover, the author tries to forecast the tendencies of imperialism in the world, based on the case of territorial division of China by main international powers in the end of XIX century. These main global powers, countries with huge amounts of accumulated financial wealth exploit the resources of less developed countries, which export mainly commodities, while more developed capitalist countries export mainly capitals. This leads to gradual abandonment of own production in central countries and its transfer to the peripheral regions with cheap labor and labor conditions. These considerations also were hugely applied by Marxist economic school.

Although, there are some significant differences between the first formed theory of imperialism and the ones that were developed later by Marxists: obviously, these differences have their roots in the controversies between two economic paradigms – Marxism and Classical political economy.

Hobson sees the errors of imperialism in irrational income distribution, which follows the thought that all production whether it is planned or real can be consumed and the ultimate purpose of economy is consumption, consequently, use-value of goods is defined by production. In this case, the actual territorial expansion might be seen as one of the ways for fulfilling the need to sell the goods and provide for the huge production. All these goods, indeed, can be consumed inside a nation through the thoroughly organized distribution of income of capitalists. Further, Hobson assumes the “sinful” nature of imperialism that will eventually lead it to its destruction, comparing this to the fate of the ancient Rome Empire.

However, these arguments contradict with Marxist assumption on the opposite nature of capitalism: it strives not for consumption, but for endless profit and this causes the overproduction and periodical internal crisis. Marx saw the value of exchange as the most significant in capitalism and opportunities to increase the surplus value – that is what matters in capitalist production. Imbalances between the amount of production and the limits of current consumption force the major power to expand their economy over other nations. Imperialism is seen a step of capitalism into its monopolistic form – the idea that was absent in Hobson who did not connect monopolies with imperialism. Moreover, there are some thoughts in Hobson’s work that further on would be formed into the conception of ultra-imperialism, supported by the representative of austromarxism theoretical branch Kautsky (Kautsky, 1914).

The summarized critique of austromarxism, very vividly, was done by Trotsky in his work (Trotsky, 1920). Being members of Social Democratic Workers’ party of Austria, led by Victor Adler, Otto Bauer, Karl Renner, Max Adler and Rudolf Hilferding, in some ways were significantly different from the revolutionary Marxism theoretical branch. Trotsky, being a representative of the latter, was calling Austrian school of Marxism as too much passive in actions and theoretical – “the opportunist Marxism”, which searches for the ways of establishing more active and pro-workers policy of government and parliament and in some ways appeasing current capitalistic tensions. Hilferding, the most fundamental and revolutionary economist in Marxist Austrian school, also was criticized for the vagueness of the practical solutions on altering the existing social controversies.

One of the most dubious figures in this Marxist branch was Kautsky (1914), whose ideas were somehow resembling Hobson’s. Kautsky suggests an alternative idea of the essentials of imperialism: it is not, as Lenin claims, the highest stage of capitalism, but one of its forms, which consequently might be altered and need to be struggled against. Although Kautsky, indeed, maintains the hypothesis about the roots of imperialism, formed by Marx, he changes the idea of its dynamic. Followed by the statement of inevitability of capital concentration and establishment of monopolies and cartels, Kautsky claims that this stage will lead to ultra-imperialism: where the anarchy of production and crisis might be as well eliminated by same monopolies. They will be directly interested in full reorganization of economic and social life in order to avoid unnecessary costly conflicts (like bankruptcies, strikes and so on). Consequently, major cartels will eventually come to agreement between themselves and with labor unions as well, who in their turn must support the concentration of production and organized economy. Although this approach tends to appear more as social-democratic and liberal one, neither Kautsky, nor other economists of the school give specific strategies of achieving the "global agreement between capitalists themselves and workers", heavily relying on the idea of "naturalness" of capitalism's evolution. Another Marxism branch, being developed inside Communist party of Germany in the beginning of XX century, was also directly referring to the phenomenon of imperialism. The most prominent author of the current is Rosa Luxemburg ([1913]1951), who dedicated some of her works to the research of this issue. She emphasizes the actual expression of imperialism in the world at the time: territorial expansion and parasitism of major powers in less economically developed regions. This outcome is based on the idea of the production is defined by the consumption and sales, and since there are huge imbalances of these inside the single nation which is not able to consume all the production, it is inevitable for a matured economy to expand its markets. Moreover, for monopoly it is impossible to exist not only inside one market, but also in a single capitalist economic system, because even the increasing consumer demand of workers will not be sufficient for a faster production process. So, there should be some other classes outside the capitalist system, who will increase effective demand by buying manufactured goods. This condition requires maintaining imbalances in the development of global regions. Although, Luxemburg stands out ahead of her time in some of the ideas (such as "effective demand" and "production defined by consumption"), she does not develop the solid theory, pointing out just the needs of the capitalist class in the sales markets for surplus value and ignoring changes in capitalist property and production.

1.6 Contemporary topics on the theory of imperialism

The theory of imperialism and intertwined with it the phenomenon of finance capital appeared to be relevant and applicable to both the XX century and current international situation. However, the fundamental principles of the theory were taken and developed separately and differently by several authors and seen through the particular aspect and field of application.

At the geopolitical level the phenomenon of imperialism was observed by Nkrumah (1965) and partly by B. Becker (2015), cofounder of the US's Party for Socialism and Liberation. Imperialism in their works is analyzed through social-economic lenses as of the counteract of the massive social struggle both within one nation and, more importantly, on the international scene.

Being an African political leader, Nkrumah continues Lenin's research of imperialistic international order and foresees its evolution into "neo-colonial" stage, which "represents imperialism in its final and perhaps the most dangerous stage" (Nkrumah, 1965, p. 9). Although, after the declared independence African and other previously exploited countries had got their formal sovereignty, the ties between them and metropolitan countries still maintained present, however much more difficult to identify and, consequently, to fight against.

As Nkruma explains "neo-colonialism is based upon the principle of breaking up former larger united colonial territories into a number of small non-viable states which are incapable of independent development and must rely upon the former imperial power" (Nkrumah, 1965, p.13). The invisible ties between them are manifested through military means such as setting up military bases and stationing troops in former colonies or supplying of advisers and, more importantly, through economic and monetary means, which are getting more prominent. The latter include payments towards the cost of running the state, which take the form of international credit, one's country or multilateral aid provided under specific conditions, returning to the neo-colonial master in the form of increased profits, as we have seen it in Lenin's theory. Moreover, there some monetary issues preventing neo-colonial countries from more independence: existence of international monetary blocs and international ownership of the majority of post-colonial banks (particularly, in Africa); international reserves are hold by the metropolitan country, nevertheless estimated for each member, they cannot be drawn beyond a credit margin centrally established; local monetary and exchange control, dependency on the pegged international currency. All these economic means serve as another tool of dividing sub-controlled territories into spheres of interest, thus limiting the capabilities of post-colonial countries to unite and track the negative external influence.

Becker (2015) also observes an issue of neo-colonialism, citing Nkrumah, but already in a broader and "bolder" context – in the attempt to apply the main considerations of Lenin's theory to the modern society. While the main points made by Lenin remained actual in the work of Becker's party, there are some different aspects emphasized, such as continuing militarization and escalation of local conflicts.

Both the works of Nkrumah and Becker see one of the main imperialism's consequences results in constant conflicts for power and resources, which currently have the form of limited wars. The inevitability of military conflicts and the constraints that were put on it by the interconnectedness of all economic agents in the global order resulted in the local small wars. Along with the growing potential of the developing nations, these conflicts between multilateral international actors might become more apparent and lead to another “restructuring the world’s shape” (Becker, 2015, p.7).

Another observation that was highlighted and was not so closely analyzed by Lenin in his paper, was the geopolitical dynamic towards the widening gap not between the different classes, but the different nations and regions. One of the prerequisites to this, as per Becker, is a disruption between the socialist international movement and nationalist and opportunist propaganda. The labor unions of one’s country with matured economy and old capitalism, are settled by the local benefits they were able to gain, although, these benefits are a part of those costs that were paid by neo-colonialism and oppressing other nations (*op.cit.*).

Nkrumah (1965), as well as Becker (2015) does not suggest that the social and labor movement attempts are vain and unnecessary, but he claims that they should not be sporadic, but consciously developed and planned. Thus, in their theories the revolutionary struggle is seen as not just a one’s class strategy, but as an inevitable way for an independent development for each country.

There is a number of researchers who view imperialism mostly from its financial side, considering it as an immanent and most determinant characteristic of modern capitalism. Amongst them, there are Guillen (2012) and Chesnais (2016), referring a lot as to Sweezy (1994), Serfati (2008), Lopez (2006) and others, who contributed to their works with their ideas.

Both Chesnais (2016) and Guillen (2012) take into consideration the definition of “finance capital” as it was understood and presented by Hilferding. Chesnais differentiates between “finance capital” and “financial capital”, the former is “simultaneous and intertwined concentration and centralization of money capital, industrial capital and merchant or commercial capital as an outcome of domestic and transnational concentration through mergers and acquisitions (M&As)” (Chesnais, 2016, p. 5).

Guillen (2012) in his work puts an emphasis on the definition of “monopoly-finance capital”, that was suggested and developed by Sweezy. He draws the line between the processes of capital accumulation and centralization within the existing form of financial economy. Guillen advocates Hilferding in a defining power of finance capital, contradicting the false comprehension of Hilferding about the banking system exercising its power over the industry. Guillen states that it is the control, “which is exercised by monopoly-finance capital over the issuance and circulation of fictitious capital by means of banks" (Guillen, 2012, p. 12). So, "it is neither the old banking capital in service of industry, nor the banking capital that dominates industry" (*op.cit.*, p. 6).

One of determinants of the power of finance capital is the "promoter's profits", which Guillen adopted from Hilferding, explaining it as a following: ""promoter's profit" is a kind of "extraordinary profit," like a monopoly profit, which can be accessed only by monopoly-finance capital through the control it has over the issuance and circulation of fictitious capital" (*op.cit.*, p. 10). This kind of profit became one of the principal mechanisms, which prevents the falling rate of profit in monopoly capitalism.

Finance capital constitutes the base for monopoly capital's further survival. According to Guillen, it is accomplished by the interlocution of financialization opportunities, strengthened by processes of globalization and deregulation, and fees taken from the securitization of financial instruments, which help monopoly capital to "succeed in elevating profit margins, but at the cost of rendering the financial structure more fragile", which in the opinion of Guillen led to the global crisis of 2008 (*op.cit.*, p.13).

Chesnais (2016), as well Guillen, argue that finance capital nowadays is not about the hegemony of banks over the industry. With the evolutionary process and finance capital diversification, "interest-bearing capital", as it was used by Marx, now penetrates operations of all money, industrial capital, merchant or commercial. By the analysis of contemporary capitalism's features through the Marxist theory lenses and Hilferding's theory of finance capital concentration and ideas of the Lenin's work on factors of monopolies' creation, Chesnais identifies the aspects of the most significant influence of finance capital, along with the observation of its development in XXI century.

Having in mind the latter, Chesnais thoroughly analyses existing forms of interest-bearing capital. These modern forms of interest-nearing capital can be viewed as the result of the evolution of those tendencies, which were observed and presented by Lenin (1917) in the beginning of the XX century, and might bring light towards the modern implications of imperialism in financial and banking system.

The increasing importance of the process of financialization and role of interest-bearing capital was as well highlighted by Krippner (2005), who indulged into research of a ratio of portfolio income to cash flows through 1950-2000s. Chesnais (2016) uses the results of this research, showing that the indicator of financialization grew from 20% in 1980 to 60% in 2001 (*op.cit.*,

p. 113).

Chesnais tracks several changes in the financial system. During 1980s he emphasizes the entry of new actors in the centralisation-mobilisation of money capital, such as pension funds and mutual funds, disintermediation of credit and increasing use of securitization (Chesnais, 2016, p. 199). The new actors posed challenges on the commercial banking: "the response of commercial banks was an increasing diversification out of traditional activities […] reinforced by every new step taken towards liberalization and deregulation" (*op.cit*., p. 201). Amongst them there was an authorization of creation of bank-holding companies and a repeal of Glass-Steagall provisions[6], which allowed securities-dealing operations of commercial banks and the affiliation between commercial banks and securities firms.

From 1990, Chesnais notes a qualitative leap in the scale and consequence of credit, caused by formation and rapid globalization of the shadow banking system (system of credit intermediation that involves entities and activities outside the regular banking system) and adoption of the originate-to distribute banking model. The latter changed the system in such a way that brough banks more to the "opportunities created by securitization", allowing securitized loans to be "taken off the balance sheet and sold to another bank or fund, which is free in turn to sell them". To the creation of shadow banking system led creation of hedge finds with varying high-risk profiles by pension finds in 1990s. (*op.cit*., p. 215). "In order to remain profitable, the larger banks followed their example".

Moreover, enterprises, especially TNCs, are also engaged in financial operations, setting up their own internal group of banks.

Overall, the result of financialization of economy during this period was the diversification of commercial banking with emergence of investment banks, insurance companies, appearance of various sorts of funds – pension funds, mutual funds and hedge funds; the largest banks after 2008 crisis transform themselves into diversified financial service corporations, financial conglomerates (*op.cit*., p. 202).

Chesnais also points out that in the process of financialization of credit, there is a shift made during 2000-2008 from enterprises' indebtedness towards financial corporations' indebtedness and, lesser, the households', which in its turn make the financial system even more fragile (*op.cit*., p. 198).

[6] The Glass-Steagall Act was passed in 1933 in US and forced commercial banks to refrain from investment banking activities. Glass-Steagall Act was largely repealed in 1999.

With all these changes, the issue of ownership and control, more properly understood as the relationship between capital-as-function and capital-as-property, have once again risen. Thus, as per Chesnais, most of investment decisions are targeting short-term margin; the shareholder dividends are of the prime importance, which rise mostly due to the value appropriation by acquisition of weaker firms; there is more prominent transition from value creation to value extraction, with the aligning neglect of investments in R&D.

The problems arising from the above-mentioned systematic shifts are rooted in the main “controversy” of capitalism, as it was mentioned by Marx: there are some immanent barriers injected into the capitalistic system, which are posed by the ever-increasing profits nature of capitalism itself. Chesnais (2016) sees these barriers as a lack of the accumulation upturn in the world economy that could have driven the economy as it happened after the 1st and 2d Industrial revolution. The late 1990s ICT-sector development was not enough for fueling the long-term growth and a consequent productivity increase through expansion into new markets. Instead of vast growth of industry, there is “financial” growth in the economy, triggered by credit booms, ending in sapping productivity growth, particularly, by allocating resources to the wrong sectors. The way-out of this vicious circle, which was suggested by the author is close to the one described by Nkrumah, and relies on the global social struggle (Chesnais, 2016).

Furthermore, features of imperialism are reflected in some of the academic works of Latin-American economists on dependency theory. Hereon there are to be observed works of the following authors: Valencia (2017) and Dos Santos (1970). Theory of development, as per Dos Santos, seeks to “explain the situation of the underdeveloped countries as a product of their slowness or failure to adopt the patterns of efficiency characteristic of developed” (Dos Santos, 1970, p. 231).

The main difficulty in dependency theory’s analysis is that its framework is very broad. Nevertheless, Valencia (2017) makes an elaborate work in an attempt to research and summarize dependency theory’s approaches and manifestations. The author differentiates dependency theories by the framework of economic school, from which they take their basic principles. He distinguishes neoliberal and Keynesian theories in some features of structuralist, functionalist, developmentalist approaches to the issue of dependency. Prior to this, Valencia divides the social sciences of development theory by one of the criteria, related to how they view the underdevelopment: as a necessary stage in the linear process to the fill –development or through the quantitative and determinist measures, as a set of formal benchmarks and indicators.

All these approaches suggest different sets of policies and strategies to cope with structural imbalances – through the industrial modernization (structuralism), modernization of social-economic and political system which in its turn will lead to the industrialization (functionalism) and industrialization through the possibility of "autonomous" capitalist development (ECLAC's developmentalism).

Most importantly, Valencia emphasizes a place of Marxist economic school in dependency theory, He also gives an opinion of Marini, Brazilian economist, who insisted that "only by using Marxist theory could dependency be properly studied and understood, and that therefore dependency theory needed to free itself completely of the structuralist and functionalist aspects acquired in its early days" (Valencia, 2017, p. 38)

One of the approaches to the issue of dependency that Valencia advocates is sub- imperialism, which was put forward by Marini (1974). Per Marini, sub-imperialism is a "form assumed by the dependent economy in the age of monopolies and finance capital" (*op.cit.*, p.72).

There must be understood why Valencia as well as Marini consider dependency theory as an exponent of Marxist theory.

In a view of Valencia (2017) features of the current international social-economic relationships resemble the imperialist theory, studied by Lenin. Although, nowadays, some of the features have been evolved: fictitious capital important role in the economy and low growth rates its causing strengthened by IT-revolution, which provides for the further valorization and concentration of global capital; crisis of overproduction caused by the mismatch of supply and demand worsened by expansion of labor chains and production specialization among countries and regions; the latter contributes to the deeper international exchange relations, whereas under classic imperialism capital exports were more important, nowadays dependent countries tend to export particular groups of products like material wealth, manufactured and assembled goods, and monetary and financial resources to the global centers of economic and political imperialist power. Lastly, Marini mentions the presence of military conflicts around the world – "disaster capitalism" – ability of business and finance to create and thrive on the natural calamities, human tragedies, and conflicts (*op.cit.*, p. 46).

The main feature of the sub-imperialism comes from Marxism: problems of production realization and divorce of production from the consumer needs. The cornerstones of sub-imperialism for Marini (1974) are: labor super-exploitation causing the drastic drop in the workers' real wage; insertion in global division of labor and its influence; high organic composition of capital among sub-imperialist country's enterprises and its monopolistic position in a regional market allowing to extract extraordinary surplus value, which in its turn needs to be reinvest; the latter causes mismatch between the demand and supply and a necessity to expand abroad in search for sales markets and attention for luxury consumer items. In this realm, sub-imperialistic country represents also features of dependent country: it cannot overcome its structural dependency.

Dos Santos (1970), also shares the view of "burden" of structural dependency, which some countries are not being able to overcome. He points out to the restrictions of the internal market of dependent countries. As big capital from hegemonic centers expanded abroad through investment in the production of raw materials and agricultural products, production in dependent countries became oriented to the demand from abroad. Since most of the national income of dependent countries comes from abroad, it creates constant limit of resources, which, from the other side, is sustained by the "vicious circle" of capital account deficits: necessity to purchase inputs for export production or luxury goods as a part of consequences of participation in global division of labor. Domestic consumption is highly limited also due to the labor super-exploitation. Lastly, this dependency created a monopoly's limitation on patents and technology, which enter the peripheral countries in the form of capital.

However, Dos Santos differs from Marini and Valencia in the sense that he didn't emphasize the hierarchy of the dependent countries, which gives a way for sub- imperialism – already a regional limitation, caused by the necessity to adjust to a highly disproportionate international production structure. Although the economist discusses preferably economic methods and instruments of dependency, he does not support solutions provided by the developmentalist and functionalist approaches of dependency theory, suggesting that a country might go down the path of fascism or socialism seeking a resolution of dependency issue.

Final remarks

In this chapter we have attempted to examine the fundamentals and the roots of the imperialism's theory through the works of Marx and Hilferding and to analyze the main pillars of Lenin's theory of imperialism; and we have presented a brief overview of the "evolution" of the theory over the academic literature in the middle of the XX century and the beginning of the XXI century.

The chapter places the main focus on primarily Lenin's theory of imperialism, which is seen both from the general perspective and within the aspects of financial and banking sector.

We gave a brief summary of the main features of imperialism, as per Lenin, among which are: concentration of production to the point of creation of monopolies; creation of financial capital, developed from the merging of bank and industrial capitals; the distinguishing of export of capital among other exported products; emerging of international monopolist capitalist groups; the completion of a territorial division of the world and its continuous reshaping through the competition.

Although, there is a full review of Lenin's theory of imperialism, as a scope of our interest we chose some of the theoretical pillars. Firstly, they are the dependency relationships within the imperialist system between the core and peripheral regions taken in their form of the foreign investment and capital flows into the peripheral country's banking system. And, secondly, there are the consequences, that the exported financial capital might inflict upon the country-recipient, which are, namely, as the theory claims, "re-launched" and accelerated process of capitalism's transformation into its monopoly form – the finance capital's dominance over the economy.

The assertion of monopoly capitalism is realized by the following factors: separation of ownership of capital from the application of capital to production, reaching big proportions; concentration of production, leading to creation of monopolist capitalist associations, cartels, syndicates and trusts; concentration of money capital, achieved by the development of banking system; merging of banking capital with industrial capital, and the creation of finance capital. These particular aspects of the theory were developed by some modern Marxist economist, whose works were analyzed previously in the chapter. Their works, being a current stage of the development of the imperialism's theory, give some important insights and consideration on how and in which forms the finance capital has evolved until today: diversification of commercial banks' services; broader usage of opportunities of securitization process; new financial entities, such as funds and various investment vehicles; emergence of shadow-banking system; and interpenetration of production and finance areas in the examples of TNC, establishing their own financial institutions.

Next chapter is supposed to build necessary empirical ground to the theoretical framework, which was discussed here, and examined the historical retrospective of Mexican economy and banking sector.

Chapter II. Economy and Banking System in Mexico: outcomes of the neoliberal reforms

Introduction

After the oil’s prices boom that happened during 1978-1981, Mexico had collected significant public foreign debts. Then, when the Federal Reserve of the United States started tightening the country's monetary policy through a high increase in their interest rate, it led to the outbreak of a debt crisis in Mexico in 1982.

The foreign debt indebtedness was relevant not only for Mexico and the crisis, with consequences of different intensity, rolled across most of the Latin American region. The particular reasons for the crisis are also one of the topics of controversial debates among academics.

Following the discussions of chapter 1, the analysis of the changes in the Mexican economy since the 1980s is going to be based on the points of characteristics of an imperialist country and dependency relations in an imperialist system, according to Lenin’s theory. The Mexican case was chosen as a particular social-economic reality which is likely to display the controversies of imperialist cross-national relations. The peripheral character of the economy and a trade liberalization process it has embarked in the 1980s and the beginning of 1990s expanded and strengthened the existing connections between the Mexican economy and other advanced economies of the world, the main role of which is taken by the US due to its geographical proximity to Mexico’s borders, and their historical and economic ties.

Before the analysis of the period since the 1980s, we will give a brief picture of the earlier period of industrialization, which will provide the understanding of changes in governmental strategies, their reasons and main targets, as well as the main problems of peripheral economies, that were not resolved during the earlier period of industrialization and became a basis for further economic and social imbalances and conflicts.

