

Analysis of the Film Production District in Mexico City

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Applying geographical industrialization theory and the political economy of culture approach, this study aims to present a diagnosis of film production in Mexico City and attempts to fill gaps in the knowledge of the endogenous development of this subsector. This article presents the results of field work designed to understand the patterns of labor and the industrial, geographic, and institutional organization of the film production. We also take into account previous studies regarding the links among production, distribution, and exhibition of films due to their importance to the welfare of the Mexican film industry. As part of the study we observed the flexible production organization of the film industrial district, its lack of profitability, and its dependence on State subsidies.

Introduction¹

In the second half of the 1990s, the Mexican film industry fell into a deep crisis. Film production dropped from an average of 87 films per year in the 1980s to 11 films in 1997, the lowest in Mexican film history (Gómez García, 2006). Previous studies have established that the crisis was the result of multiple causes, but the reregulation designed with free market underpinnings and driven by the Cinematographic Law of 1992 has been clearly identified as its main trigger (Galperin, 1999; Gómez García, 2007; Sánchez Ruiz, 2002; Ugalde, 2005).

To make things worse, in 1994 the Mexican economy experienced a major economic downturn. But despite this adverse climate, the film distribution and exhibition subsectors recovered quickly, so much so that in 2005 Mexico generated the 7th highest number of movie ticket sales in the world, with

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149 million tickets sold (Screen Digest, 2006). Mexico is also one of the biggest consumers of U.S. films (Gómez García, 2006).

By stark contrast, however, film production had reached a very low level at the start of the new millennium, with low profitability, instability, and lack of sustainability still a focus of concern. The subsector has seen rising unemployment, the closure of companies, and the reduction of foreign exchange revenue. Equally important are the side effects in cultural terms as the possibilities for different cultural identities to find expression through cinema have been diminished. Furthermore, it has affected Mexican society as the projection of its own cultural references and problems on movie screens has dwindled.

This article includes a general historical background and then focuses on the production of motion pictures to establish its current particularities in Mexico City. The field work carried out for this study is based on the space-sectoral analysis formulated by geographical industrialization theorist Allen Scott (2000, 2005). The objective of this study of the Mexican film industry is to gather information about the relevance of labor relations, geographic proximity, and economic organization to film production activity.

Background

Mexican cinema is produced by nationally owned companies and aimed at Mexican audiences. It portrays local stories in a variety of genres, including period films, sociopolitical and romantic comedies and dramas, sexy comedies, animated family movies, and documentaries. Some Mexican films display both commercial and "art cinema" characteristics, and despite being orientated for