The chapter is divided into two major parts. The first one gives a brief introduction to the main economic changes in Mexico since 1950s and to the present day, leading through such topics as import-substitution strategy; Debt crisis of 1982; trade liberalization period with the later one focusing on two dimensions: loan capital export (including international loans to Mexico and debt relief agreements) and investment capital export (including structural economic reforms, concerning privatization process and financial sphere, and free-trade agreements such as The North American Free Trade Agreement (NAFTA)); and economic stagnation in Mexico in 21st century.

The second part focuses primarily on the banking sector and, partly, on changes in the financial area, in general. Starting this part with the process of financial liberalization, which is narrowed within the scope of privatization of banking sector and secondary market's development, this part is unfold in such topics as: financial crisis of 1995 and the measures of the Mexican authorities for mitigating the consequences of it, united under "Programa monetario para 1995" (Rescue package); and internationalization of banking sector after 1992, which gives review of the alterations in the legislation on foreign participation in banking industry, banking sector performance (over 1994-2020), and cases of most prominent FDI flows during the mentioned period.

2.1 Historical retrospective of Mexican economy

2.1.1 Import-substitution strategy in Mexican economy

Before starting a trade liberalization program, Mexico had been following the path of import substitution model[7] up until the mid-1980s.

According to the political powers and governmental authorities at the time, the import substitution model was claimed as a reason for a slowdown of the economy's growth and suppressed populist's political pressures. The phenomenon of exhaustion of this model of development was partly observed in Moreno-Brid and Ros' research on the historical retrospective of Mexican economy (Moreno-Brid & Ros, 2009). Some scholars (Golub, 1991), Cárdenas (1996), Kaufman (1979) claim that one of the crucial failures of the import substitution was protectionism, with which Moreno-Brid and Ros disagree, claiming that "those countries with large microeconomic distortions caused by protectionism and subsidies did not suffer economic crises any more than those with small distortions" (Moreno-Brid & Ros, 2009, p. 141). The other reason for the failure is connected to the limited opportunities of domestic production, which was not adjusted for the continuous industrial expansion, and, without being replaced by new actual economic policies, hit an exhaustion.

Let us briefly observe the main characteristics of Mexican economy during the period of import-substitution.

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[7] Import substitution industrialization is a development strategy implying protection and transformation of newly formed industries into self-sufficient for the domestic market demand and for the competition with imported goods. For details, see Kaufman (1979).

Kaufman makes an attempt to describe common features of heavy industrialization amongst the most advanced countries from the region: Brazil, Argentina, Uruguay, Chile and Mexico in some ways (Kaufman, 1979). He analyses the co-existence of the bureaucratic-authoritarian regimes in these countries and the more advanced “heavy” stage of import-substitution period.

To begin with, the second – “heavy” – phase of industrialization implied the large-scale investment in capital goods (such as heavy machinery and equipment, petrochemicals and steel) and consumer durables. These measures required a high level of industries’ protection through the patronizing MNC’s and producers’ goods production, as well as creation and expansion of state-owned enterprises. The promotion of consumer durables needed a favorable import regime as well and subsidies for those inputs that could not be produced inside a national economy.

Moreover, during the phase of import substitution, in late 1950s-late 1970s in major Latin-American countries forms of trade controls were applied: import tariffs, licensing restrictions, and official reference prices (Pacheco-Lopez, 2005).

As for Mexico in particular, the policies in industry protection were strengthened in those sectors that comprise heavy intermediaries and consumer durables production. The protectionist regime heavily relied on the trade policies listed above: from 1960 until 1980 there were substantial increase in protection tariffs for capital goods’ manufacturing (the tariffs rose from 77,1% to 108,8%) with a simultaneous lowered protection of light industries; import licensing for manufacturing were combined with price controls and subsidies for agriculture (Ros, 1993, p. 9).

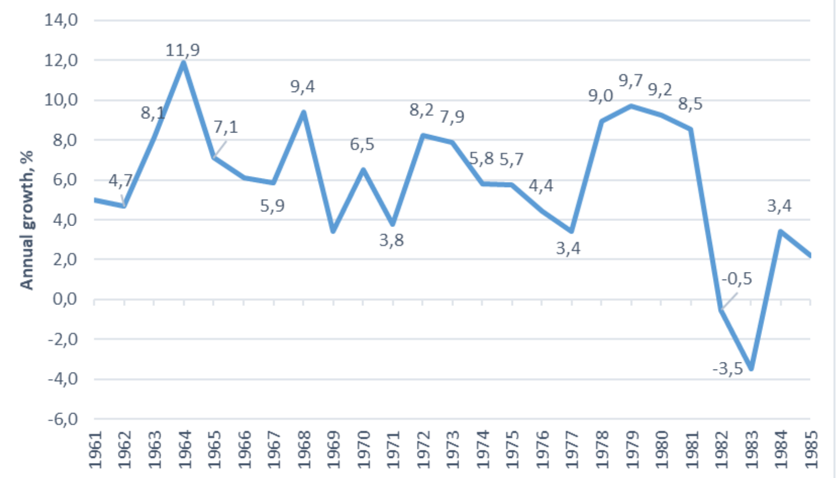
With a Foreign Investment Law in 1973 there were more steps made for further protection: the government established 49% of restriction on the foreign ownership in local enterprises.

The preferential industries during 1970-beginning of 1980s (such as automobile industries, microcomputers, and other capital goods) were subsidized through public investment and Development bank's reactivated role. In this period there was a dominance of actual promotion of infant industries production with an emphasis on “local industry integration” through such incentives as domestic content requirements (DCRs), adopted in 1962 in the automobile industry, and lists of products potential for import substitution.

Secondly, the requirements for production promotion and import substitution in heavy industries were supporting other strategic goals, such as export of primary products and industrial export promotion. The governments were aiming to support investments into heavy industry with capital inflows from the exports of primary products. The newly export-oriented industries required additional financial support and preferential attitude. Moreover, these strategies were complicated to implement because of the long-term necessity to provide a stable macroeconomic environment with a devalued currency and applied stabilization measures. Export promotion could be established by the low fixed costs of production, which implied variety of conditions such as "devaluation and subsidy burdens on urban consumers; requirements of low labor costs and union discipline; liberalization of import policies; and stable expectations about price and exchange levels" – which was posing a threat onto populist interests and were triggering conflicting political situation (Kaufman, 1979, p. 212).

The period between 1950 and 1970 was generally characterized by a stable international economic environment – enabled by the Bretton Woods System[8] –, although Mexican government was also significantly contributing to the growth's opportunities by maintaining a stable macroeconomic policy. Mexico managed to keep a fixed nominal exchange rate in 1954-1979, a stable real exchange rate up to 1973 and controlled inflation at a record low rate of average 3,5%. As it is seen from Figure 1 – GDP growth during the mentioned period was rather stable with an average of 6,7%.

Figure 1: GDP growth (annual %), Mexico (1961-1985)



Source: World Bank database. Author's elaboration.

Export promotion strategy became dominant in Mexican policy in the 1970-80s as a next stage after the import substitution phase. Although during 1960s Mexico had already made a step towards more diverse export expansion by launching the program on the development of

[8] For details, see Eichengreen (1996).

assembly plants, later on this kind of industry was named maquiladora[9]. In 1970-80s this program was complemented by several governmental endeavors, which included providing of short-term credit and financing the export-oriented investments (by Fund for the Promotion of Manufactured Products (FOMEX for its abbreviation in Spanish) and Fund for Industrial Development (FONEI for its abbreviation in Spanish)); export subsidizing and tariffs rebates on the imported inputs required for the production of exporting enterprises, establishing of Mexican Institute of Foreign Trade (IMCE (for its abbreviation in Spanish) to strengthen export promotion efforts and facilitate access to international markets. Already losing its popularity the import licensing strategy was being changed to some trade reforms during 1977-1981 (Ros, 1993).

As for the primary products exporting, according to the interpretations of Ros's data estimations (*op.cit.*), the mining industry's protection tariffs were the lowest almost through the entire period of 1960-1980s. Since the 1980s with the discovery of new oil sources there was a drastic decrease in the protection tariffs rate for this industry. Indeed, as per Ros, "it has been the mining, and especially the oil sector, which since the mid-1970s have subsidized heavily, through low energy prices, the rest of the Mexican economy" (*op.cit.,* p.8).

Lastly, there were income redistribution and domestic market expansion strategies. A necessity to import inputs and overall reliance on imported equipment and capital inflows posed some constraints on domestic market expansion strategy, as well as overestimated potential for local capitalists to increase investment. Promotion of consumer durables and market expansion would "sooner or later run into the balance of payments difficulties" (Kaufman, 1979, p.214). Income redistribution should have been a result mostly of tax and land reform, which, particularly in Mexico, were not fully addressed.

Nevertheless, due to the import substitution and export promotion strategies, Mexico significantly changed its structure of industrial output throughout the period of 1960-1980s: increased share of heavy intermediaries and capital goods in total manufacturing output which rose from 33.8% in 1960s to 49.3% by the beginning of 1980s. (Ros, 1993, p.12). Nevertheless, Ros's estimations show that the main source of industrial growth during 1960-1980s was the domestic demand, which can be attributed to the relatively large domestic market that Mexico

[9] A special free trade and investment regime for export-processing plants along the northern border region, which implied production of assembled electronic devices with a high percentage of imported inputs required for the production, established in 1964.

had. It was “sufficient for industrial sectors with high capital intensity, which allowed strong economies of scale to be established and attract foreign investment” (Moreno-Brid & Ros, 2009, p.122). Trade protectionism and fixed exchange rate led to comprising of export share in output, which fell form 7,3% (during WWII) to 3,6% in 1970 (*op.cit*., p.117).

The high fixed costs of industries, however, was part of a significant issue: dependency on import of capital goods and on foreign investment required to set up the capital and technology intensive industries. Moreno-Brid stresses that “Mexico’s production of capital goods lagged behind other Latin-American countries: more than 90% of Mexico’s market for machine tools was supplied from abroad, compared to only 20% in Brazil, which in addition exported 27%” (*op.cit*., 2009). The potential issues of indebtedness and fiscal budget deficits are also possible to observe in Mexico, which were the main triggers of the upcoming debt crisis of 1982.

Due to not fully addressed tax reform public revenues lagged behind while public expenditures increased trying to contribute to the economic growth of the industry and take the role of redistribution of income and reallocation of the output from the manufacturing industry.

Additionally, there was also an expanded sector of public enterprises, contributing to the increased public expenditures. Primary fiscal deficit soared from 0.5% of GDP to 6,4% of GDP during 1971-1975. As a consequence of the rapid expansion of public spending combined with the oil price shock in 1973 and negative agricultural supply shocks, inflation was speeded up at 20% in 1974 and 25% in 1980. (*op.cit*., p.109)

As import substitution started to negatively influence the manufacturing output growth and failed to diversify into new activities, the share of the imports in the production process continued to rise.

Inflation led to the substantial appreciation of the real exchange rate which also contributed to the payment imbalances issues, trade and current account deficits. These negative macroeconomic dynamics ended up in peso devaluation in 1976, after which the government of President José López Portillo (1976-1982) turned to the IMF for financial assistance for the first time since the 1950s.

The external debt that the Mexican government had collected reached US$24 billion in 1976, soaring from the level of US$7,5 billion in 1971. Massive deterioration of external accounts was reflected in the substantially increased debt service: the ratio of foreign debt interest payments to total exports rose from 27% in 1977-1978 to 37% in 1981-1982 (given the high debt level, but also the above mentioned increase in the interest rates in the international market) and short-term foreign public debt increased from US$1.5 billion-US$10.8 billion in 1980-81 (Moreno-Brid & Ros, 2009, p.136).

Thereby, constant seek of investment necessary for the stable economic growth, which was the main objective of the governments at the time, was limited by the big state's sector in economy, protection tariffs and pressured populist interests. The bureaucratic-authoritarian regimes in Latin America were not generally pursuing a long-term, consistent strategy of any structural changes, but followed "short-term commitments to stabilization, which mostly were the overriding initial concern" (Kaufman, 1979, p.248).

2.1.2 Debt crisis of 1982

This brief picture we have after which Mexico started to follow the path of economic liberalization.

The peso devaluation in 1982 was followed by the drop in the level of economic activity. The peso devaluation triggered a period of recession and acceleration of inflation called the "lost decade" of 1980-1990s (not only in Mexico, but in the whole Latin America). The stagflation that was a consequence of devaluation and drastic contraction in the public investment led to the decrease in aggregate demand and reduction in private investment and massive capital outflows.

The adjustment process to the debt crisis is characterized by several packages of measures which can be divided into the changes in monetary and fiscal policy, and market liberalization reforms, particularly, in the areas of trade, industrial policy, and privatization.

The trade liberalization being a major part of the economic policy' reforming process was supposed to be an "engine of growth". Pacheco-Lopez mentions that "the program of trade reforms introduced in Mexico during the 1985–87 period was one of the most far-reaching of any developing economy" and had a purpose of accelerating economic development in order to "grow out" of debt (Pacheco-Lopez, 2005, p. 596).

However, Pacheco-Lopez argues that "potential gains from trade have been diluted because trade policies have not addressed fundamental weaknesses in the industrial and financial sector" (*op.cit.*).

Indeed, if we look at the data of GDP growth dynamic throughout the second half of the 20th century, we can notice that it became a lot more volatile since the end of the period of import substitution and domestic market protectionism and fell in terms of its average values - from 1985 to 2002 it was 2.6% average and during 1961-1985 it was 5.8% per annum[10].

The goal of the market liberalization process was not fully achieved, however significantly changed Mexican economic conjuncture.

In this chapter we will not focus on the causal relationships between undertaken economic reforms and the existing problems, nor on the sustainability of the potential beneficial outcomes of the reforms, but will try to track the main tendencies in the evolution of the Mexican economy through the lenses of imperialistic relations.

2.1.3 Brief historical retrospective of the beginning period of trade liberalization (1982-1990s)

During the presidency of M. de la Madrid (1982-1988) trade and industrial reforms had not reached their full scale yet. The fiscal adjustment policy and trade and industrial policy were rather controversial, and along with the external shocks in the global markets, the outcomes of the decade in the debt crisis aftermath were not sustainable.

Firstly, the controversies arose in the fiscal adjustment strategy: the government mostly tried to follow the targets of achieving surplus in trade balance and real exchange parity correspondent to the "achievement of the long-term objectives, particularly the promotion of a (non-oil) export-led economic recovery" (Ros, 1993, p.30); and pacing down the inflation rate.

The first target set by structural adjustment strategy, which was being followed during 1983-1985, was achieved by simultaneous sharp cuts in public investment, public spendings, increases in indirect taxes and peso depreciations, which in turn would revalue peso's real value of the "government's foreign exchange balance - a balance in surplus broadly equal to oil export revenues minus external debt service" (*op.cit.,* p.31). One of the contributions to current account surpluses was partly new lending from IMF and international banks.

The change from the structural to stabilization targets in the mid 1980s was conditioned by decreasing levels of trade surplus, caused by real peso appreciation, declined international oil prices after 1985, and the prospects of hyperinflation.

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[10] Data extracted from the World Bank database.

A shift from structural adjustment to stabilization strategy was partly conducted by the program called "Economic Solidarity Pact" launched in 1987, which primarily targeted inflation. An agreement was made between government, labor unions and business confederations, which implied major currency devaluation, which was more than in 1982, freeze on wages, prices and exchange rate, tight monetary and fiscal stance and import liberalization measures.

The moderate import liberalization measures that were taken in 1984 being a part of the structural adjustment strategy under de la Madrid administration were claimed to be not sufficient enough. As Moreno-Brid explains, "in governmental cycles the failure to meet the 1983-1985 inflation targets was attributed to the sluggishness of import liberalization - the absence of foreign competition explained the downward rigidity, during a recession, of profit mark-ups in manufacturing, which in turn accounted for the relatively slow deceleration of inflation" (Moreno-Brid & Ros, 2009, p.239) .

The removal of import licenses and the reform of the tariff system were further accelerated in mid-1985s. After having implemented the "Economic Solidarity Pact", average production-weighted import tariff declined to 12% (from a level of 23,5% in 1982), and by 1989 it fell down to 9,8%; reference prices were removed (Ros, 1993, p.35). The program also succeeded in its main target – pacing down inflation, which fell from 160% in 1987 to 30% in 1990 (Moreno-Brid & Ros, 2009, p.153).

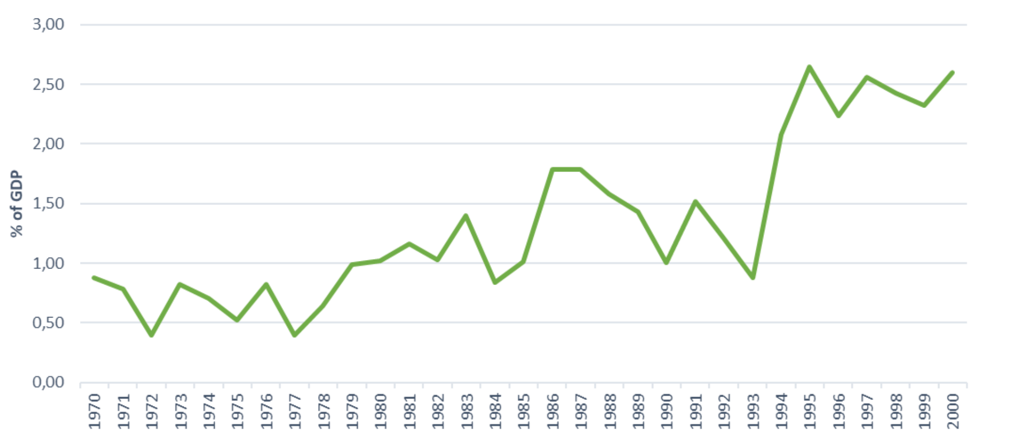
To sum up, the decade after the debt crisis was called "lost" due to its not sustainable attempt to adjust new macroeconomic strategy to the realities of Mexican economy after years of structural adjustment strategy. Changes concerning liberalization of trade managed to increase exports, but triggered an import boom as well, leading to negative trade balance. The primary fiscal surplus improved, but still was at a rather low level. The adjustment was achieved mostly by the reduction of expenditures than by a proper response of trade balance (*op.cit.*).

As Moreno-Brid and Ros (2009) point, the "result of the interaction between the fiscal and external dimensions of the shocks of the 1980s put Mexican economy in a vicious circle of macroeconomic instability, low investment, and stagnation of economic activity".

Under the new administration of president Salinas (1988-1994) liberalization of trade policy strengthened and new industrial policy included such structural economic reforms as privatization and economic deregulation, aiming to attract foreign investment flows.

In the new reality of changing economic policy and ceasing the usage of such heterodox instruments as state control over the economic development through the administrative, fiscal and monetary measures, high level of public spendings on the protection of local industries, there was necessary to find the absent sources of investment for the further development of economy. One of these sources, as data suggests (Figure 2), became foreign investments and loans.

Figure 2: FDI (% of GDP), Mexico (1970-2000)



Source: World Bank database. Author's elaboration.

Capital inflows constitute as well a crucial part of the theory of imperialism, although they are seen in the perspective of the international actors, which export capital due to their necessities, inherited by the existing capitalist system (Lenin, 1917). The situation of capital's export happening between a peripheral and an advanced economy in the theory is included into one of its major pillars – dependency relations between different nations and regions, which is an inevitable consequence and a justification of the monopoly stage of capitalism and financial capital's massive concentration.

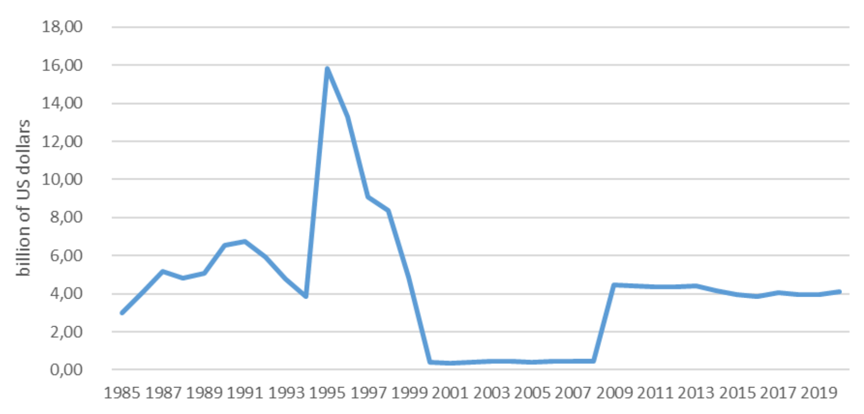
The stage of trade and industrial liberalization in Mexico can be observed as an opportunity for developed economies to increase export of capital to this country, thanks to the beneficial economic strategy adopted by Mexico.

The export of capital, as it is claimed in the theory of imperialism, can be divided into two main categories – loan capital and investment capital.

2.1.4 Loan capital export

Strategic partners such as the United States and international organizations (the IMF) took efforts to support Mexico during the peso crisis. In Figure 3 there is an upward dynamic in the amount of the use of international loans from the IMF to Mexico since the beginning of 1990s. In 1983 Mexico signed an Extended Fund Facility with the IMF, which lasted until 1985, another one in May 1989 and a Standby Arrangement in 1995, from which Mexico used the biggest amount of credit offered.

Figure 3: Use of IMF credit, Mexico (1985-2019)



Source: World Bank database. Author's elaboration.

What attributed to the achievement of a positive capital account of balance of payments from 1989 onwards was debt relief agreement ("Brady Plan"[11]) with international commercial banks. However, a loan went along with the specific economic framework and set of rules that Mexico had to follow as accepted by the agreement.

Debt relief agreement, which after Mexico was spread across other Latin American countries suffered from debt crises in 1980s, according to Brady Plan included some basic tenets: debt relief should help creditors to diversify and decrease the risk involved in financial operations; would help a developing economy to assert capital inflow to maintain the balance of payment; and the changes should be backed by the provision of economic reforms in an indebted country.

Such economic reforms were described in a set of policies named "Washington Consensus", "prescribed" for the countries suffering from certain macroeconomic turbulence and debt crisis, one of which was Mexico. Some of the main propositions included maintaining austerity measures concerning monetary and fiscal policy, liberalization of the market, privatization; and meant to help with recovery from the debt crisis (Irwin & Ward, 2021).

[11] The Brady Plan, the principles of which were first articulated by U.S. Treasury Secretary Nicholas F. Brady in March 1989, was designed to address the so-called LDC debt crisis of the 1980's.

The Brady Bonds were a form of restructured loan granted to a developing country: they were issued by the debtor, denominated in dollars and collateralized by the same amount of zero-coupon Treasury bonds, which have a long-term maturity of 10 to 30 years. One of the beneficial characteristics of these bonds was their liquidity, backed by the US Treasury; low risk, connected to regular and long-term payment of the interest and principal; and an opportunity to roll it over inside the financial system (Izvorski, 1998).

The Brady Plan required Mexico to assert its commitment towards trade liberalization reforms, privatization in banking and industrial areas, austerity measures, financial liberalization, which Mexico had already started in the mid-1980s and strengthened after 1987.

The assignment of debt relief agreement and the consequences it brought about Mexico, very likely coincided with the theory of imperialism pillar on the such from of the capital's export as loan capital, assured by international agreements with advanced economies (Lenin, 1917). The capital-exporting countries with matured capitalism "obtained certain advantages"[12], when encouraging Mexico to uphold economic and monetary strategy, suggested "Washington Consensus". There were not any concrete advantages for advanced countries, which were assured by the agreement, such as ones, which were described in the theory, however, it is certain, that with the liberalized and relaxed legislation on trade relations and financial economy, the big capital inflow to Mexico was established and simplified. Foreign capital assured its long-term entry to the Mexican economy. Considering huge imbalances with current account and banking system indebtedness, lack of inner financial resources and exhaustion of economic growth's drive, Mexico certainly benefited from the foreign loans in the short-run. However, with exported capital, international investors could burden Mexico with the commitment to the economic reforms that would maintain the long-term expansion of the transnational businesses into new markets.

With privatization and trade liberalization processes, which are to be explored further, we will see whether or not - and to what extent - the theory's propositions described in the chapter I were manifested there.

[12] Lenin, 1917, p. 73.

2.1.5 Investment capital export

After the debt crisis and a period of government's urgent mitigation of the consequences through the search of the new sources of capital, there were massive economic reforms launched in Mexico, particularly in the areas of privatization and trade liberalization.

a) Structural economic reforms - privatization

The purpose of the privatization process, which was one of corner-stones of "Washington Consensus" policy of economic reformation, was easing "constraints on the financing of public investment and to reduce the administrative burden of the public sector" (Moreno-Brid & Ros, 2009, p. 169), as well as other macro- and microeconomic goals at the time: improving efficiency in resource allocation and productivity of inputs, stimulation of FDI and economic growth; generating a higher level of social welfare; and improvement in distribution of wealth by the "democratization of capital" being a part of other financial deregulation measures. This deregulation went along with the privatization process and included "price and quantity deregulation, simplified entry and exit barriers, lower restrictions on foreign direct investment and ownership, increased international competition and the elimination or reduction of subsidies" (Rogozinski, 1998, p. 80).

The privatization process can be divided into several stages.

During the beginning stage (1983-1989) a lot of small and medium enterprises that were in the state's ownership were privatized: sold, transferred to the private sector, liquidized or merged. In the late 1988 until 1993 there was a peak of the process which brought the privatization of more valuable industries. As it was mentioned in the research of Chong "firms sold during this period represent over 96 percent of all assets privatized, and they employed 311,000 workers, or 35 percent of the total workforce of SOE" (Chong & Lopez-de-Silanez, 2004, p. 11). During 1990-1992 the whole banking system was transferred to the private sector, most of which was foreign. The third stage (1994-2003) included privatization of strategic areas of the economy, such as telecommunications (including satellite telecommunications), ports, airports, toll roads, railroads and the distribution of natural gas.

From 1982, the year of the banking system nationalization until 2003 the number of state-owned enterprises decreased from 1155 to 210 (*op.cit*).

In academic literature these changes are seen as rather contradictory and evaluated in a different way. Anyhow, the situation around the Mexican public sector by 1982 was critical. There was a big public industries sector which due to its inefficiency required huge public spendings, causing, in its turn, government budget deficit. Financing this escalating deficit with an expansion of external and domestic debt led to the debt crisis and continuing inflationary pressures.

The results of privatization can be seen in a short-term perspective and long-term. As it is analyzed in some researches, such as of Rogozinski (1998) and Chong and Lopez-de-Silanez (2004), short-run perspective on the effects of privatization brings rather positive picture: government succeeded, primarily, in the reduction of its budget deficit by comprising the public sector expenditures (financial deficit of 16% of GDP in 1986 and 1987 (primarily due to smaller petroleum revenues and the high interest paid on domestic and external debt) went to surplus of 0.7% of GDP in 1993) and received additional revenues (privatization earnings totaled 74,5 billion new pesos), which also contributed to the ability to spend more on the social needs of a country and implement macroeconomic stabilization program, which helped to turn down inflation (Rogozinki, 1998, p. 121).

As for other goals mentioned above, such as improving the productive efficiency of newly privatized enterprises; social welfare, distribution of wealth, reallocation of resources – this part carries a dubious consequence, especially seen in the long-term perspective.

As we view these changes through the lenses of imperialism’s theory, the effects of privatization will be divided as previously: into macroeconomic effects for public finances and balance of payments and into the effects for society’s welfare and economic growth (Lenin 1917).

Mexican government’s budget, which was claimed as being more balanced and not burdened with the need of financing the huge public sector, at the same time still required significant financing, which was compensated by other financial inflows, inevitably making it to be more dependent on FDI and international loans, which was noted previously in this chapter.

Second set of privatization’s effects are so-called societal. As we saw in the first part of the chapter during the import-substitution phase, the government of Mexico concentrated the production and banking system in order to be able to build an economy of scale and to reallocate resources. Monopolies were created in different areas (for example, Telmex (Mexican telecommunication company), road concessions). Lenin, mentioning the export of capital, talks about the acceleration of capitalism’s development – such as concentration of financial capital and monopolization of industries (Lenin, 1917). In the Mexican case, there had already been built a monopolistic infrastructure, which appeared not to be efficient and competitive in the world's economy. No doubt that, with the radical privatization, the speed of capitalism's development increased during that period. With the simultaneous reopening of the economy of Mexico and privatization of the industrial and banking sector, these monopolies with the new investment inflow became more efficient and profitable, but a recipient of benefits likely became a parent company, based in different jurisdiction, or another majority's stockholder.

As Lenin claims, the consequences of this process are different for the peripheral economy and for the developed one. Firstly, the loss of political independence of local government, which we could observe in the necessity to follow the "economic prescriptions" of liberalization after the debt relief agreement. According to the theory, this might lead to increasing inequality in the society by the unfair distribution of the increased mark-up from the raised productivity.

The resources reallocation and benefits from the "democratization of ownership of shares"[13], as per Lenin, make anything, but a reverse effect: heightened the concentration of capital, which, considering the lack of independence of political and economic decisions, is not distributed favorably.

Secondly, according to the theory, the developed country assuring the export of capital develops its own capitalist economy of scale: recovery of a private industrial enterprise that has gone bankrupt and ensuring sales overseas. This pillar is not possible to be investigated within the current work, however presents a rather interesting inquiry for future analysis.

b) Trade liberalization (NAFTA)

NAFTA became "the most comprehensive free trade agreement and contained several groundbreaking provisions" (Villarreal & Fergusson, 2017, p. 2). The agreement was approved by the parties' authorities (Canada, the US, Mexico) already in 1992 and put into force by January, 1994. Despite the fact that this agreement is primarily focused on multilateral trade and investment, it affected various areas of the economy, and the consequences and effects on the overall economic performance of the country are highly difficult to measure. However, the next part makes an attempt at giving a brief review of the statistical results of NAFTA's implementation.

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[13] Lenin, 1917, p. 59.

The stated objectives of the free-trade agreement are as follow: elimination barriers for cross border movement of goods and services as well as increasing investment opportunities within the territories of the parties; promotion of the conditions of fair competition in the FTA; protection of intellectual property rights; setting a milestone for further regional and multilateral cooperation (North American Free Trade Agreement, 1994).

Starting off from the ground provisions of NAFTA, it is possible to divide them-into the results connected to trade and balance of payments; FDI and capital flows; further financial deregulation; strengthening mutual interdependence of the economies and up-following steps towards multilateral cooperation.

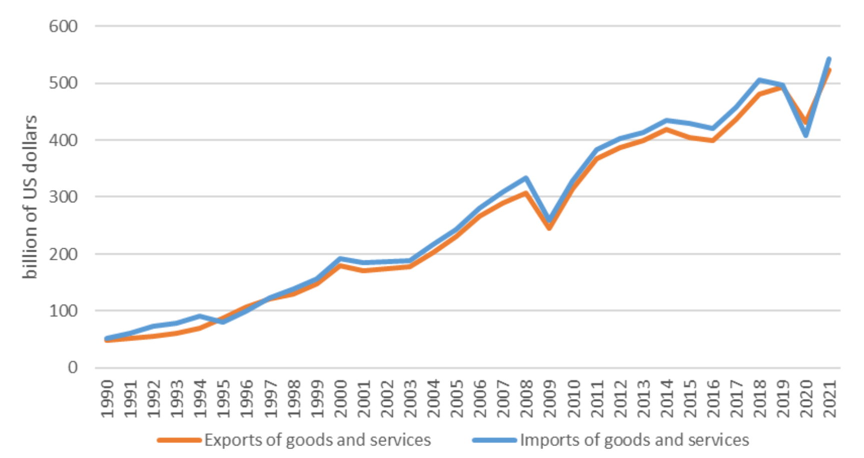
Due to NAFTA's implementation Mexico managed to lock the process of its trade liberalization. Prior to the agreement Mexico had already accomplished several steps towards trade liberalization. In 1986 Mexico became a member of General Agreement on Tariffs and Trade (GATT), which led to a gradual tariffs' lowering from 100% to 20%, during 1985-1989 Mexico's trade-weighted average tariff fell from 25% to about 19% (Villarreal, Fergusson, 2017, p. 4). Entering NAFTA, Mexico agreed to continue the process of market opening by eliminating all tariffs and most non-tariffs barriers in 15 years after the implementation of the agreement. The removal of tariffs concerned the following economic areas: textiles and apparel industries; automotive industry, in which NAFTA eliminated Mexico's restrictive decree on the imported automotive products; agriculture, where tariffs were decreased through a substantially longer period (15 years) due to the fragility of specific productions fields (corn and sugar); services with certain exclusions for each country; FDI with some restrictions on foreign investment into the energy sector (oil and gas drilling).

In 1993 the average tariff rate on all imports from the US to Mexico was 10% and already by 1996 it went down to 3%, while decrease of tariff level of the same indicator for the US during 1993-1996 constituted 0,6%.

There were also non-tariffs barriers that were phased out by the agreement, such as import restrictions. Before becoming a member of GATT, Mexico used to require import licenses on all the imports. When entering GATT, prior to NAFTA the country used to cover 230 products from the US by non-tariff barriers and 60% of all agricultural exports from the US.

The results of import tariffs and non-tariff barriers' elimination were a drastic increase in volumes of services and goods' mutual flows (Figure 4), and Mexico's surplus in trade balance with the US. Through the graph it is possible to observe that Mexico did have a rather stable growth of both its imports and exports.

Figure 4. Exports and imports of goods and services, Mexico (1990-2020)



Source: World Bank database. Author's elaboration.

In terms of the trade relations with the US and Canada, the former started to play a huge role in the trade relations with Mexico. Mexico is tightly connected to the US export market. According to the data from CEPII, in 2020 the share of exports to the northern partner constituted 74,7% out of all the partners, with Canada holding only 11,1%. The main share of imports to the country also is kept by the US, although its level fell from 72,7% to 55,3% during 2000-2020, due to the increase in imports from China (9,63%), the US still holds more than a half of Mexico's total imports.

Observing the same tendency from a different measure: from 1993 until 2019 Mexico increased its imports from the US from 48 billion of dollars to 206 billion of dollars, with the main sectors imported being capital and consumer goods, machinery and electronics[14].

While the main Mexican partner is the US, by 2020 the share of the United State's import and export to Mexico was equal 14,5% and 14,6% respectively. Canada as another member of NAFTA held share of 16,2% of total US exports and 11,8% of total US imports[15].

In comparison with goods, in services, the United States had a surplus of 9,6 billion dollars in 2016 in trade with Mexico. U.S. private services exports to Mexico increased from 10,4 billion of dollars in 1993 to 31,5 billion of dollars in 2015 (Villarreal & Fergusson, 2017, p. 15).

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[14] Data extracted from CEPII statistics.

[15] Data extracted from CEPII statistics.

NAFTA's membership for Mexico did accomplish one of the main goals that was put forward – attracting more capital flows and investment.

Rise in investment flows, which was propelled and intertwined with trade growth, occurred between the members of the agreement encouraged as well more investors from outside North America (such as Japanese and Chinese firms) "to use Mexico as an exporting platform to the US market" (Velut, 2011, p. 5). The overall amount of FDI inflows to Mexico, increased rapidly from an annual average of 3,5 billion of dollars in the period of 1987-1993 to 12,4 billion of dollars during 1994-2000 (*op.cit.*). By 2020 the indicator reached a point of 31,3 billion of dollars, falling from its highest point in 2013 at 50,8 billion of dollars[16].

However, apparently, the most considerable source of the FDI inflows was provided by US's investors. In 2008, US's FDI inflows accounted for 41% of total inflows to Mexico (rising up to 53% in 2009) – benefiting more than 21,000 companies – along with 68% of the total amount invested in manufacturing, and 51% in the banking sector (*op.cit.*). According to the statistics from the publication by the Mexican Ministry of Economy, out of 31,3 billion of dollars of FDI inflows by 2020, 39,1% was held by the US and 14,5% by Canada. Other important investors for Mexico are Spain (13,7%), Japan (4,2%), and Germany (3,5%)[17]. Thus, North American FDI accounted for more than a half of Mexico's FDI inflows in 2020.

The most prominent and high potential areas for foreign investment remain manufacturing, having a share of 40,6% of total FDI, financial and insurance services with 23,2% share. While the most preferred form of establishment of a firm for foreign investors are subsidiaries and assembling plants for the "maquiladora" (assembly plant) industry[18].

Concerning the brief observation of the statistical information placed above it is possible to state that, although NAFTA significantly increased the growth of regional trade and investment flows, one of the outcomes of it became the Mexican economy's increased dependency on its North American trading partners.

Reaching the last points of the factual effects and influence of NAFTA, it is worth mentioning the realization of one of the goals for the agreement stated above: multilateral cooperation. According to several scholars (Velut, 2011), based on particular evidence, the international

[16] Data extracted from World Bank database.

[17] Information from publication of Mexican Government (www.gob.mx/shcp/gacetaeconomica/articulos/la-inversion-extranjera-directa-en-mexico-sumo-mas-de-29-mil-mdd-en-2020 [accessed on 23.08.2022]

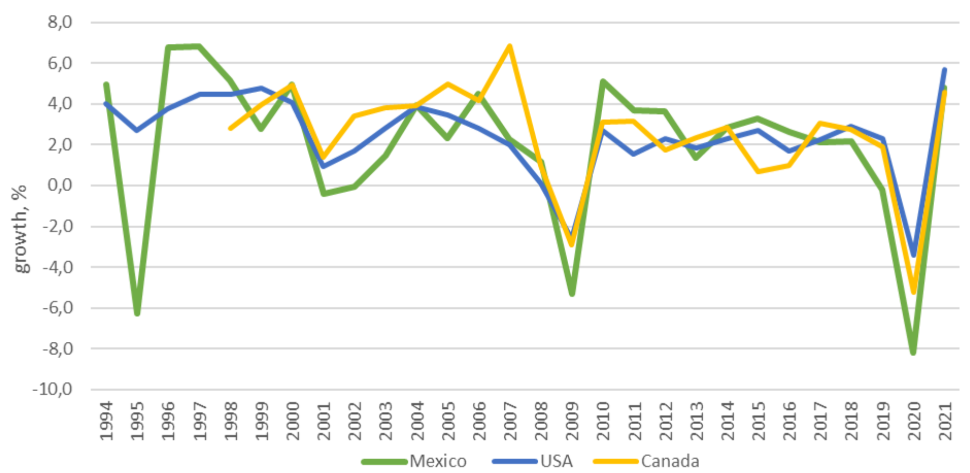
[18] Information from Publication of Santander Bank (santandertrade.com/en/portal/establish-overseas/mexico/foreign-investment#fdi [accessed on 23.08.2022])

cooperation between countries, though having been successfully achieved in some sectors and economic fields, was not balanced and did not protect, nor supervised some important social-economic areas, such as labor and employment issues and environmental questions. Lack of the supranational structure which would monitor the consequences and factual effects from the rapid and irrevocable changes in the structures of the economies of the involved countries, led NAFTA being rather more favorable for the particular businesses and industries, than for the economic and social growth as a whole.

As it is possible to observe from Figure 5, it is not clear the dependence between the relations of the GDP growth and NAFTA's further and more profound introduction and the impact of the last on the overall performance of the Mexican economy.

Velut argues that "NAFTA's regional integration "model" developed primarily to maximize business efficiency through the reorganization of production processes on a continental scale" (Velut, 2011, p. 5).

Figure 5: GDP growth (%) of Mexico, USA, Canada (1994-2021)



Source: World Bank database. Author's elaboration.

Making the connection of this part with imperialism's theory, it is possible to note the following theory's manifestations (Lenin, 1917).

One of the two sources of imperialism's "export of capital", analyzed above, is through foreign direct investment, trade contracts, favoring the exports of products of the countries of matured capitalistic systems.

The Mexican debt crisis led to the loan's agreements with the major economies which established and conditioned for Mexican economy gradual liberalization and internationalization. Lenin in his work states the "openness" of the peripheral economies to the loans from economies with matured capitalism leads to the implementation of specifically conditioned trade and investment agreements, with which the parent companies can advance their sales market abroad and rip the benefits of the multilateral trade.

Indeed, Mexico, unlike the US and Canada, has more than a half of its total export and imports tied to the markets in the US. It had a four-fold increase in the number of imports from the US during 1993-2019 with most of the production being placed into machinery and electronics, among capital and consumer goods. With one of the most invested industry being machinery and electronics as well, it is worth to notice that Mexico once again maintained its dependency on the inputs for its production process as it was during import substitution phase, however, this time, the “internationalized” equity already gives more space for control of mark-up and the profits’ distribution by global businesses.

Moreover, the drastic increase in the amount of FDI, financial and trade inflows put Northern America into a tight structure, where Mexican economy became a part of the chain of the continental production process. Important recipient of the FDI is the Mexican financial system, which provides greater freedom and rights for the foreign participants. The role of the banking sector in the Mexican internationalization process will be seen more closely further in the text.

Although Mexico's trade balance with the US in the recent years was positive, Mexico as a trade partner holds only less than a 6-th part of US’s import and export flows. With the access to globalization benefits, Mexico opened up not only to the US but others multiple foreign investors, as well as Spain, China, Japan and others, market behavior of which, as per Lenin, as we look through the lenses of the last and most prominent theory’s provisions, might show the process the acceleration of the global competition of major economies on a larger scale.

2.1.6 Economic stagnation in Mexico in the 21st century

Many authors, such as Blecker (2022); Huerta (2022); Bresser-Pereira (2007); Weisbrot, Merling, Mello, Lefebvre, Sammut (2018) and others, having made numerous analysis on the effects of the Mexican “opening” of economy – liberalization of manufacturing, of foreign investment and of ownership – reached similar conclusions on the end results: while some of the effects were undoubtedly necessary and inevitable, there were overall negative results on almost any significant economic and social indicator, concerning economic growth, income, employment and production.

In this part we will not focus on features of the Mexican economic policy and analysis of the reasons for failures and achievements, but make an attempt to give a brief review of the general picture of Mexican economy during the beginning of the 21st century through academic literature review.

To indicate the primary goals for economic and social development of a country, the Mexican government issued the National Development Plan. The recent ones are dated by 2013 and 2019, and summarize the goals for the periods over 2013-2018 and 2019-2024 respectively. In order to give a review of the economic and social performance of Mexico over the recent years, it is worth taking the Development plan for 2013-2018 in order to compare it to already gathered statistics on the chosen social-economic indicators.

The National Development Plan opens with the five main directions of development's strategy, which covers the role of Mexico in global politics; economic policy; inequality and social rights; education; political freedom and democracy.

One of the most crucial pillars is the financial sector. As it is stated in the Development plan, the milestones were the securement of matured, solvent and stable financial system; facilitation of access to financial productive companies; strengthening the legal framework for financial system to ensure its contribution to the economy; democratization of financing by expanding the credit, emphasizing priority areas for national development and more actively engaged participation of Development Bank; increasing the competition (Plan Nacional de Desarrollo 2013-2018, 2013).

Although the Mexican financial system achieved some positive results in terms of stability, maintaining the capitalization levels high (even after the crisis of 2008) and debt service ratio at rather low levels, there are still some "side-effects", which followed after the financial deregulation (Girón, 2014). Such problems as limited access for commercial banking credit; high concentration in the banking system and the subsequent need for increase in competition. The more detailed observation of the effects of the financial deregulation will be given in the next section of this chapter.

Next pillar, concerning employment, sets a goal for a more active and engaged labor market. In 2012 unemployment in Mexico was highly concentrated among young people, since 53% of the unemployed are between 14 and 29 years old (Plan Nacional de Desarrollo 2013-2018, 2013). It is highlighted that one of the most problematic issues for Mexico was the high level of informality (close to 60% of people have a job with some degree of informality) (*op.cit.*).

Thus, one of the most important areas for development in this regard was encouraging creation of formal jobs and formal companies, which was supposed to achieve partly due to the costs' reduction for the companies with formal labor force.

However, in terms of the labor markets, Mexico did not improve a lot in reaching its milestones which were set in the Development plan.

ILO statistics shows that in 2020 labor force participation was equal 55% for people over the age of 15, which is quite lower than for the majority of countries in South and North America. Moreover, "Mexico has very little social safety net and no unemployment insurance outside of Mexico City" and still maintains high level of informal labor – which are mostly the households engaged into some kind of economic activity (Weisbrot, Merling, Mello, Lefebvre, Sammut, 2018).

Among the pillars, dedicated to sustainable development, expanding access to telecommunication services and energy, there is one, concerning competition and deregulation. In the section it is stated that it is necessary to provide greater competition in the markets in order to generate more jobs, raise the real wages and productivity in the industry (Plan Nacional de Desarrollo 2013-2018, 2013).

However, some scholars, as Blecker (2022), Huerta, (2022), contradict the logic behind the cause-and-effect relationships, stated in the National Plan. The decrease in domestic productivity and technological development was the result of a drop in domestic public and private investment, partly caused by the monetary and fiscal constraints which government imposed. In this light, as per Huerta, due to the "over appreciation of the exchange rate, the result of businesses' attempt to raise their competitiveness is the opposite from what was predicted by the Mexican government – reducing wages and salaries, unemployment, which favors capital by weakening the workers' bargaining power and clearing the way for labor reforms that reduce the workers' benefits" (Huerta, 2022, p. 259).

In the pillar dedicated to economic development, sectoral and regional policy, the focus of the national economic development was concentrated on activities, which have a high capacity to generate employment and high value – such as activities of SME, the countryside, housing and tourism (Plan Nacional de Desarrollo 2013-2018, 2013). In this regard, due to NAFTA' effects – elimination of tariff protection over agriculture – agricultural employment decreased as the final products were partly substituted by imports. As for SME, as it was stated earlier, they were deprived of cheap and accessible credit opportunities.

The starting point of the National Development Plan was macroeconomic stability. This aspect of the economy is considered as a fundamental foundation for the national development, and is based on prudent, or austerious, fiscal policy and control over a balance of payment and external debt. It was noted that Mexico had been and shall be consistent with the principles of macroeconomic stability and maintaining fiscal deficit low and manageable. As well as for the public debt it was highlighted that one of the Mexico's accomplishments after the 2008-2009 financial crisis was not lingering towards countercyclical policy's implementation which helped to keep the level of public debt low and not having any over-negative and devastating long-term consequences of the crisis for economy (Plan Nacional de Desarrollo 2013-2018, 2013).

Indeed, Mexico managed to maintain a rather stable inflation rate (between 2-5% during 2013-2020, except for the years of 2016 and 2021 with the rate around 6,7-7,1%). It is possible to say, that Mexico remained consistent with its procyclical fiscal strategy: during 2012-2020 government debt to GDP grew from 33,8% to 52%, which is rather low, considering the economic and health crises in the year 2020[19].

However, judging by the works of Blecker (2022) and Huerta (2022), this kind of the macroeconomic pillars of National Development Plan tend to cause a decrease in the aggregate domestic demand, give limited freedom for the government to monitor productivity and profitability levels in the national economy, discourage private and public investment into technological industries, and, generally, contract the growth of economy.

Therefore, Blecker names the 21st century for Mexico as a century of "stabilizing stagnation". During 2000-2018 the annual GDP growth was equal to 2,2% and per capita GDP was even lower – 0,8%. (Blecker, 2022, p. 227).

With the brief analysis of general conditions and tendencies of the Mexican economy we can focus more closely on the banking sector's changes, which received the initial impetus at the beginning of the liberalization process.

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[19] Data extracted from Tradingeconomics statistics.

2.2 Historical retrospective of Mexican banking system

2.2.1. Financial liberalization

After the debt crisis of 1982 the banking sector was nationalized and remained under the restrictive financial regulation until 1988. Mexican government pursued the goal of financing the fiscal debt through forcefully nationalized domestic financial resources. Thus, it imposed reserve requirements on the banking sector, lending quotas for the key economic sectors and, lastly, it was closely monitoring the banks' balance sheets.

Having as a result stagnant economic growth and a drastic decline in credit lending activity, Mexican government attempted some reforms in order to make financial system more competitive, although real financial liberalization started after the previously mentioned Brady Plan (1989), which allowed the government to regain budget surplus without relying heavily on domestic credit.

Thereafter, the Mexican government diminished reserve requirements of private deposits, started a campaign of privatization of the banking industry in 1991-1992 and continued process of concentration of financial capital by allowing the formation of integrated financial groups. These financial groups included integration of banks with leasing, factoring, currency exchange, mutual fund management and asset-based warehousing firms, as well as allowed for the same types of integration among brokerage firms and holding companies separately.

As per Hernández-Murillo, after 1989 Mexico could re-enter international capital markets, which improved credit lending to the private sector (Hernández-Murillo, 2007, p. 416). Not less importantly, these changes in dynamics were also contributed by the launching of the process of overall privatization in the economy: with the less state-owned enterprises, newly privatized companies were attracting an increasing amount of loans.

a) Privatization of the banking sector 1990-1992

The privatization of the banking sector was a part of a broader stabilization program, started in 1987. The way of performing the privatization process was influenced by and correspondent with a strong international pressure for economic liberalization, formulated in "Washington Consensus" - the reformation was carried out not only in Mexico, but in numerous other emerging market economies, which had adopted principles of "Washington Consensus".

Objectives of the banking privatization were, primarily, the "decrease of the role of the government in the allocation of bank loans, creation of new market structure for financial services" (Chong & Lopez-de-Silanez, 2004, p. 41) by deregulation and elimination of capital flow's entry barriers. These all would, as it was considered, improve the competition among financial agencies, increase efficiency of the whole system and bank capitalization.

The goals were just partly achieved due to the several problems that occurred during and before the privatization process.

Firstly, there was not enough competition in the banking industry. Already highly concentrated area with 18 banks, from which 4 largest were controlling 70% of total bank assets, had developed as a result of the state's policy around the nationalized banking sector, which required more responsive and centralized management. Additionally, during the auctions on banks, which happened during June 1991 and July 1992, banks were sold only to the nationals and were restricted from selling the controlling stake to the foreigners. Moreover, before the auctions, the government had not made the banking sector more fragmented. The expectations for increasing competition in a banking market were not met (Haber, 2013 p. 58).

However, since the end of 1993 several small banks appeared, operating mostly in narrow niches of the financial and banking market. These banks added up to the total number of the banks, and by 1996 there had been 17 new small banks out of 34 total, although comprising only 3,1% of the total assets of the industry. These banks were allowed to appear due to the relaxed financial legislation, but they did not contribute to the increase in the competition because of the narrow scope of the financial services which they provided. As the report from "La Banca en México" explains, most of these small banks were focusing on the meeting the needs of the corporate and business segment, and some of them appeared just to open the access of a particular business group to banking services (La Banca en México, 2013). Therefore, the strategy of the small banks which were born right after the deregulation, was mostly in supporting intermediation in money market operations, and some of them were servicing a specific financial group, functioning as "part" of their institutional infrastructure.

Secondly, arising partly from the previously mentioned problems, the banking sector, which had remained for some time under the state management and had been serving as a tool to finance state deficits, lacked experience in effective commercial banking management, particularly with valuing risks of specific loans and collaterals.

The objectives of the privatization were not provided with a comprehensive system of regulation and supervision over the already liberalized banking sector. Hernández-Murillo mentions several institutional and legal problems that existed in the banking sector at that time: weak property rights institutions to assess the credit worthiness of borrowers; lack of the regulatory legislation, – as an example banks had to report only the past-due interest payments, but not the entire value of past-due loans as nonperforming. Moreover, although banks were operating under a universal banking structure, they were nor required to submit financial reports and there was no regulatory institution that would monitor the banking sector for compliance with the principles in international markets. Several measures of deregulation of financial markets that were conducted before the privatization such as liberalization of interest rates, elimination of the legal reserve requirements, abolition of the traditional system of involuntary credit for priority activities led to the strengthening of financial groups in the short run and more systemic fragility in the long run. Thus, together with the lack of the regulation, independent and thorough tracking of the financial entities' activities – it became difficult to control this sector and limit precarious practices of the deregulated agents (Hernández-Murillo, 2007, p.420).

So, poor institutional framework, lack of competitive market structure and necessary experience negated the possible positive outcome of the process.

The theory of imperialism refers to several propositions, which could have manifested themselves in the above-mentioned economic conditions in Mexico (Lenin, 1917). Lenin mentions the process of cartelization, which restricts the economy from further development through competition. The banking sector being sold to entrepreneurs in the 1990s in Mexico was an example of the industry being "cartelized"[20] – even with the appearance of 18 other small banks since 1993 it didn't improve the general composition of the banking sector. Large banks were not reorganized, nor fragmented in order to increase competition, they remained with the stable market share and profits which were promised by the government. Instead of the liberalized banking sector, there was a cartel constituted, which sought to maintain and increase its profits by the negotiation on mark-up between other agents and which lacked transparency in the transactions.

The last point can be observed in Mexico's legal framework, where banks were operating at that time: lack of supervision, lack of comprehensive legal procedures for tracking various banking affairs. This leads to the next prominent aspect of the theory, to the part on the "system of dependent banks participation". The tendency of emerging of a group of small banks, holding

[20] Lenin, 1917, p. 119.

quite a narrow niche in the Mexican banking market, often were just attached to the bigger financial groups – or again, cartels – for consolidating the debts and serving as money market intermediaries. These tendencies correspond with the theory's provisions regarding banks operating as subsidiaries – "affiliated" banks[21] – to create additional channels of circulation of the capital, which would allow a corresponding financial group to have more banking services at hand and engage into riskier operations without putting at stake their own capital.

Thus, with the greater flexibility and lack of adequate regulation banks developed an oligopolistic market structure. The last fact contributed to the main issue that arose after the banking sector privatization – risky lending, which could not favor one of the main goals of the privatization – the improvement in the efficiency of the banking sector – and led to its further collapse with the consequent fall in the bank capitalization.

b) Growth of the secondary market and securitization

Financial liberalization also strengthened the development of the secondary market and speeded up the process of securitization.

Before analyzing the securitization of Mexican economy in particular, it is worth to note that in the beginning of the 1990s with the spread of liberalization's scientific framework the process of more intensive capital flows between countries and globalization of capital markets had already started. Following Chesnais, whose works were analyzed also in the first chapter, additionally to the bond markets, which were becoming more internationalized, equity markets started to follow the same pattern: the global relative weight of different financial assets during the 1980-1990s had grown from 18% to 25% of the total (Chesnais, 2015, p. 62). With the development of securitization "banks would create instruments which could be traded and linked directly to the global capital market", which in its turn led to a closer links not only between advanced economies' financial markets, but ones from Asia and Latin America (*op.cit.,* p.63).

The overall program of privatization of the state's enterprises and some specific deregulation measures in the financial markets, such as opening the bond market to non-residents in public and private debt markets and equity securitization – issuance of shares of one enterprise for the public to purchase – created thriving conditions for the capital inflow to the Mexican financial

[21] Lenin, 1917, p. 46.

markets.

As Corea and Girón argue (2013), the Mexican financial deregulation that went after the lost decade was a step towards creation of a very tight connection to international financial markets. Indeed, coinciding with the new Mexican financial policies, the US government also allowed investment banks to diversify and expand their portfolio investment. These measures were implemented as a response to the decreased profitability of many financial assets in the US in the end of 1980s and the beginning of 1990s: “US contractions and the declining interest rates […] pushing the creditor and investment banks to channel new, highly profitable instruments in the emerging markets”. These instruments were backed by the Brady bonds we discussed above – the core of the debt relief program launched across the Latin America region in 1989 (Correa & Girón, 2013, p. 87).

So, during just 1992-1993 the amount of capital flown to the secondary market in the developing economies rose from $51 billion to $113 billion; the amount of FDI rose from $35 billion to $56 billion. The total net emerging-market inflows during the 1992-1993 increased from $260,8 billion to $383,9 billion (*op.cit*).

The securitization process partly led to the financial crisis in Mexico in 1995, being the fundamentals of the financial bubble, which was growing around the securitized assets of the emerging markets in the Latin American region. This process was very precisely described by Giron: “the new capital inflows were based on securitized domestic assets in international financial markets” and could be divided into several main forms: bonds issued by private and public companies in more developed markets, which were denominated mainly in US dollars (75%-80% of issues); shares of the newly privatized companies (among which were share placements made in 1991 of Telmex and in petrochemical industry) issued through the American depositary receipts and global depositary receipts in the United States; FDI in transnational subsidiaries, although this process was strengthened after the banking crisis of 1995 with the further internationalization of the banking sector and the rest of economy; government bonds: the participation of foreign investors in the market for Mexican government bonds during 1990-1993 increased from 3,2% to 38,9% (*op.cit*).

The expansion of bank credit and financial intermediation during the period of 1989-1994 reached extremely high levels. The amount of money circulation (M4) by 1994 reached its peak at 47% of GDP (Hernández-Murillo, 2007, p. 12).

As it was stated previously, inflows of financial deregulation and foreign capital into Mexican financial markets were possible only after the abandonment of the nationalized banking sector and the debt relief agreement, which collateralized the investments that were put into the Mexican financial assets. With that, dependence of domestic credit on international credit was preserved and it was strengthened with the amount of financial assets being issued abroad and purchased by international investors as a foreign portfolio investment. These dependence brought and maintained close ties between the conditions of Latin American money markets and the US monetary and financial policy. Thus, in 1994-1995 when the Federal Reserve System in the US doubled its Fed Funds rate (FF rate), while as "did not produce a recession in US, it was devastating for some Latin American countries like Argentina, Colombia, Mexico, and to a lesser extent Brazil" (Correa, Girón, 2013, p. 96). This caused outflow of funds from Mexican private markets and the turmoil in the bonds market, which experienced heavy losses and the drop in their performance as the expectation of the future increases of FF rate. This caused the securitization bubble's explosion in 1995.

The securitization and credit market boom was claimed by Lenin as one of the instruments of financial oligarchy and financial capital to take over other forms of capital with regard to the export of capital to the peripheral countries. We will discuss the possible manifestations of imperialism's theory below (Lenin, 1917).

Matured capital in the downward period of the US economy, in search of more profitable placements, due to the economic deregulation, which was started in the Latin American countries previously, was placed in the emerging financial markets. As it was highlighted in the paper of Giron and Correa (2013), commercial and investment banks were making enormous profits from the issuance and other financial operations with securities and bond: "promoter's profits"[22], which was emphasized by the theory, is reflected here, in the issuance of new shares through the American and global depository receipts; inflows of finance capital in forms of private and public credit placed over the securitized industries.

The "promoter's profits" as well as profits gained by the securitization over the assets is not connected to the growth of the productive economy neither in a country of the "origin" of matured capital, nor in "host" country, and, as per Lenin, assures a place of financial capital over its other forms, and is placed in already "dying" areas of economy in order to revive them, but into those, which would be socially benefitting in long term (Lenin, 1917).

[22] Lenin, 1917, p. 62.

Another aspect of this financial concentration is the flotation of public enterprises, which may well be compared with Lenin’s “democratization of the ownership of shares”[23]. From the one side, it gives an impression of the masses’ participation in financial activities, but, from the other side, this process contributes to more concentrated financial markets, accumulating previously “inactive” funds.

Secondly, as we see in Lenin's theory, the core of this process is the transfer of potential investment and reinvestment of the income from real economy to the financial activities, which makes the whole economy fragile, unstable and highly dependent on the international hierarchy of credit.

Further dependence of Mexican economy to the global one we can observe in the consequences of the financial crisis of 1995, which the country could not overcome without the additional help from IMF, BIS and other banks in the US and Canada. This part is to be described more thoroughly later on in the chapter.

Overall, the securitization process and expansion of credit maintained and preserved the dominant position of financial oligarchy in and outside the peripheral economies.

2.2.2 Financial crisis of 1995 and the Rescue package

As it was highlighted above, financial deregulation that came together with the privatization, decreased inflation rate and improved state’s budget caused the expansion of both bank credit and financial intermediation.

There are several measures of bank performance through which the collapse of the banking sector can be observed.

Firstly, it is a risky lending and credit expansion. Indeed, during 1988-1994, credit from local commercial banks to the private sector rose in real terms by 277% (Hernández-Murillo, 2007, p. 422). Haber and Musacchio (2013) indicates an interesting fact that, it was discovered, that “the bankers had engaged in widespread insider lending, and that the loans they made to themselves had lower interest rates, higher rates of default, and lower rates of collateral recovery” (Haber & Musacchio, 2013, p. 58).

This information leads us to the next indicator such as total deposits to total loans. Haber points out that growth in lending was not matched by growth in deposits and the difference was

[23] Lenin, 1917, p. 59.

covered by the inter-bank lending, most of which was from foreign banks in foreign currency. Foreign liabilities to total liabilities increased from 11% to 27% from the end of 1991 until the end of 1994 (Haber & Musacchio, 2013, p. 49), substantially increasing the fragility of the system.

Finally, the most important measure was the volume of non-performing loans. However, this indicator is not easy to track during this period due to the legal procedures of reporting about this: it is not possible to see the composition of them. Although, the total percentage of non-performing loans was growing through 1994-1996 from 17% to 53% (*op.cit.*, p. 52), which was enormously turbulating the whole financial system pushing it to the collapse. As Moreno-Brid and Ros highlight, the "boom-and-bust cycle which resulted in the banking crisis was partly an outcome of excessive reliance on financial deregulation and capital market liberalization" (Moreno-Brid & Ros, 2009, p. 202).

The academic views on the reasons of the financial and banking crisis differ in terms of the crisis's triggers they choose to investigate. For example, Hernandez-Murillo (2007) emphasizes mainly the role of the absence of a proper banking and financial legislation and increased competition between commercial and investment banks which pushed them further their "limits", encouraging them to take on more credit and be involved in riskier operations.

Correa and Giron's (2013) point that the trigger of the crisis was a raise in Fed Funds rate in 1994, which was followed by the peso devaluation in December 1994 and caused massive capital outflow and increased inflation. The restrictive credit and monetary policies that were implemented shortly after devaluation led to the banking sector's collapse, which needed additional help to recover.

Haber (2013), as well as Giron, highlights the role of the crisis of exchange rate, however, stresses that "even had there been no peso crisis of 1994-95, the Mexican banking system would have collapsed" (Haber, 2013, p. 51).

During 1995-1998 the Mexican government launched a rescue package of several measures that aimed to push the banking sector out of a crisis.

a) Usage of financial instruments

Government used several financial measures in order to eliminate negative consequences after the crisis: offering of a short-term dollar denominated credit (by a special contingencies fund created for the resolving liquidity issues of banking sector – FOBAPROA); loans for bonds swaps (purchase of a part of non-performing loans from banks and swapping the loans for special 10-year bonds backed by Central Bank); allowance to sell 5-year convertible bonds to FOBAPROA in order to increase banks' capital-to-assets ratio (CAR ratio). Moreover, some measures provided support to small borrowers (payments discounts, debt restructuring and reduced interest rates) in order to "prevent a run against the banking system" (Hernández-Murillo, 2007).

b) Supervision and monitoring practices

The legislation on banking sector supervision was altered as well. Concerning rules on non-performing loans, new bank accounting standards in Mexico were approved and adopted in 1997. In order to improve the assessment of credit repayment abilities of not only businesses, but individuals as well, Mexican government established private credit bureaus and in 1998 required banks to have 100% of reserves for those loans, where borrowers have a poor credit history (Hernández-Murillo, 2007).

Financial regulator, the National Banking and Securities Commission (CNBV) was given increasing independence to oversee the financial sector. The Ministry of Finance remained in charge of new license applications and the Central Bank retained responsibility for deposit insurance (Gelpern, 2007, p. 1522).

The implicitly unlimited guarantees on deposits offered by government and deposit insurance coverage, which led to increasing motivation of banks to acquire riskier assets without much concern about CAR ratio, was also dealt with at the state level. FOBAPROA was substituted with Banks Savings Protection Institute (IPAB), deposit insurance agency, which offered limited guarantees on deposits and was allowed to intervene in a bank's activities. In 2005 the upper bound on insurance on deposits was also narrowed, which, as per Hernández-Murillo, would "encourage depositors with large balances to monitor bank behavior and establish a better link between deposit interest rates and balances and a bank's risk taking" (Hernández-Murillo, 2007, p. 425).

c) Foreign investors' participation in banking industry

During the first stages of the Rescue package, government authorities faced the limitation of their own, domestic, resources to cover the high fiscal costs of the crisis. This motivated Mexican government to loosen some restrictions for the foreign investors to participate in the local banking industry in order to improve the capitalization and overall competitiveness in the sector.

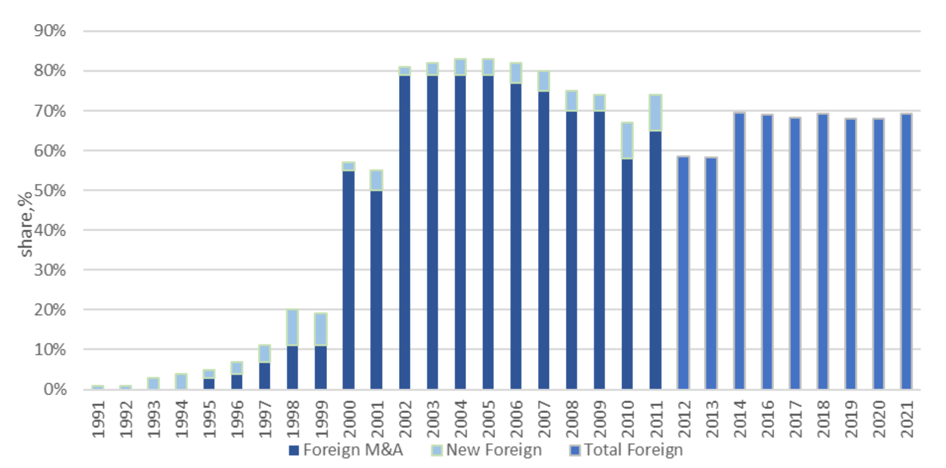
NAFTA allowed foreign banks to set up subsidiaries, but with strict limitations: foreign banking market share was not allowed to be more than 8%. This led to more present foreign participation: there were 18 foreign banks, which, with their own specific intensity, entered the local banking market (Asociación de Bancos de México ABM, A.C., 2013).

However, in 1995 Mexican new financial services' laws let foreign investors acquire majority stake at a bank, although the size of these institutions was allowed to be up to 6% of their capital to total net capital of the whole banking sector. Moreover, the maximum share of the stock capital to acquire at the major three banks (Banamex, Bancomer and Serfin) was also limited to 20% (Tschoegl, 2006). By the end of 1996 there were just 7% of total bank assets that were controlled by foreign banks.

However, in December 1998 the restrictions on foreign ownership in the banking industry were removed.

According to the World Bank database, the total number of foreign banks to the total number of banks in 1995 was 29% and in 1997-1998 was already 40-41%. In terms of the market share (share of assets detained by foreign and national banks), see Figure 6 and Figure 10, foreign banks' share increased from less than 10% in 1995 to 83% by 2005, and maintained its share at a level of around 70% of the total banking assets over 2014-2021.

Figure 6: Foreign commercial banks' share of Mexican banking market (1991-2021)



Source: CNBV, Boletines de Prensa (2012-2020). Author's elaboration.

d) Restructuring the banking sector: liquidations of insolvent banks, mergers, SOFOLES

The banking crisis caused the bankruptcy of many banks. In these realms the government took the role of "cleaning" up the baking sector. A bank which was considered no longer profitable, was formally liquidated and its assets and liabilities could be acquired by another bank.

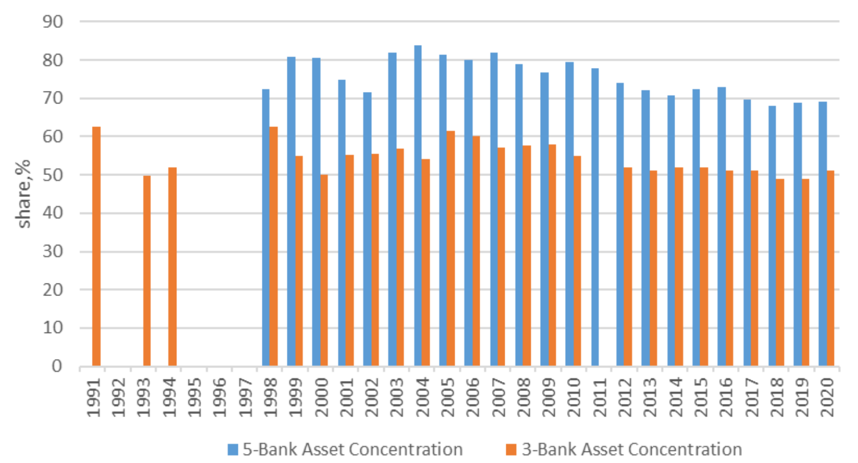
Previously in the chapter it was mentioned that after 1993 new financial entities appeared in the banking system – small "niche" banks. During the end of 1993 until 1996 there were 17 new banks emerging, which by May 1996 represented 3.1% of the total banking assets (Asociación de Bancos de México ABM, A.C., 2013).

These new banks also were intervened by FOBAPROA during the crisis and sought help from authorities. The report from ABM also notes that the financial problems that small banks faced were derived mainly from the consolidation of debts that these banks made from other subsidiaries of their respective financial groups. Apart from the state's intervention, in order to prevent the risks of insolvency small banks also undertook some measures, such as share placements, recapitalization of profits from 1995 year, raising their capitalization rate through the sale of part of its social capital (*op.cit.*).

There are several indicators that can show the situation with concentration within the banking sector: the number of commercial banks, the share of total assets among the commercial banks; as well as asset concentration.

Concerning the retrieved data on the G-3 and G-5 banking assets (Figure 7), it is possible to see that the concentration of G-3 assets, although having been already highly concentrated at almost half of total assets after the privatization process, during 1992-1994, increased after the banking crisis and the consequent market "clearing". The indicator increased from 50% in 1992-1993 to 63% in 1998. As it is visualized in Figure 7, in 1998 the difference between volume of assets of G-3 and G-5 was only 10% given the upward dynamic for G-5 assets concentration and the increasing gap between the two groups from 1998 onwards. This remark also supports the observation over the tendency of increased speed of concentration within the banking sector after the crisis.

Figure 7: 5-Bank and 3-Bank asset concentration, Mexico (1991-2020)

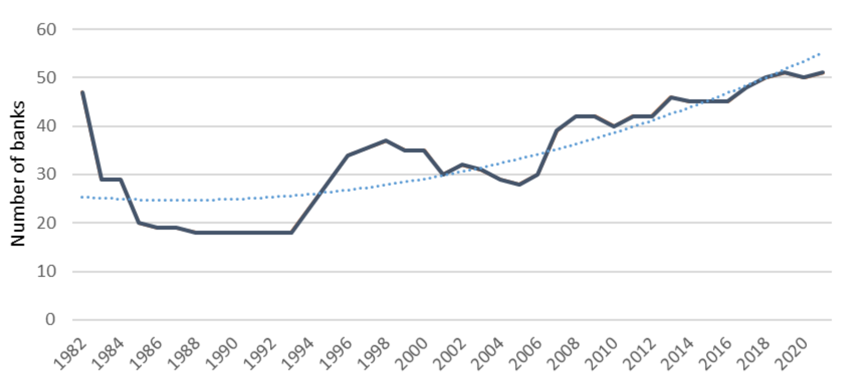


Source: Federal Reserve Bank of St. Louis; CNBV annual reports.
Author's elaboration.

As for the number of banks (Figure 8) we can see that, as it was mentioned earlier, the banking sector has already been very concentrated due to the nationalization process: there had been 18 banks, which were later sold at the auctions and re-privatized. This process, however, did not change the number of participants in the banking industry as banks were privatized as they had already existed prior.

The situation had become different by 1996 with the increase up to 34 entities, after the emergence of small banks in the system, subsequent banking crisis of 1995 and banking bailout program launched by the Mexican government. Nevertheless, having the upward trend in the dynamics of the indicator, Mexican banking sector, comparatively to other economies of the region, remains rather concentrated.

Figure 8: Number of commercial banks, Mexico (1982-2020)



Source: Asociación de Bancos de México ABM, A.C. (2013). La Banca en México. Consolidated statistical information of Multiple Banking by year, CNBV. Author's elaboration.

Along with that, in order to maintain and facilitate competition in the sector and improve housing credit supply after the crisis the government allowed another kind of financial institution to appear: The Limited Purpose Financial Company (SOFOMES) and Multiple Purpose Financial Company (SOFOLES).

SOFOLES are financial associations with limited functions, created in 1993, which would play quite a prominent role next decade. These “non-banks” were allowed to borrow funds from development and commercial banks to convert them into mortgages for consumers and were restricted from creating deposit accounts and investing in securities. During 1993-2006 there were 56 of this kind of association. Since these entities were financed through the government, particularly the Federal Mortgage Society (SHF) it was easier for them to acquire initial funds and not impose heavy conditions on the mortgage loans for consumers. By 2006 the share of total loans granted by non-banks to the private sector rose to 9,1%, which amounted to about 79,6 billion of dollars (Hernández-Murillo, 2007, p. 426). However, it again put a certain burden on the state’s budget, which returned it to the beginning of the financial sector’s liberalization process, when the state was seeking a way to stabilize its balance of payments. In 2009 the program of financing SOFOLES by government funds would be canceled.

SOFOMES, also, are also financial institutions, which take no deposits and focus on specialized lending such as mortgages, consumer and SME loans (Gelpern, 2007, p. 1522), as well as leasing operations, and factoring, participation as trustee in certain transactions. The entities are divided into two types: regulated and unregulated. The latter are not overseen or are subject to any relevant banking or tax laws in a country such as the CNBV and SHCP and does not have any minimum capital requirements; the operation are supervised only by The National Commission for the Protection and Defense of Users of Financial Services (Condusef), a consulting institution, anti-terrorism and money laundering laws. Capital in unregulated SOFOMs is independent and does not include the participation of third party credit institutions and holding companies.

e) Effects and results of the Rescue package

The price of Rescue package for the government was critical – there was a huge burden on the nation's bank deposits insurance institution, whose liabilities amounted to about $60 billion in February 1998. In general, the bailout program was lasting a continuous period, as Haber and Musacchio (2013) call it, “open-ended mechanism”, where the bonds swaps from the government continued to increase the composition of bank loans portfolio, growing from 9%

in 1995 to 29% in 1997-1998 and 35% in 1999 (Haber & Musacchio, 2013, p. 56). Overall, the governmental rescue program by the year of 1999 costed 692 billion of pesos (65 billion of dollars), which constituted about 15% of Mexican GNP (*op.cit.*).

After the Mexican banking crisis there were some fundamental changes in the system.

Firstly, there were changes in the legislation in banking and financial industry and many banking activities were intervened by the government and the supervision policy was deepened. This eventually caused banks to search for more innovative and profitable schemes to apply in their business.

Another aspect, which contributed to the more efficiency in the industry was its “short-term” government-initiated fragmentation, which manifested itself through loosening official policy towards foreign participation in banking industry, and through state-led intentional increase in the number of institutions in the market (SOFOLES).

Concerning the banking activity and the amount of its participation in crediting the private sector after the crisis and bailout measures, the dynamics of it had changed. According to the Mexican Central Bank’s estimations, processed by Hernandez-Murillo (2007), one indicator (amount of credit for private consumption) out of other three (credit for housing and credit for private industry) recovered rather quickly after the Rescue program: in 1999 at the point of 1,7% of Mexican GDP it started to increase, reaching 11% in 2006.

Less successfully performed the indicator of the amount of housing credit. After having reached a peak at 8.7% of GDP in 1996 it continued to decline until 2004. Lastly, credit for private industry remained low up until 2006, having its peak at 11% of GDP in the end of 1994.

The lack of banking credit was substituted by the new sources of credit , coming from the new special purpose lenders and non-banks. “Among non-banks, large retailers, car and appliance vendors have played a key role, along with SOFOLES and SOFOMES” (Gelpern, 2007, p. 1523).

Regarding the imperialism theory, there are several pillars which were mentioned by Lenin, which could be applied to the context of the period in the economic history discussed above (Lenin, 1917). Firstly, it is a statement concerning the impact of economic crisis on the upswing of financial and banking concentration and the process of “reorganizations” of less profitable banks, which eventually are liquidated completely or controlled by larger banks, which acquired the controlling stake. As it was highlighted in the theory, the concentration process in economy receives the additional “strong impetus”: “during the crisis, the banks, which by that time had become fairly well merged with industry, enormously accelerated and intensified the ruin of relatively small firms and their absorption by the large ones” (Lenin, 1917, p. 75). These points have their revelations after the financial crisis of 1995 and the following process of banks’ liquidation in order to “clean up” the market and recover growth, but, mostly, in the long-run. As we shall see further, process of “strengthening” of the banking system by liquidations, led to a rising indicator of banking concentration throughout the 2000s.

The short-term and most visible outcome of the economic crisis was, on the contrary, fragmented “regression” to the more government’s participation in the financial industry, strengthened supervision, subsidizing new financial associations as part of the set of endeavors to enhance the competition in the industry and, eventually, increase in the number of financial agencies and institutions in the market.

Although, new financial entities, such as SOFOLES and SOFOMES, a more diverse structure of the financial system in Mexico, did not contribute to the more diverse banking market, as they were restricted from certain functions as full-scale banking institutions and were not supervised accordingly. In fact, these institutions could tend to “blend in” in a rather compressed banking market, in the aftermath of the crisis and rescue package. This brings us back to the previously mentioned statement about the participation of “affiliated” entities, posing risk for the system.

Secondly, the crisis and concentration of the banking sector motivated the state to completely open the economy for foreign investors because the state was already not able to reactivate the economy using its own resources and lacked experience in the newly established financial liberalization regime. This eventually led to internationalization of the banking sector, which will be observed further in the text.

2.2.3. Internationalization and further concentration of the banking sector after 1997

a) Alterations in the legislation on foreign participation in banking industry

The processes and changes mentioned in the first part of the current chapter, such as starting of the negotiations on free-trade agreement, Mexican government’s negotiations with Secretary of the US Treasure, president of the Federal Reserve System and further establishment of Brady Plan of 1991, constituted a solid platform for the main purpose of Mexican economic policy at the time – opening up the productive system by alteration of financial and monetary policy, which would be focused on financial deregulation and liberalization by deepening the reforms on credit and financial institutions.

With NAFTA being put into force, there were some significant changes in Mexican legislation, which provided a strong stimulus for the total restructuring of Mexican economy and the following “foreignization”.

Following the research of Girón (2004), there were some important financial reforms implemented in Mexico, which we will briefly cover in this section.

In 1994 the central bank of Mexico (Banxico) received an autonomy, which allowed it to remove the political elements from the determination and management of credit; it also could grant credit to Federal government and credit institutions by operations with securities.

During 1989-1999 there were several modifications made to the economic process by the implementation of the General Law of Credit Institutions (La Ley General de Instituciones de Crédito). Its objective was to provide consistency with the deregulation of the banking system and regulatory system that would strengthen its structure and give greater management autonomy.

As for the activities carried out by non-bank financial intermediaries, they were freed and deregulated by the adoption of General Law of Auxiliary Credit Organizations and Activities (Ley General de Organizaciones y Actividades Auxiliares de Crédito). It gave legal recognition to factoring companies and savings banks; allowed financial leasing companies to place obligations in the capital market and participation of foreign investors in the capital stock of these institutions. According to Girón, the procedures were supposed to bring together the dispersed resources and incorporate them productively.

The Federal Law of Financial Institutions (Ley Federal de Instituciones de Finanzas) granted greater autonomy to insurance institutions and authorized their participation in the capital stock of bond companies, as well abolished compulsory investment and released the rates of the premiums, which the institutions charged for the bonds they granted. Overall, the access of national and foreign investors to these institutions was simplified due to the modifications in the shareholding structure of these financial entities.

The changes in the Foreign Investment Law made possible for the foreign investors to participate in cooperative production companies; national air transport; financial groups;

multiple banking; brokerage firms; retirement fund administrators. One of the crucial alterations to the law in 1998 allowed the entry of foreign banks, particularly Spanish.

The legislation on securities markets also experienced various changes throughout the 1989-2001. It widened the list of the participants, including foreign, in the market who would act as mediator between the supply and demand of securities, raised liquidity and facilitated the access to various foreign exchange platforms by implementing the International Quotation System (*op.cit.*).

As Girón highlights, the prudential supervision reforms have not only allowed the internationalization of the national financial system and its integration through unstable financial markets, but it has also become a sector in the hands of foreign parent companies (*op.cit.*).

The outcome of the reforms were rather controversial. Due to the gradual foreignization and NAFTA financial institutions received an opportunity to expand themselves beyond their borders, for Mexico it meant possibilities for penetration of US markets and increase in the share of remittances in the GDP, which could benefit all the participants.

Financial reforms also emphasized the role of non-bank financial intermediaries and locked the process of securitization of the economy, allowing more national and foreign entities to participate in financial markets' activities.

However, because of the massive inflow of foreign capital and new foreign institutions into Mexican economy, it became "inserted" in open and highly competitive international financial circuits, which required more aggressive market policy and strategy and higher liquidity and income. Securitization of the economy touched mostly large companies and was not common and favorable for small and medium businesses, which also were deprived from affordable credit from commercial banking, which now was immersed into highly profitable activities offered by the existing productive and financial structure of the economy (*op.cit.*).

b) Banking sector performance: changes, dynamics

This sector will be analyzed more closely in the next chapter, therefore here we will introduce just a brief overview of the general situation.

Altered Mexican financial legislation provided a platform for fundamental changes in the financial and, in particular, banking sector.

Financial opening has caused an entry of foreign banks in the Mexican banking system to such an extent that six banks have control of the most important banks in the country. Until 2002, 87% of banking assets were controlled by foreign banks. It is important to note that these banks worldwide are among the most important in terms of level of assets and capital. By 2022 the share of the foreign banks out of the total banking assets is almost 70% (Figure 6).

After the debt crisis of 1982 and the financial crisis of 1994, which was caused by a sharp peso devaluation and capital outflow, and was assisted by the bailout program of IMF, Mexico experienced the consequences of the global financial crisis of 2008 as well. However, having severe negative consequences on the whole economy, banking sector was affected by the crisis in a very specific manner. Firstly, the crisis affected short-term capital markets and resulted in the credit crunch, which damaged the operations of big conglomerates, relying on external finds for their operations (Moreno-Brid, 2010) Moreover, some banks experienced deterioration in their balance sheets because of the peso's depreciation. However, Mexican banking sector avoided some detrimental problems due to the lack of its sophistication at that time and its structure and mainly foreign composition: they were pressured to send the profits to their parent organizations. This caused negative wave for the investment and the industry mainly: "the credit crunch plus the volatility of the exchange rate, the stock market and the uncertainty on the depth and duration of the recession of the US economy induced the private sector to postpone investment projects […] Total investment fell 10% in real terms in 2009" (*op.cit.*, p.6).

As we start to review the banking sector in the beginning of 2000s and 2010s more closely, it must be stated that the results and effects of the foreign entry into the system are difficult to be observed separately, for which there are two specific reasons. Firstly, the entry was proceeding gradually, thus, the effects of the opening of the local banking industry were being accumulated and perceived asymmetrically. Secondly, with the foreign banks' entry the whole environment in the industry was changed and even the remaining domestic banks altered their market strategy and behavior, causing mergers among themselves in order to face the increase in competition (Haber, 2013).

Overall, it is possible to observe the dynamics of structural and organizational changes in the sector (main mergers and FDI flows, the changes in number of banks and their ownership) and cover particular examples of this; and to track the tendencies which appeared after the opening of the banking market for foreign investors.

Haber and Musacchio (2013) indicates the most prominent macroeconomic criterions for that:

stability (by which it is meant lack of macroeconomic disturbances and banking crises, low share of non-performing loans), efficiency and profitability of banking performance.

In terms of stability, the ratio of non-performing loans to total loans fell from 11% in 1997 to 2% by 2005, and, even after the crisis of 2008, the Mexican banking sector, although having decreased profitability, remained solid and stable (Haber & Musacchio, 2013, p. 61). This was based on the maintaining of a stable and rather low inflation rate, which was mentioned earlier, in the first part of this chapter.

As it is indicated in the Table 1 there was an improvement in the past due portfolio since the 1990s (non-performing loans), considering almost five-fold increase in the amount of total assets held by the commercial banking sector and in stockholders' equity during 1990-2011 years. The default rate, which accounts for past due portfolio to total portfolio, also shows a stable value, which was slightly falling from 2011 until 2021 (from the rate of 2,13% to 1,97%).

Some of the scholars, such as Haber and Musacchio (2013), Chong and Lopez-de-Silanez (2004), point out that the process of opening of the banking industry to the foreign capital improved the profitability of the sector, banks' productivity and capitalization. Hernandez-Murillo (2007) reasons these statements, adding that foreign banks might be better at usage of financial and banking instruments and, more specifically, at understanding the borrowers' behavior and credit rationing.

Indeed, the level of capitalization of commercial banks improved from 9,4% in 1994 to 20.1% in December 2002 (Girón, 2004, p. 23), as well as the solvency of banks, which presented a substantial change, going from a maximum level of 11.40% in December 1998 to 5% in December 2002 (*op.cit*).

Consulting the data from the CNBV database, presented in Table 1 the capitalization index slightly rose over 2011-2021 years. Moreover, there has been an increase in the indicator of Return on equity (ROE), partly displaying the profitability of the sector and the substantial increase in the Net result from 1994 year until 2021.

Table 1: Some financial indicators of Mexican commercial banking sector (1994, 1999, 2011, 2021)

Some financial indicators of Mexican commercial banking sector (1994, 1999, 2011, 2021)					
Criteria	**Indicator**	**Year**			
		1994	**1999**	**2011**	**2021**
	Total assets (mln pesos)	821.770	1.377.185	5.182.808	11.020.650
stability	Equity (mln pesos)	44667	109.687	561.570	1.306.163
	Non-performing loans (mln pesos)	43544	80754	45200	106.632
	Commercial (mln pesos)			19571	44682
	Consumption (mln pesos)			12789	27478
	Housing (mln pesos)			12840	34472
	Default rate* (%)			2,13	1,97
	Current portfolio			2.074.437	5.308.544
	Commercial (mln pesos)			1.443.059	3.455.872
	Consumption (mln pesos)			283.362	792.884
	Housing (mln pesos)			348.016	1.059.788
involvement in securitization	Cash and investments in securities mln pesos	175.873	212.568	2.208.653	4.048.684
profitability rentability	Capitalization Index* (%)			16,91	19,37
	ROE %			13,4	18,57
	Resultado Neto* (mln pesos)	305	240		6779
Source: CNBV Multiple banks					
*Default rate: Past due portfolio divided by Total portfolio					
*Net result					
*Capitalization Index: Net Capital divided by Total assets subject to risk					

Additionally, there is an obvious dynamic of rising role of the banking sector as a whole as we look at the number of finances circulating within the industry (Table 1): since 1999 the amount of total assets was multiplied by 5 by 2011, and the increased amount was then doubled by 2021; the volume of new capital, which flew into the industry could possibly be reflected in the amount of equity, which rose 2,5 times during only 5 years (1994-1999) and even 5 times over next 12 years. In terms of the overall capitalization of Mexican capital market, it accounted for 38,1 % of its nominal GDP in Dec 2021, compared with a percentage of 35,9 % in the previous year[24].

Girón (2004) matches the positive dynamic of productivity and profitability indicators with the origin of foreign direct investment in financial services. Of this investment, 70,1% is concentrated in commercial banks and the rest in other financial institutions such as insurance companies and investment companies (Girón, 2004, p. 23). Up until 2021, the financial sector remains the most concentrated among other Mexican industries, holding 20,7% of the total number of the biggest companies in Mexico. The top 25 financial companies accumulate 79,7

[24] Data extracted from ceicdata database.

billion of dollars of mark cap (compared to, as an example, 19 biggest industrial companies, which have 61 billion of dollars of mark cap), where banks acquire 51,9 billion of dollars[25].

Leaving aside the aspects of banking performance connected to profitability and stability, it is worth looking at some other aspects of the banking sector's role and influence on the economy.

As Shulz (2004) points out, during the end of 1990s and beginning of 2000s Mexican economy experienced a growth, but the banking sector contracted: commercial banking assets declined at an annual rate of 1,9% in real terms, domestic banking credit fell by 6% annually.

However, since 2000 the total banking assets grew steadily in terms of their share out of GDP: over 2000-2020 total banking assets to GDP increased from 22% to 48%.

Nevertheless, Mexican banking sector remains rather not popular in terms of credit granting. During 1994-2004 credit was falling from 43% of GDP to 13% of GDP (Shulz, 2004, p. 9). Additionally, in 2021 as it is seen from Table 1, current portfolio of commercial banks changed its structure towards the more present share of housing and commercial financing.

Moreover, according to the Credit Market Survey conducted by Mexican supervisory authorities, in 2020 there were just 30% of firms, which use credit from commercial banks for financing. One of the most common reasons among firms for not considering the commercial banks' credit were high interest rates and tight bank credit standards.

Following this issue, Avalos and Trillo (2006) mention other characteristics of the banking sector, such as high financial margins (compared to the US and European Union, as examples) and high commission fees. Even with the efforts for increasing the competition in the banking and financial sector, no pro-competitive effects could be seen in the sector.

However, according to Shulz (2004) and data from Credit Market Survey, non-bank institutions still play an important role as sources of credit, including suppliers, capital markets, corporate headquarters, retailers.

There is also a tendency to maintain the high levels of concentration in banking industry, vertical mergers and banks, creating a net of the non-bank financial subsidiaries, which are joined in financial groups. For example, one of biggest banks in Mexico – BBVA – is also a bank subsidiary of financial group BBVA, which has a significant role in the non-banking

[25] Data extracted from disfold database.

financial services market with leading businesses in the insurance, pension, asset management, remittance transfers and mutual funds segments.

Connecting the part with the possible manifestations of Imperialism's theory, we might relate to the theoretical proposition on the financial and banking sector being most profitable over the other economic sectors and financial oligarchy's dominance over the industry (Lenin, 1917). In Mexico, the market capitalization of the financial enterprises is the highest among the rest. Banking capital in Mexico using the complicated schemes of operations of system of non-financial entities, is able to accumulate more dispersed resources and control their placements. In the next chapter we shall unfold this part more closely.

c) Special cases of most prominent FDI flows (1997-2020)

As it was mentioned earlier, in the first part of the chapter, the amount of FDI, which was put into the banking and financial sector, accounts for one of the most significant capital inflows into the country after the beginning of Mexican economy's liberalization process.

Shulz (2004) names some of the biggest investments made into Mexican financial services over a decade (1994-2004) – overall, an amount of more than U.S.$30 billion –, which we briefly cover further in.

As it is seen from Figure 6, in the period of 1995-1998 there was a significant flow of new foreign capital. BBVA (Spain), BSCH (Spain), and Citibank (USA) "acquired majority stakes at smaller banks and took full control". (Shulz, 2004, p. 8). In most cases, the foreign capital, being invested into the Mexican economy, expanded through the acquisition of the national capital – local banking and financial institutions.

In 2000 there were two more major deals: BSCH (Spain) again performed a takeover and acquired Serfin, making a deal of 1,5 billion of dollars; and BBVA (Spain) merged with Bancomer.

Thus, over 2000-2002 Citigroup (U.S.A.), HSBC (U.K.), and the two Spanish banks "took

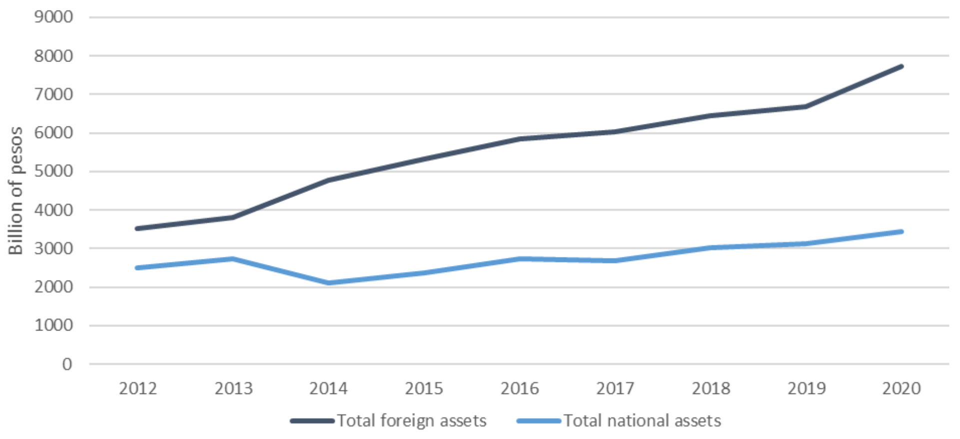
over the industry leaders and merged them with their local operations" (Shulz, 2004, p. 8). In 2001 Citigroup performed the largest foreign acquisition in Mexico and financial sector deal in Latin America, acquiring 99.9% of Banamex by a takeover of 12,5 billion of dollars. In 2004 BBVA raised its stake in Bancomer up to almost 100%.

Therefore, by 2004 foreign financial institutions controlled 82% of Mexican banking assets, up from 16% in 1997 and four out of five largest banks were in the foreign ownership with BBVA Bancomer (BBVA) and Banamex (Citigroup) dominating the industry.

Over 2012-2020 (Figure 9) there has been an increase in total banking assets with the dominant foreign share growing faster than the share of national banks.

Judging by the processed data from Figure 10 and Figure 7, showing that three biggest banks maintain a share of 50% of the sector and 5 banks – around 70% over 2012-2020, highlights the tendency of continuing of the process of merger and acquisition and, particularly, banking industry, majority of which is owned by foreign investors.

Figure 9: Total foreign and national banking assets, Mexico (2012-2020)



Source: CNBV, Boletines de Prensa (2012-2020). Author's elaboration.

In an attempt to make a linkage with the theory of imperialism, it is possible to see quite clearly the process of gradual banking system's concentration by "acquiring less profitable enterprises" (Lenin, 1917, p. 46).

As according to the theory, the foreign banks in Mexico were involved in the massive process of local banking entities' acquisition. They "reorganized" the unprofitable or less profitable banks by combining the previous share capital with the additional, new one, which after the acquisition brings the sufficient income again. The mergers and acquisition process significantly speeds up the general concentration of capital, the benefits of which, in the case of Mexico, are ripped by the foreign participants. It adds up to theoretical propositions from two sides: the side concerning the ways and results of the concentration of the financial capital and from the one, related to the imperialist relation between the advanced economies and emerging markets through FDI.

Final remarks

In this chapter we have made an attempt to give a brief overview of Mexican economy development through the 1950-2020 and Mexican banking sector after the liberalization process.

Mexican economy, for several decades, was following the strategy of import-substitution, which was the political and economic trend in several Latin American countries at the time. Lacking the sustainability of the reformation process, structural limits of the economy, and having experienced exogenous financial shocks, the Mexican economy had appeared to be fragile to the first significant in almost forty years of economic crisis - the debt crisis of 1987.

Mexico had expanded its budget, and was not able to further diversify the production process and revive the economic activity without foreign capital flows.

The Mexican government started to alter the previous policy and turned economical development towards gradual liberalization. The first reforms, occured during “lost decade” (1980-1990) were rather inconsistent and led to another banking crisis of 1995, after which Mexico demonstrated full deduction to economic liberalization policy in order to “lock in” previous reforms and adopted principles of “Washington Consensus”. These changes led to a series of international agreements, such as debt relief agreements and NAFTA.

The consequences of economic liberalization are, as it was shown in the chapter, contradictory. Mexico on the one hand, has achieved the goals, such as maintaining fiscal austerity and stable monetary policy, paced down inflation and created favorable macroeconomic conditions for attracting foreign capital.

However, on the other hand, the government established strong ties with the advanced economies’ capital and became more prone to the fragility of the global financial system.

The historical overview, which was presented in the chapter, followed the main pillars of the theory of imperialism, highlighting some of the theory’s possible manifestations in the reality of the Mexican economy’s development. Next chapter will allow us to look over some above mentioned specific processes and indicators more closely, in order to create and formulate a part of a framework, which could be used as a guideline to the theory’s application.

Chapter III. Analysis of specific imperialism's manifestations in the current banking sector of Mexico

Introduction

Modern economic system of Mexico has always experienced influence of the foreign actors, which was intensified after the start of the process of economy's liberalization and brought fundamental changes to the economy's structure, described in the second chapter. In this chapter, we will continue the comparative analysis of the theoretical propositions and the case-study - modern Mexican banking system - which was attempted previously.

With the empirical data and information related to the Mexican banking system, we pursue to observe main pillars of the theory of imperialism: processes of separation of the ownership of capital from the application of capital to production – securitization and financialization of economy; the continuing; concentration of financial capital; and the cross-border transfers of global finance capital.

For that purpose, there were chosen few propositions of possible imperialism's manifestations and the correspondent indicators, which might either prove or negate the presence of the theoretical statement, summarized in Table 2 (part 3.1). Two of them are related to the Imperialism's manifestations in banking industry (3.2), attributing to the role of shadow banking system (3.2.1) and banks' control over industry and commerce (3.2.2), which characterizes the process of establishment of banking entities by non-bank corporations and briefly describes the Walmex example. The last part of the chapter deals with the imperialism's manifestations in relations between countries in a form of foreign direct investment into the peripheral banking system via establishment of international banks' subsidiaries (3.3) which are examined by the observation of foreign banking sector; its income and the scope of operations of foreign financial entities.

3.1 General observation on possible imperialism’s manifestations in the banking industry

In Table 2 (attached below) in a brief and contracted form we presented the manifestations of imperialism, based on Lenin (1917), which might be found in the financial and banking sector. Those parts of imperialism's propositions which are not related to the financial system are of the same importance for imperialism’s research purposes, but are beyond the scope of this chapter. Although, it is possible for a country to be involved into imperialist relations through any other channels, described in the chapter 1 (dedicated to the theoretical analysis of Lenin’s work).

The imperialism’s manifestations (Table 2), are followed by the set of possible indicators, which could be useful in examining the degrees of the presence of an observed pillar of the theory in the banking and financial sector of a country. These indicators were derived mainly through the process of studying of the theoretical base, among which there are both Lenin’s theory and some modern literature on the evolution of financial and banking instruments in the 21st century. The set of the indicators are of the preliminary character and are to be taken as a part of the hypothesis of the dissertation. In this part we shall unfold and scrutinize some of the indicators demonstrated in the Table 2 in order to prove or reject the sustainability of the particular choice of an indicator and continue to select ones that would be the most accurate in order to achieve the objective of the study and to help in tracking the imperialism manifestations in the modern financial system. Due to the limitations of the current dissertation, the opportunities for the observation are constrained, but there are more possibilities for this for further research, which will be discussed in the last parts of the paper.

The case-study of this dissertation is Mexico due to its close relations with the advanced economies, long history of policy of international capital inflows and adoption of financial and trade liberalization and Mexico’s banking system is going to be observed in this chapter as well. However, we believe that indicators summarized in Table 2 could be scaled and applied to the other peripheral countries in order to examine the imperialism’s manifestations there.

Table 2: Imperialism's manifestations in the banking and financial sector

Imperialism's manifestations in the banking and financial sector				
Stages of financial capital maturity	**Chapter in the Lenin' work**	**Criteria**	**Key points of the theory of imperialism (based on Lenin' work)**	**Provisional set of indicators linked**
A country of concentrated financial capital, dominating the industry	I	Concentration in banking market	1. Existence of oligopoly – cartelization.	Number of banks in a country (G-7, G-5, G-3) Market share of banks' groups (G-7, G-5, G-3) in terms of total assets, equity (%) Interest rate charged for certain banking services (G-3, G-5)
	II, III	Concentration in financial market	1. System of "participation" of "affiliated" banks:	Shadow banking system:
			1.1 Democratization of stockholding.	Number of shares (G-3)
			1.2 The "invisible" balances of sheet of the parent company and its branches and the circulation of capital in- and outflows that are not visible for an average shareholder.	Total financial assets by a group of financial institution (share of NBFI and banking entities) (%); total assets divded by banking and non-banking entities (G-3) (%, LCU); ROA of banking and non-banking subsidiares (G-3) Number of banking and non-banking subsidiaries (G-3)
	II, III		2. Banks' control over borrowers.	*see indicators for "oligopoly"*
			2.1 Personal link-up between banks and the largest enterprises in industry and trade, via merger of both through the ownership of shares. 2.2 Private connections between banks and the government.	Mergers or acquisitions between banks and other non-financial commercial entities; market share of the multifunctional entities; role and influence of the multifunctional entities on the economy
			2.3 "The terror" and intimidating the enterprises by banks to force the companies adjust their policies to the banks' plans.	Commercial banks' financing of the non-financial private sector; firms' purposes of the commercial banks' financing
	II, III		3. Banks substituted the stock market – the intermediary of circulation.	*see some indicators from 1* Structure of assets of banks (G-3); Share of banks' investment in cash and securities (%) Banking assets/GDP; total deposits/GDP Financial market depth and efficiency; financial institutions depth and efficiency (taken in a comparison to other countries)
	II, III		4.The problem of the speculatively applied capital. The predominance of finance capital over all other forms of capital means the dominant position of the rentier and the financial oligarchy.	*see some indicators from 1.2; 3*
			4.1 Finance capital takes ever-increasing profits from foundation, from the issuance of securities.	Assets of financial sector's/GDP (%)
			4.2 Finance capital takes profits from government loans.	Financial sector's growth dynamics
	II, III		5. Banks stopped to specialize in certain industries.	Structure of banking system and financial system; G-7 banks' scope of work Asset's structure (G-7) Market share (G-7)
	III	Concentration in banking market	6. Acquiring less profitable enterprises and banks.	Mergers and acquisitions dynamic Conditions of M&A
	III	Concentration in banking market	7.Economic crises lead to a higher level of concentration and monopolization.	Behavior of financial industry during economic downturns (number of bankruptcies, acquisitions, international loans)
A country "transferring" imperilsim overseas by export of capital	IV	Concentration in banking market, Internationalization	8.Concentration led to a possibility to research the market segments worldwide and make an accounting of resources base.	Market share of international banks (total assets, %) Brief outlook at "attractiveness" financial and banking market conditions in local economy for international capital. Provisional indicators might include: rate of household/corporate credit, delinquency rate, outstanding credit, CB interest rate, compliance with Basel, IMF (international reserves, stability of currency)
	IV	Internationalization	9.Internationalization of banking business.	Market share of international banks (number of foreign banks; total assets; equity; financial margin, %)
			9.1 The capital outflows which are strengthened and simplified by the widening the net of large European banks over the peripheral countries.	Origins of parent foreign financial insitutions (market share, %)
			9.2 The export of capital in the countries to where it is directed influences the development of capitalism, greatly accelerating it:	Interest rate charged for certain banking services (foreign G-3, G-5) in host country and in a country of origin (CAT, APR)
			monopolization, concentration, financialization	Financial results of foreign banks (G-3) of a foreign banking subsidiary and the whole financial MNC *see some indicators from 1 (oligopoly)*

Source: *Lenin (1917). Author's elaboration.*

3.2 Imperialism's manifestations in banking industry

3.2.1 Role of shadow banking system

In relation to the banking and financial system's concentration, one of the most prominent propositions of the theory of imperialism is the one, connected to the creation of the "participation system" – system of "affiliated" banks (or other financial institutions) that would be accounted to the parent organization (Lenin, 1917). More specifically, it is the "invisible connections", that are the target of the theory, between the parent company and its subsidiaries, through whose channels risky circulation of capital could happen, because the financial subsidiary is not included in the parent's company balance sheet and, therefore, is not subdued to the supervisory monitoring.

This "participation system" could be partly recognized in a phenomenon, which received special attention in the academic literature in the past decade: shadow-banking system (Nath & Chowdhury, 2021). This definition was firstly mentioned in 2007 and later formulated in more precise way by Pozsar, Adrian, Ashcraft and Boesky (2010), who defined shadow-banks as financial intermediaries that conduct maturity, credit and liquidity transformation without access to central liquidity or public sector credit guarantees (Pozsar, Adrian, Ashcraft, Boesky, 2010)

Having as well the research of an international organization – Financial Stability Board (FSB, 2021), we can try to compare the shadow-banking features with the theory's statements. The FSB report defines several groups of non-bank financial institutions, including so called "narrow measure of non-bank financial institutions", which, judging by their characteristics, could fall into the description of shadow-banking system's entities.

The features that were pointed out by FSB research are the following (FSB, 2021): involvement in credit intermediation activities, which can pose a systematic stability risk; posing a risk directly and through their interconnectedness with other institutions of financial system; performing activities that are typically performed by banks, such as maturity and liquidity transformation, leverage or imperfect credit risk transfer. Moreover, these non-bank financial intuitions fulfill the following functions: lending and market intermediation based on short-term funding and securitization-based credit intermediation.

Thus, in comparing the above-mentioned features with Lenin's system of participation of "affiliated" banks, we can firstly identify that these financial entities duplicate some functions of banks, at the same being connected to them directly or to other financial institutions in order to have access to funding and credit. As a result of this, being an additional source of "increased loanable funds and, consequently, assuming some of the risks associated with loan origination" (Nath & Chowdhury, 2021, p. 1), these entities carry some vulnerability, which was pointed by Lenin in regard to involvement in risky lending and financing of illiquid assets by securitized credit (Lenin, 1917).

We assume that the research of the whole system of non-bank financial institutions would not be feasible to accomplish in a given scope of the current work, that is why we are to give a brief observation of role of non-bank financial institutions in the financial system of Mexico, and highlight specific, the most massive, financial groups, legally acquiring several types of the non-bank financial intuitions, and characterize role and influence of these organization.

The FSB report divides the existing financial institutions by different criteria, such as relation to commercial or public entities; specificity of operations performed; and the functions. The most interest have the groups defined as "narrow measure of NBFI", characteristics of which were seen above, and "other financial institutions" (OFI).

Other financial institutions (OFI), being a subset of the non-banks financial institutions sector, represent "all financial institutions that are not central banks, banks, public financial institutions, insurance corporations, pension funds, or financial auxiliaries". OFIs include, for example, investment funds, captive financial institutions and money lenders, central counterparties, broker-dealers, finance companies, trust companies and structured finance vehicles (FBS, 2021, p. 3).

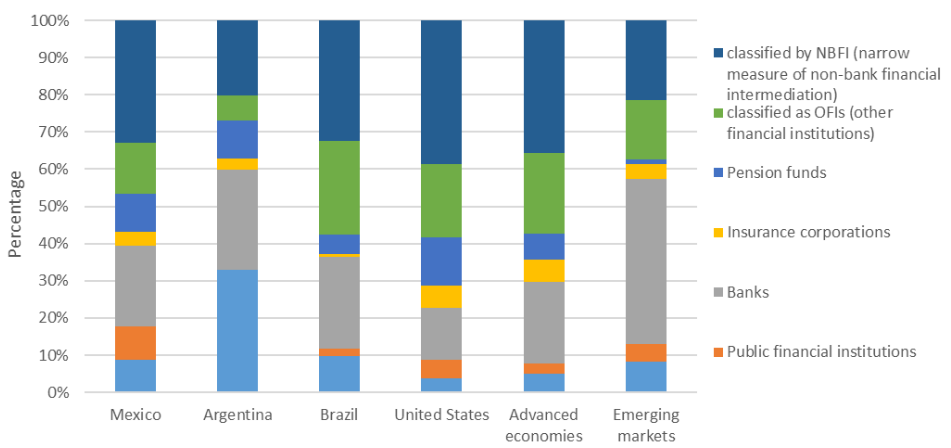
The narrow measure of NBFI, which is defined by carrying some risks to the system as being involved into leveraging activities, includes financial auxiliaries[26].

Using the data processed in Figure 10 we can make a comparison of a share of different groups of particular financial entities in several countries and groups of countries. We see that in Mexico, as well as in advanced economies, the place and role of commercial non-bank financial institutions is quite high, representing 60% of the total financial assets that the system holds (80% in the USA, and 70% share in the advanced economies' category). Although, the place of banks in Mexico represented by 31% of total assets, which is rather big, the share of NBFI classified by narrow measure holds the biggest percentage of all the groups – 47%. This

[26] Corporations predominantly engaged in providing financial services other than financial intermediation (fund managers, stock brokers, stock exchanges, insurance brokers, and arrangers of hedging instruments such as swaps, options and futures).

tendency correlates again with the picture related to the advanced economies - their percentage of narrow measure of NBFI is 55% and banks 33%. Mexico is following the pattern of advanced economies here, because in the emerging markets banks tend to hold the majority of financial assets in the banking system – 56%, while OFI groups with the narrow measure NBFI have 47,5%. This picture reflects as well the differences in the financial system's levels of complexity and, as well, integration into the global financial markets' structure.

Figure 10: Financial assets (%) detained by the different entities (2020)



Source: FBS Global Monitoring Report by a jurisdiction. Author's elaboration

The structure of advanced financial markets involves an important role played by the financial intermediaries and auxiliaries, and less so, by banks. This was one of the points, made by Lenin, in the description of the advanced countries, in regard to deepening the system of financial subsidiaries to be able to manage their leverages in a faster and much more flexible way. However, assuming Mexico's already long-term commitment to the neoliberal economic strategy, the way that the advanced countries were developed is slightly manifesting itself the Mexico's financial structure, making Mexico to integrate the features of both imperialistic country, developing the financial complexity and peripheral economy, being the recipient of finance capital, one way of which building a net a foreign banks' subsidiaries, which is to be observed in the following parts of the chapter,

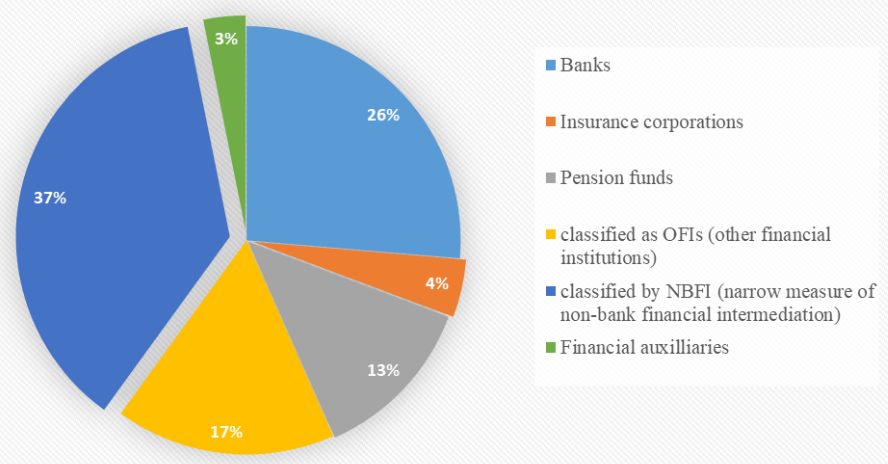
In any case, this remark does not contradict the main point, which we are pursuing to observe: the import of global finance capital and its further concentration and the separation of the ownership of capital from the application of capital to production.

Modern financial system of Mexico has greatly increased its complexity and interdependency since the liberalization process started in the 1990s. According to the statistics from disfold database, ones of the biggest companies in terms of market capitalization[27], among trade and productive enterprises in such sectors as consumer goods, trade, mining and telecommunication services, were banking (Financial Group Banorte, JSCVC) and financial (Elektra Group, JSCVC) companies taking the 4th and 6th places of the rating respectively.

The biggest banking company was represented by a financial group, which provides not only the various banking services, but other functions, operated by subsidiaries, included in one conglomerate.

There are 21 financial groups in Mexico by 2021; since 2011 this number has decreased by 12 institutions – during a decade this sector experienced a rather fast concentration by almost a third of the sector's diversity. Although there are 13 national financial groups, their financial margin 2,5 times lower than the one of the foreign financial organizations, which is also an indicator that the foreign share of the sector is even more concentrated, compared to the national one.

Figure 11: Composition of Mexican financial system, assets detained by entity, as percentage of GDP (2020)



Source: FBS Global Monitoring Report by a jurisdiction. Author's elaboration

In Figure 11 we can observe the composition of the Mexican financial system, divided by groups of commercial financial institutions, measured as the amount of financial assets to GDP. We see that the riskiest group of the institutions – the narrow measure of NBFI – with the financial auxiliaries hold 40% of the whole commercial financial sector, where commercial banks have 26%. However, it has been noted above that the FG Banorte was placed 4-th in the ratings of the biggest (in terms of assets) companies in the Mexican economy. Moreover, the 8

[27] Market capitalization rate refers to an amount of capital stock, calculated by the market value of outstanding shares of a company.

out of the 25 biggest financial companies, according to disfold database, are banks, which have 65% of the total amount of mark cap for the whole group of these 25 companies.

Thus, considering that one of the biggest financial companies which were put into the rating were not solely banking institutions, but a financial group built upon a banking entity, we can assume that the NBFI and OFI groups in Mexico might likely be involved in financial operations as a part of a bigger consolidated group.

It is worth to observe the details of scope of work and operations of the biggest financial groups (G3) in terms of total assets: Grupo Financiero BBVA Bancomer (subsidiary of Spanish parent company); Grupo Financiero Banorte (national); Grupo Financiero Santander (subsidiary of Spanish parent company).

In this sector of the chapter, we will focus on the BBVA financial group, as the limits of the current work do not allow to expand the research onto the G-3 or G-5 groups.

The financial group BBVA is, as it was mentioned above, the second largest financial group in Mexico and includes the largest bank in the country – BBVA Bancomer. The financial group belongs to the parent organization - Banco Bilbao Vizcaya Argentaria (BBVA), located in Spain.

Amongst the services provided by banking structures to individuals and corporations, the FG operates in various other financial sectors: “investment banking and wealth consulting, stock brokerage services; trust and asset management; operations with securities and management of mutual funds; home, auto and life insurance; distribution of life annuity products under Mexico's retirement pension system; bonding services; remittances transfers”[28].

If follow the information from the official website of the FG BBVA Mexico, there are seven separately presented subsidiaries of the conglomerate, the balance sheets of which is possible to study: BBVA México (BBVA Bancomer bank); Casa de Bolsa, (stock exchange house); Seguros BBVA México (insurance); BBVA México Seguros Salud (health insurance); Pensiones BBVA México (pensiones); Hipotecaria Nacional (national mortgage), which was merged the holding company BETESE and the services provider Desitel Tecnologia y Sistemas in 2017; BBVA México Servicios (BBVA services). However, the full list of the existing subsidiaries with around 100% of stock acquired by the parent BBVA, was published by parent

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[28] Information extracted from BBVA website (www.bbva.mx/personas/grupo-financiero.html [accessed on 06.10.2022])

organization and counts 218 entities, from which 41 entities belong to Mexico's jurisdiction, according to the information from financial statements of BBVA by 2021.

According to the FSB classification, institutions which comprise maturity and liquidity transformation functions, may duplicate the banking functions, but do not necessarily fall into shadow-banking category. To narrow the scope and identify the institutions, which can pose the systematic risk, FSB highlighted several functions which are likely to be performed by shadow banks. They are: management of collective investment vehicles, such as fund-type financial institutions; loan provision and intermediation of market activities that is dependent on short-term funding, such as different types of finance, factoring, leasing companies, broker dealers; facilitation of credit creation such as credit insurance companies and securitization-based credit intermediation and finding of financial entities (FSB, p. 28).

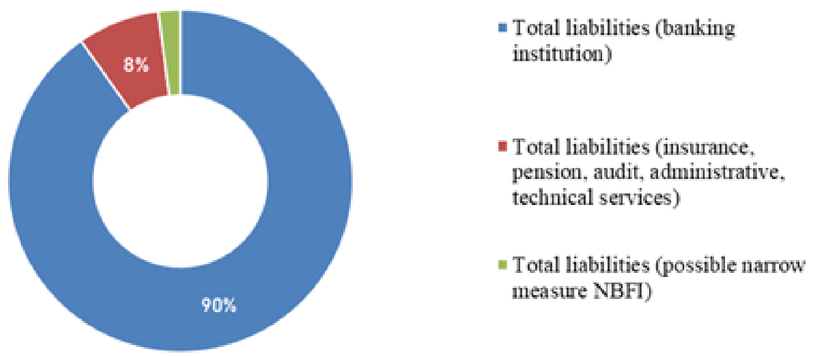
Having defined the shadow-banking system’s characteristics, we will try to observe the entities of the GF that might be susceptible to runs and likely to be put in a group of the financial intermediaries, which tend to be included in the “narrow measure group of NBFI”, developed by FSB.

Having had the information from financial statements of BBVA[29], it was possible to obtain data on assets, held by each subsidiary, related to 2017, the latest, since other reports do focus only on equity and earned capital (profits or loss). Thus, we will focus on the data from 2017.

In Figure 12 and 13, the pie charts show the composition of total assets (Fig. 12) and total liabilities (Fig. 13) held by different groups of subsidiaries of BBVA FG banking entity; insurance, pensions, administrative, technical services; narrow measure NBFI). Having observed the scope of work of each of 50 subsidiary (by the year of 2017) we could suspect that some of those, which were identified by the financial statement as “financial services”, “real estate”, “investment company”, “securities dealer”, “payment entities” and “services” might be included in the group of narrow measure of NBFI, defined by FSB.

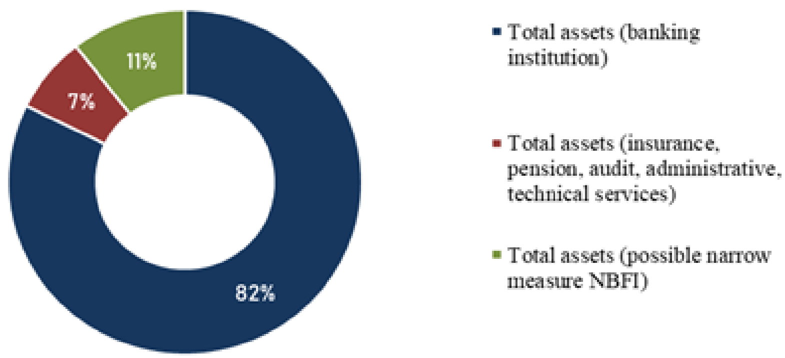
[29] Information provided by BBVA. Financial statements 2017 (shareholdersandinvestors.bbva.com/microsites/cuentasanuales2017/en/consolidated-financial-statements/appendices/index.html [accessed on 06.10.2022])

Figure 12: Total liabilities of BBVA Mexico financial group detained by the different type of subsidiaries (2017)



Source: bbva.com database. Author's elaboration.

Figure 13: Total assets of BBVA Mexico financial group detained by the different type of subsidiaries (2017)



Source: bbva.com database. Author's elaboration.

The most common functions were involvement in long-term investment by short-term funding and collective investment vehicles (most of which were different kinds of trusts, specialized in mortgage, real estate, physical equipment investment); credit intermediation facilitation. There were some entities, whose scope of work was not possible to track, however, the percentage of this blanked data must not significantly change the general results.

Out of 10 billion of euros of total assets of BBVA Mexico financial group, 11% was identified as a likely narrow measure of NBFI, 82% of the assets were marked as kept under the only banking institution in the group. The share of riskier entities is not critical, but according to the data in Figure 11, the share of assets of a narrow measure of NBFI in Mexico is quite high. We can assume that a significant part of shadow banks are not fully owned by the parent organization, but likely form joint ventures and associates.

If we turn to the sector of "profits" from the BBVA financial statements the shares are different: share of banking entity is 42%, the share of consolidated NBFI is 58%, where 52% of profits, belongs to NBFI, considered as shadow banks[30].

During the research, the second largest financial entity in the group (holding 8% of the total assets) appeared to be the "Financial group of BBVA" – which is identified as performing "financial services" functions. The entity is not registered as the consolidating financial institution, but seems to precisely duplicate the banking entity's functions, and does not have any information about itself, nor any specific title for the services it performs.

Moreover, having observed the consolidated annual report of BBVA financial group[31], it was noted that the stated volume of total assets by December of 2017 was 91959 million of euros, while the amount of the total assets of the all fully owned Mexican BBVA subsidiaries comprise 100261 million of euros. The difference at almost 8,3 billion of euros between these two sources of data shows the not registered by the BBVA Mexico FG transaction movements. Considering the number of the assets held by the financial entity "Financial group of BBVA" – 8,3 billion of euros – we can assume that the part of assets related to this entity was not captured by the annual report of BBVA Mexico FG. This, in its turn, can be viewed as an example of the opaque and highly fragmented system of the financial groups and their transactions, which are very complicated to capture by an independent monitoring institution in a precise way. The "supervisory gaps" give financial corporations more legal opportunities to avoid the close monitoring over all transactions and asset' placements, which a corporation conducts.

In addition, the riskier entities of the financial group tend to rip more profit and generate much higher income as well as generate high deficits in adverse moments. In relation to the example of the entity described as "Financial group of BBVA", the ROA (return on assets) of this institution is 25%, compared to the banking entity having 2%[32], which again poses an issue of the origin and operations performed by this highly profitable financial institution.

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[30] Information provided by BBVA, Financial statements 2017 (shareholdersandinvestors.bbva.com/microsites/cuentasanuales2017/en/consolidated-financial-statements/appendices/index.html [accessed on 06.10.2022])

[31] BBVA (2017). Consolidated Financial Statements, Management Report and Auditors´ Report for the year 2017.

[32] Own calculation based on data provided by BBVA, Consolidated Financial Statements, 2017.

3.2.2. Banks' control over industry and commerce

It has been already discussed rather briefly in the previous chapter, the specialties of the Wal-Mart bank. In this part of the chapter, we will deepen this topic and observe the phenomenon, which Lenin describes as private connections between banks and the largest enterprises in industry and trade via merger of both through the ownership of shares (Lenin, 1917).

This phenomenon was emphasized by Lenin as a part of one of the pillars of the theory of imperialism, related to capital's concentration – banks' subordination over the commercial and industrial operations. This subordination is said to be based on establishing "personal link-up between the banks and the biggest industrial and commercial enterprises, the merging of one with another through the acquisition of shares, through the appointment of bank directors to the supervisory boards (or boards of directors) of industrial and commercial enterprises, and vice versa" (*op.cit.*, p.53).

The thought is put forward within the conclusion about development of the close connection between industry and the financial world: "freedom of movement of industrial companies requiring banking capital is highly restricted" (*op.cit.*, p.52), and the decisions of allocating it are made by financial oligarchy, which may be disconnected from the production process.

However, analyzing the Mexican case, there were found two aspects related to the theory which were particularly interesting to develop. The first one, related to the theoretical proposition and the consequences: strong dependent relations between industry and banking and the dominance of financial oligarchy over the decision-making process of the productive capital, realized by the pressure or "control" of financial capital. Assuming its increasing power in accumulating capital, banking institutions may interfere in the production process "behind the scene", seeking the most profitable capital application and rising their market power and, consequently, profits.

The second one, is related to a diversification and evolution of the kinds of forms of these relations. While theory links the banking capital with productivity via share's acquisitions or personal connections, showing one way of fostering the "link-up", there are other forms of linkages evolving out of the first stage of their interflow. Highly concentrated, diverse commerce corporations find their way of development in creation of banking subsidiaries or mergers with already existing, but before independent banking entities. Hence, the dependent relations between the two kinds of capitals appeared in reverse, the effect of which we attempt to analyze further in.

Some jurisdictions, recognizing an issue of merging already concentrated capital of an MNC with banking entity, introduced special legislations, prohibiting legal fusions between banking and commerce, but some of countries, such as Mexico, does not have legislation covering that issue and allows unregulated non-bank commercial and industrial companies to own full-service banks (Gelpern, 2007). The current stage of the financial system's development provides conditions of legal and official establishment of big multifunctional corporations by the acquisitions or joint ventures between enterprises, operating in several economic areas, such as commerce, banking and financial services, goods' production, technological goods and services. This, according to Gelpern, may pose some additional risks for the emerging markets.

This part of the chapter will be divided according to the theoretical aspects, highlighted above: the theoretical base, provided by original theory and its manifestation under Mexico's jurisdiction and another aspect of the theory, already appeared within the conditions of modern economic system with particular interest placed on the history of Wal-Mart de Mexico and its banking subsidiary, operating in Mexico.

a) Establishment of banking entities by non-bank corporations

As it was already studied in the previous chapter, after the liberalization of the financial system there was a big issue of the concentrated banks and the necessity to bring stability into this area and spread the financial services into masses. While the stability (in a sense of absence of banking crises, low rates of non-performing loan portfolio, and quite stable macroeconomic indicators) and profitability of the banking system had been achieved by the mid 2000s, there were still issue of lack of competition between banks and the constrained credit granting abilities of the banking system. The oligopolistic structure of banking system may be well displayed by the numbers of increased market capitalization of the biggest G-3 and G-5 of the Mexican banks, and the extremely high interest rate and commission fees comparatively to other developed countries: in 2004 Citigroup annual rate on credit cards was 85% and Scotiabank was 77%, while in US the number was equal to 9%, in Canada - 18% respectively (Gelpern, 2007, p. 1523).

The oligopolistic position of the biggest group of banks, which we have already displayed previously in the current work, makes it highly likely for the industry to be dependent on the decision of credit granting of the dominating financial conglomerates, which choose certain placement for their assets considering higher yields.

The complicated situation, arisen after the opening of the banking sector to the internationalization and privatization, were attempted to be changed by introduction of more agents into the system: along with SOFOLs and SOFOMs, government non-bank institutions, key role started to play as well other non-bank commercial and industrial companies, such as large retailers, car and appliance vendors and others, which started to establish their own full-service banks.

Previously to the tendences occurring in the beginning of 21st century, which we are to observe further, there is an interesting example of Grupo Carso (Table 3), which was created by the merger between Corporación Industrial Carso (industrials) and Grupo Inbursa (financial services) in 1990. The bank, Banco Inbursa, was formed shortly after, in 1992. Grupo Carso holds as well the conglomerate Carso Global Telecom, multinational telecommunication provider, which consists of several subsidiaries: América Móvil, Telmex and Telcel. However, the groups from different economic areas do not formally interfere, they are owned by the same person[33] – Carlos Slim Helu – who is considered to be a very influential businessman in Mexico and around the world.

Carlos Slim directly controls the decision-making process of the Carso Global Telecom, as, according to the annual report of América Móvil, which is the biggest company in Mexico in terms of market capitalization, he and his family are major stockholders. Having founded Inbursa Financial group, and later a bank – we can definitely observe the ties between different types of capital via the "personality's" link-up.

In the mid-2000s the structure of the banking system had started to slightly alter. In Table 3 there are summarized all the banks with the available sources of information, which were developed out of or merged with the non-bank corporations under Mexico's jurisdiction. The banks presented in Table 3 are not divided into groups of local or foreign origins, as it is not the focus of the presented information. However, the relation to foreign parent organizations does play a significant role, which we will analyze in the last section of the current chapter, separately.

The alteration to the banking system appeared along with the credit lending growth. As it is seen from the table, the "boom" happened in the 2000s, where an especially significant year is 2007. Banking entities, which entered the system, were hoped to provide further development

[33] Information from América Móvil, annual report form, 2021.

of the system, increase competition and distribute financial services to the parts of the economy (consumers, real estate, SME) which were not previously involved or were partly involved.

Table 3: Non-bank corporations' establishment of own banking entities in Mexico

Non-bank corporations' establishment of own banking entities in Mexico									
Parent organization/Majority's Stockholder	Industry	Bank subsidiary							
		1992, 1994	2002	2006	2007	2008	2012	2013	2021
Mitsubishi Group	industrials, financials	Bank of Tokyo-Mitsubishi UFJ							
Grupo Carso	telecommunication, industrials, financials	Inbursa Bank							
Grupo Elektra	retail		Banco Azteca						
Grupo Autofín	industrials (car vendor)			Mi Bank					
FG Monex	financials			Banco Monex					
Grupo Famsa (2020 - bankrupt)	retail				Bank Ahorro Famsa				
Grupo Inmobiliario Landus	real estate				Amigo (2011 - merged with ABC Capital)				
Coppel	retail				Bancoppel				
Chedraui	retail				Bancofacil (2012 - merged with Consubanco)				
FG Multiva	financials				Bank Multiva				
FG UBS	financials				UBS Bank				
Wal-Mart	retail				Banco Walmart de Adelante (2015 aquired by Inbursa)				
Volkswagen Group	industrials (car vendor)					Volkswagen Bank			
ECOM Agroindustrial, Agroindustrias Unidas de Mexico (AMSA)	agriculture						Banco agrofinanzas (Bankaool)		
Grupo ACP	financials							Banco Forjadores	
PagaTodo Holding	fintech services							Bank Pagatodo	
Credijusto	fintech services								Finterra

Source: *CNBV Multiple banks, multiple sources. Author's elaboration.*

Let us briefly present the picture of real effects of these tendencies, which were as well displayed in the second chapter with more details.

Firstly, there are no definite positive effects with the entering of new entities throughout the whole banking system, which would be corresponding with the expected outcomes. In terms of the increased competition the biggest G-3 and G-5 banking groups did not significantly lose their market share. The absence of sustainable results also concerns the issue of the big part of the unbanked population. In 2017, according to WorldBank database, only 37% of Mexican population, aged more than 15 years old have a banking account: "counting cash adds to business costs, and those without accounts have little access to credit, slowing consumption and investment"[34].

Interestingly that, based on the data collection from CNBV reports, the commercial credit from banks started to grow since mid2000s: the most significant growth was shown by the credit to the enterprises, however, if we turn to the results of the Credit Market Survey, conducted by Mexican supervisory authorities in 2020 – only 31% of the firms used the commercial banks as

[34] Information from Publication of Economist Journal (economist.com/finance-and-economics/2020/12/10/mexicans-lack-access-to-credit [accessed on 03.10.2022])

their source for financing. One of the reasons for not applying for a loan were interest rates and not favorable economic conditions in the country.

However, there were still some effects of the new banks' entry, the role of which we will try to analyze, on the assumption of the theoretical realms.

Having looked at Table 3, it is evident that the most common type of conglomerate to open a banking entity was retail and supply chains, as well as some financial groups and providers of fintech services, which made the decision to expand through a bank's branch. Here we will focus more on the non-financial entities, such as retail and supply chains. Most of their banking services and operations include crediting and promoting those durable goods and services, which they are realizing within their network: bank Azteka (subsidiary of Grupo Elektra, retail and telecommunication chain), Bancoppel (subsidiary of Coppel, discount store company), Consubanco (subsidiary of Chedraui, discount store), and two banks which stopped their operations under previous owner: Bank of Walmart de Adelante (subsidiary of Walmart, discount store), Ahorro Famsa (subsidiary of Grupo Famsa, retail chain).

The flagship of the tendency became bank Azteka – subsidiary of local Grupo Elektra, whose success was followed by Walmart bank. Although, according to the data collected by CNBV, it is possible to see that almost half of the assets of Azteka, as an example, goes to the credit granting, the prospects of Azteka, Adelante and some others with lesser market shares, as stated – "taking some market share from the top five commercial banks and expanding service to middle-class consumers" (Gelpern, 2005, p. 1528) – was not fully realized and unfold.

However, it is possible to deduct some side-effects of such tendencies. Firstly, the above-mentioned conglomerates do not produce industrial or consumer goods, however they directly influence the decision-making process of the firms and enterprises, which concern the prices they charge, the quantity of production, and consequently and most importantly, the income. The concrete evidence for this influence of suppliers can be found in the operations of Walmex (Mexican subsidiary of Wal-mart), which is presented further. The additional profits, which the multifunctional corporations have out of their banking services, are reinvested in order to increase their market share for competing more effectively in the area, but not placed into the productive economy.

Next statement is related to other types of multifunctional corporations, aside from retail chains – industrials and agriculture. By establishment their own banking and financial branch they highly increase the probability of accumulation more capital much faster, which in turn, is followed by the growth of market power, leading to higher revenues and markup, not necessarily resulting into the significant increase in quality of the products or services provided, because the source of growth does not fully come from the productive economy and found its intersectional dimension.

b) Example of Walmex

The second retail chain after Elektra, which provides bank services, became Wal-Mart's – US retail corporation's subsidiary – in 2006.

Entering the Mexican market as a retail store in 1991, Wal-Mart started an alliance in Grupo Cifra – foremost local retail chain. Cifra's management has several reasons for the joint-venture: Wal-Mart's technology and expertise in creation of regional distribution centers, allowing it to scale the delivery of supplies to peripheral cities (Brennan & Lundsten, 2009).

During the financial and banking crisis of 1993, the conglomerate suffered a drop in value of shares and a decrease in operating profits, which partly led to Wal-Mart's acquisition of Cifra. In June 1997, Wal-Mart acquired a 51% interest in Cifra in a $1.2 billion deal (Walmex Overview, 2022). By 2001, Wal-Mart controlled almost a half of the supermarkets in Mexico, and received approval to open a bank in 2006 (Hernandez-Murillo, 2007).

According to the classification of Bartlett/Ghoshal (1986) of role's types of MNC's subsidiaries, Walmex is considered to be a "strategic leader" of the Wal-Mart MNC (Morschett, Schramm-Klein, Zentes, 2015, p. 71). The Mexican and Latin American market is a strategically important market for the parent organization, which makes it highly crucial for MNC to establish a successful subsidiary there. It is not a doubt that the strategy, which the subsidiary pursued in the region when entering – a joint-venture with Cifra – was based on the long-term perspectives, which the MNC has in the region. In order to capture market knowledge and cultural specialties of the region, it was necessary for Wal-Mart's management to construct an effective partnership with an already successful local retail chain. Moreover, in 2009 Mexican "strategic leader" assumed responsibility not only in the host country, but also in and five more Central American countries – with Walmex acquisition of Walmart Centroamérica (*op.cit.*).

Nowadays, Wal-Mart is the biggest retail chain in the world and it is dominating the Mexican market, being the top company there with mark cap equal to 72 billion of dollars[35].

[35] Data extracted from disfold database.

Walmex dominance in the Mexican market led to some fundamental changes in the retail sector, both for suppliers (producers of goods, entrepreneurs) and for customers.

Firstly, Walmex introduced into the retail market some innovations in warehousing, distribution and inventory management process and logistics, many of which had appeared before in its U.S. stores. Particularly, Wal-Mart introduced the system of centralized distribution, located warehouses strategically in order to supply groups of stores, which reduced logistics and inventory costs; as well as computerized tracking of sales and inventories . Additionally, Wal-Mart started to practice strategic control and financial control system: the former targets company's employees, motivating them to show better performance and including them into share ownership, and the latter provides managers to monitor all aspects of the business (profits and turnover rate) (Iacovone, Javorcik, Keller, Tybout, 2014, p. 3).

Secondly, the outcome of the introduction of these business and technology innovations – increased market power and ability to endogenously establish markup significantly affected the relations of Wal-Mart with the suppliers. Suppliers cannot ignore the Walmex existence, they receive benefits from doing business with the company in several ways. One of the benefits are ability of Walmex to keep its reputation as a "reliable payer" and its high creditworthiness – "suppliers to benefit from factoring [which] has become an important source of financing-especially short-term working capital-for small and medium-size enterprises" (Iavocone, 2009, p. 13). A supplier, partnered with Walmex, receives increased demand for its products, marketed through retail companies and lowered costs for increasing its market size by using the distribution and transportation's instruments of Wal-Mart.

On the contrary, Walmex also poses severe conditions on the potential partnership, which is concerning pricing policy and quality of products. The "ideology" of "low prices for quality products" of Wal-Mart creates a downward pressure on quality-adjusted prices, which constraints the ability of manufacturers to exercise market power and forces lower prices on them than they would have otherwise chosen. This issue causes a great debate among the scholars, who hold different views on this matter, polarizing between elimination or pressuring domestic suppliers and SME (Pearson (2021)) and increasing quality of products, helping the most innovative firms (Iacovone, Javorcik, Keller, Tybout (2014)).

Indeed, according to the estimations, made by Iavocone (2009), Wal-Mart "favors" larger firms more and they benefit from the business with Wal-Mart, while the SME suffer limitations and constraints on their growth, placed by the Walmex high requirements on product appeal and quality and low prices.

Thirdly, some authors, such as Carden, Courtemanche, Meiners (2009), Dicker (2005), argue that Wal-Mart not only pressures its suppliers, using its monopsonic power, it also affects the decision-making of its customers.

With Wal-Mart, controlling almost half of the retail chain's market in Mexico, it is able to influence consumers, pricing policy of suppliers, durable goods production and import, which in turn directly and legally connects the accumulated and concentrated banking capital placements with the investment decision of the company.

However, due to the low profits and partly the consequences of the bribery scandal in 2012 with Wal-Mart top management[36], which was accused of corruption, Walmart Adelante lost trust among the customers and was sold to the Inbursa financial group in 2015[37], which was also described previously.

3.3 Imperialism's manifestations in relations between countries through establishment of channels of international banking capital

In the previous parts of the current chapter, we were observing mostly the imperialism's manifestations in banking and financial sphere, revealing themselves in those jurisdictions, where financial capital had already matured, transforming and complicating the financial system further. However, along with these processes, Mexico is the recipient of the foreign financial capital, which signifies its role as one of the peripheral countries, to which the capital is exported.

The two roles, Mexico is developing, are tightly intertwined with each other – the peripheral character of the economy, according to the theory, provides those necessary prerequisites for the accelerated "development of capitalism" (Lenin, 1917, p. 72), which in turn, makes the country an exporter and importer of the capital at the same time.

Theory of imperialism defines the measures of foreign capital being transferred into the peripheral economy, which in turn includes one into the system of global economy: as being a part of a productive chain (MNCs and global division of labor) and by putting capital directly into the recipient's economy – in "industrial undertakings" (FDI in productive economy); as a

[36] A case of bribery of government official by the Walmart Mexican subsidiary occurred in 2012 and was followed by investigation carried out by U.S. Department of Justice. For details, see Rarick, Williams, Barczyk, James (2018)

[37] Information from Publication at Walmart website (corporate.walmart.com/newsroom/2014/12/18/walmart-de-mexico-y-centroamerica-announces-the-sale-of-banco-walmart-to-ibursa-and-a-commercial-alliance [accessed on 15.10.2022])

borrower of international financial loans and aid; and by establishing a net of foreign banks subsidiary in the peripheral country (FDI in financial economy and banking system).

The theory argues that there is a possibility of the foreign banks to dominate the host country's financial system and, hence, control trade and appropriate high yields from their overseas operations (*op.cit.*, p. 73).

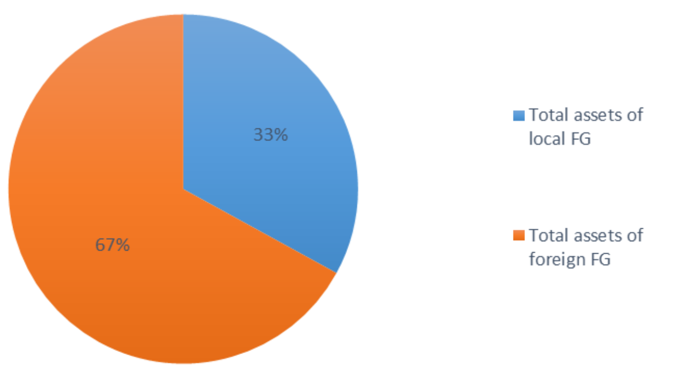
In the second chapter, there were some discussions, related to the theory, concerning the internationalization of the Mexican economy, particularly, the banking sector. Here we will attempt to expand the theoretical discussions and provide more specific data analysis on this matter.

a) Widening net of foreign banks

The process of the legal and factual opening of the local banking and financial system in Mexico was presented in the previous chapter. The legal prerequisites for the liberalization of the banking sector quickly found their response outside the country and allowed the huge flow of the FDI into this sector: from 1995 until 2021 the amount of foreign banks market share increased from 29% to 70%, the pick of which was registered in 2005, at the point of 83% of market share[38].

Since there has already been discussion about the importance of the non-bank financial subsidiaries of banks, as part of their internal functioning, in Figure 14 there is data on market share of all the financial groups operating in the system. It is evident that the influence of the established foreign subsidiaries must be rather significant, assuming their market share (Fig. 14).

Figure 14: Total assets of foreign groups, operating in Mexico (2021)

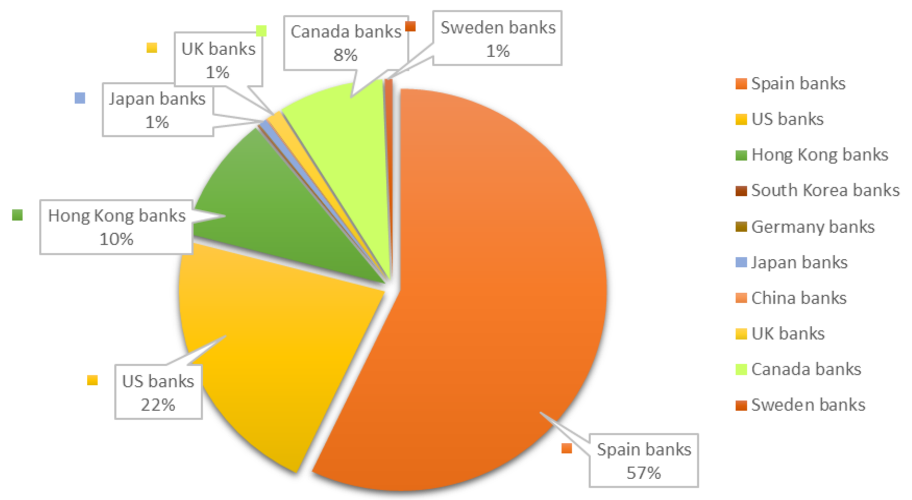


Source: CNBV financial groups' balance sheets. Author's elaboration

[38] Data extracted from CNBV database.

Girón (2004) argues that the origin of the capital of foreign banks is North American, English, Canadian and Spanish. By 2020, the biggest shares remained with by Spain's banks, US's banks, Canada's and significantly reduced, but still present share of UK's banks, also, Mexican banking system were diversified by the appearance of Hong Kong's banks (Figure 15).

Figure 15: Total foreign banking assets by country, Mexico (2020)



Source: CNBV reports. Author's elaboration.

With Spain and the US having more than three quarters of the market share of foreign banking system, we can find some correlations with the theory, assuming that Spanish and US's banking capital had been already familiar with the Mexican financial market for decades. Even with the presence of more Asian competitors after 2016, according to the CNBV annual reports, the market power of the biggest foreign banks was not changing very significantly. The fact that the Mexican government sought for more entities in the banking market and built more favorable conditions for the appearance of more foreign banking institutions demonstrates the necessity for banking sector diversification, recognized by the government.

However, the biggest three banks (foreign G-3) and their respective financial groups with foreign headquarters, located in Mexico - BBVA Bancomer (BBVA) (Spain's subsidiary), Banamex (Citigroup) (US's subsidiary) and Santander (Spain's subsidiary) - together hold a market share of 52% and having 58% of the total financial margin of all the financial groups operating in the country[39]. The data shows the dominance of the Spanish and US's banks in

[39] Data extracted from CNBV database.

terms of total assets and net income: the foreign subsidiaries' "control" over more than a half of financial operations performed in the market.

b) Income and operations of foreign financial entities

In the following part we will try to observe the G-3 of foreign banks in terms of the main scope of their operations, the particular financial instruments, which they use, and the yields, taken comparatively.

The Mexican economy, as was stated earlier, is characterized by the high interest rate. Some of the reasons for this are high informality and low bank services penetration, which roots from the high rates of cash usage across the country. However, even assuming the widespread cash usage, estimated by 86% by 2020 (McKinsey Global Payments Report, 2020, p. 6), foreign bank subsidiaries yield significant profits from the interest and the commission fees.

The issue of the high fees charged was already discussed a few years ago by The National Commission for the Protection and Defense of Users of Financial Services (Condusef), a consulting institution, in the context of the Mexican authorities' proposal on the exemption of small accounts from certain fees[40]. In 2019 Condusef accounts that averagely around 30% of Mexican banks revenue comes from their commission fees, which is quite high.

Table 4 provides information on the interest rate (CAT, APR[41]) for the G-3 (which was specified above) in Mexico and the same indicator for their respective parent organizations in the countries of origin.

Table 4: Average interest rate for chosen banks' tariffs of credit cards (CAT/APR) in Mexico, Spain, US (2022)

Average interest rate for chosen banks' tariffs of credit cards (CAT/APR) in Mexico, Spain, US; 2022		
Mexico		Headquarters
BBVA	70,0	22,2
Santander	53,6	10,6
Citigroup	63,7	26,7
Source: *CNBV, bancosantander.es, bestcards.com database.*		

There is a big difference between the charged interest on consumer credit card services between the banks of a country of origin's jurisdiction and Mexican. The Mexican banking system lacks

[40] Information from Publication of Reuters (https://www.reuters.com/article/us-mexico-banks-idUSKBN1WU2J8 [accessed on 06.10.2022])

[41] CAT (total annual costs) is the total annual cost of credit, computed similarly to APR (annual percentage rate), which includes all costs and expenses related to a loan: fees, loan term and the NIR (nominal interest rate).

competition and in the absence of the majority's population involvement in banking services activities, Mexican banks are able to charge higher interest.

In order to compare the yields from the operations conducted by the chosen G-3, there is a computed data on the net interest income and net income from fees and commissions from different financial groups, presented in Table 5

Here it was attempted to question the importance of the foreign subsidiary role in the functioning of the whole financial MNC. According to the theory, the majority of the transactions and operations occur within the host country jurisdiction, which, consequently, must bring higher revenue from abroad. In Table 5, BBVA group has the biggest share of the operations conducted in Mexico and extracting almost half of the income from interest and commissions from there. Assuming that BBVA Group operates as well in several countries, such as Turkey, and South America (Argentina, Colombia and Peru) along with Mexico, it is evident that revenues from Mexican subsidiaries are the most important.

.Table 5: Financial results of financial MNCs and their Mexican subsidiaries, data of the 31 of Dec. 2021

Financial results of financial MNCs and their Mexican subsidiaries, data of the 31 of Dec. 2021				
Financial MNC	**Indicator of financial results**	**Headquarters and subsidiries, mln euros**	**Subsidiary (financial group) in Mexican jurisdiction, mln euros**	**Share of Mexican subsidiary, %**
BBVA Group	Net interest income	14686	6119,8	41,7%
	Net fees and commissions	4765	2125,0	44,6%
Santander Group	Net interest income	33370	2724,7	8,2%
	Net fees and commissions	13812	1089,1	7,9%
Citi Group	Net interest income	n.a	3357,2	
	Net fees and commissions	n.a.	1802,2	
	Net income	21952	1340,4	6,1%
Source: *CNBV financial results of financial groups, annual reports from citigroup.com; shareholdersandinvestors.bbva.com; santander.com.*				

From the other two groups it is certain as well that Mexican subsidiaries are among the most important for the parent organization. Considering that Citigroup and Santander Group operate in more than 20 countries each, including countries in Latin America and Central America, Mexican branches’ share in their income is quite significant (6%-8%).

It is not possible to make statements on the importance of the income from commission and fees from the table, however it could be noted that in two financial groups the income from this item is slightly higher than net interest income.

Although, in the given limits of the current work it is not possible to investigate particular ways of foreign banking capital interventions in the Mexican market and its applications (placements of capital), we still can give a general observation of it.

According to the CNBV balance sheets of Mexican financial groups, the Banamex and Santander group deal more with the operations connected to securities investment than crediting, while BBVA group main scope of operations is related to commercial credit. The most common borrowers of the banking capital for the whole G-3 are mostly the industrial and commercial enterprises[42]. BBVA is the prominent partner (creditor) for the several Mexican MNC's, such as, for example, América Móvil, for which the bank opens significant credit lines[43].

Additionally, it is necessary to return again to the role of the non-banking financial sector. The FSB report stated that banks and NBFI entities are directly connected, which we have already stressed earlier in this sector. Moreover, the report mentions "banks' use of funding from NBFIs is larger than their exposure to NBFIs and the distribution of banks' funding from OFIs in emerging market economies' jurisdictions is more diverse" (FSB, 2021, p. 17). The FSB also states that non-bank financial sectors serve as "hubs for international capital flows and continues to have relatively high levels of cross-border interconnectedness": there is a "positive correlation between the relative size of the non-bank financial sector (other than pension funds and insurance companies) and the relative size of cross-border links" (FSB report 2021, p. 18)

This relationship might be found in the data, processed earlier (Figure 10) related to the development of the financial system, Mexico, having a rather advanced financial system with vast sector of NBFI opens an important passage for the possible opportunity for the international capital to penetrate the economy in a faster and more difficult for supervision way.

Final remarks

This chapter is closely related to the first chapter on the theory of imperialism analysis mainly through Lenin perspective but also through the lenses of some contemporary authors, such as Chesnais (2016) and Guillen (2012).

We have focused on the imperialism's manifestation in the following aspects: relations between core- and peripheral countries in regard with the establishment of foreign banks' subsidiaries

[42] Data extracted from CNBV database.
[43] Information from América Móvil, Annual report 2021.

and the finance capital's concentration realized through the banking system's instruments, such as creation of shadow bank system and deepened interpenetration of banking services with industry and commerce.

We can conclude that all the above mentioned theoretical propositions manifested themselves in one way or another in the Mexican banking system. Interestingly, that having the roots in the Lenin's theory the features of imperialism have evolved until today in a way which is correspondent with Chesnais statements on the financial capital's modern instruments and characteristics of economy's financialization in XXI century.

Concerning the shadow banking system, Mexico was marked to be a country with a quite developed sector of non-bank financial institutions. Having examined just one biggest bank, we have found that a bank has various affiliated financial entities, considerable amount of which might be regarded as non-bank financial institution that are likely to carry systematic risks. Although they do not accumulate significant share of total assets nor liabilities, they generate more than a half of annual profits, remaining, therefore, profitable financial agencies.

Some banks, in a case of Mexico, have a tendency to be established as a subsidiary of a non-financial corporation, which again turn us back to the theoretical consideration on the evolution of the finance capital's penetration into the real economy. The big corporations, whether local or foreign, particularly in retail industry, tend to create monopsony market, controlling the suppliers and, therefore, their decision-making concerning production, and create the system of affiliated banking and financial institutions. This tendency illustrates the process of further concentration of the finance capital and tighter interconnection between manufacturing and financial sectors of economy.

Lastly, there was observed the process of establishing a foreign banks' subsidiaries and some particular aspects of their operations. The share of foreign banks and foreign financial groups is significantly bigger than the local ones', which has clearly demonstrated the "foreignization" of the Mexican financial system. Foreign banks brought quite profitable and solid banking sector performance, however, did not solve the issue of oligopolistic market structure. Extreme profits foreign banks made with from performing credit services, and commission fees in Mexico illustrates the situation of international investors' benefitting, contributing to the widening inequality gap between regions.

Conclusion

In the first part of this dissertation, we attempted to summarize and build the theoretical framework of imperialism, a net of main concepts and ideas, which would be applicable to the empirical case-study. The core of imperialism, as the highest stage of capitalism, is monopoly capitalism, asserting itself through the concentration of financial capital. The concept of financial capital, which is built upon the Marx's categories of credit money, interest bearing capital and fictitious capital, emerged from the idea of separation of ownership of the capital from the application of capital to production. There have been described, through the theory of imperialism framework, different ways of financial capital's concentration and the forms it takes, which, previously to Lenin, were given by Hilferding, but afterwards were summed, organized and complimented by Lenin in a separate, single theory. One of the most crucial contributions to the theory of imperialism, made by Lenin, was the organic implementation of the category of monopoly capital onto the global scale of the hierarchical structure of the political and economic system, which eventually result into the broadening and deepening the controversies and conflicts within a contradictory and highly unbalanced and unstable system of socio-economic relations. Major economic powers with the matured finance capital and monopolized industry are motivated by the necessities of both maintaining the high organic composition of labor and markup and keep a pace of economic growth to export financial capital abroad in several forms: foreign investment flows in various sectors of peripheral countries, and financial international loans.

Mexico' economy and banking system, which was chosen as a case-study for this dissertation, presents an interesting and complicated case of a unique development path. However, it was possible to apply the some of the key theoretical considerations during the observation of the historical retrospective and current conditions of Mexican economy and banking system.

An important discovery, that was made during the research, was that Mexico, experiencing the influence of foreign finance capital's export, underwent an indeed accelerated process of capitalism's development. That means, that Mexico was transforming its economic system into the monopoly capitalism, following a path of advanced countries, but in the sense of the development of capitalism, as it was highlighted above, not the development of the whole society, sustaining the increase in living standards. Therefore, there are two main issues, that the country faced. First one is the level of the "dependency" on the foreign capital, defining the country's place and role in the global economic system as a more recipient or exporter. Second one is the supposition that increasing financial capital's dominance over the economy is directly correspondent to the more foreign capital's inflows into the country in various forms.

The research conducted over the Mexican economy' historical retrospective gave a basis for this discovery and has examined in a brief form the possibility of theory's application to the Mexican economy as a whole in order to understand the general relevance of the theory of imperialism in the context of the economy during the end of XX and the beginning of XXI centuries. We have encountered various crossing points between the theory and the empirical field of the study and can list a few conclusions.

Mexico was following the import-substitution model during 1950s-1980s, which established some specific tendencies for the next stage of the country's development. The period of import-substitution, which, along with other features, was also characterized by the protectionist tariffs for import products and creation of higher value-added production, fueled the process of concentration of production and creation of monopolized market structure. Mexico was following the process of the economy's "cartelization", based on the concentration of production and banking capital, resulted in the gradual forging of financial capital. At the same time Mexico indeed relied on the foreign capital export in forms of foreign banks' portfolio investment and loans. These are the structural alterations to the productive system, which coincide with the theoretical propositions of imperialism on the accelerated and reinforced process of capital accumulation and capital's concentration. However, the speed of this process was fastened and changed the dynamic when, triggered by the exogenous shocks, Mexico's economy suffered a debt crisis with a consequent significant balance of payment's deficit.

The debt crisis led the economy towards more foreign capital's dependency. And, eventually, we could observe more diverse forms of the dependency relations, asserted by a lender-country, such, international agreement of considerable international loans, implying the specific and strong conditions for the recipient-country. This loan process, consequently led to the start of the process of implementation of the prescribed conditions: financial and trade liberalization, privatization, fiscal and monetary austerity, dedication to the principles of liberal economic framework. Eventually, the new banking legislation, adopted in the end of 1990s allowed that 100% of the capital of Mexican banks could be acquired by foreign banks. The major share of the already highly concentrated banking system, was now acquired by the foreign banks, and this cross-border acquisition was mostly attracted by the provision of high-cost financial services.

Going back to the research questions, it is possible to observe the parallels between the theory of imperialism and empirical evidence of the study, such as a big share of foreign banks in the Mexican market, which was a consequence of the process of opening the national economy for foreign capital inflows; concentration of the banking and financial sector as a result of process of mergers and acquisitions.

In this dissertation we have narrowed our focus to imperialism's manifestations in the banking system and, partly, the financial sector. After the analysis of the dynamics of the Mexican economy and banking sector's development, we have gathered important for the research purpose conclusions.

Firstly, we proved the presence of one of the forms of the export capital – FDI in the banking sector. There have been examined, that foreign banks parent organizations hold almost 70% of the total assets of the Mexican banking sector. Moreover, they have asserted the oligopolistic position at the market, having considerable amounts of profit from the operations at the host country, judging by the Mexican subsidiaries' role and place in the total income of the multinational financial group.

A stable and relatively high amount of income, which rips the banking system, do not contribute to the wider distribution of the banking service's benefits to the public and growth of their living standards. On the contrary, high costs of consumer and commercial credit for SME, result in the privileged usage of the banking loans by the big corporations, which are highly likely to sustain a loan, generate more return and, additionally, bring income from the participation in the equity flotation. This illustrates the theory's statements on the concentrated banking capital, which through the merger with the industrial one, can assert its control over the market and markup, the borrowers, and, eventually, the industry.

We have analyzed as well the ways of the banking and financial capital's concentration. As it was pointed by Chesnais, big non-financial corporations tend to create or acquire the financial institutions. In Mexico, the legislation allows non-financial enterprises establish their banking financial subsidiaries. There was a drastic increase in the number of such entities in Mexico during the 2000s, which, as it was claimed, was supposed to increase competition in the economic area and involve more people into the banking service's coverage. However, according to theory, this process accelerates the concentration of financial capital. Indeed, some of the corporations, which followed the opportunity, received additional impetus for financial resources' concentration and new sources of income, such as operations in the capital markets.

This consideration is followed by the last observed theoretical pillar, which has evolved in XXI century – the creation of the system of affiliated financial entities, but not banking ones, as it was claimed by the theory. The process of financialization, development of financial system and emergence of diverse non-financial entities, pushed traditional commercial banking system to innovate and diversify. This led to the establishment of the big financial groups – the system of a banking and multiple non-bank financial institution, acquired by the one organization. This altered theoretical pillar and "evolved" into the creation of the shadow-banking system. We examined the presence of the shadow banking system's presence within the Mexican banking and discovered the previously noted insight, that the degree of Mexican economy's financialization is similar to the one of the advanced economies.

Thus, in this dissertation it was demonstrated that in a case of Mexico's economy analysis, theoretical propositions can be applied to the descriptive and analytical study of a peripheral country. Moreover, the indicators, calculations and data analysis related to the observation of a country's banking and financial system in order to examine the degree of imperialism's manifestation, could contribute to the assessment of the current economic conditions of a country and, possibly, to comprehend the likeable outcome of current tendencies and processes in order to more beneficial modelling of them.

Moreover, this analysis might become a basis for further studies in another research field, related to the connection of the process of internationalization, acceleration of the development of capitalism and the non-beneficial social consequences of it.

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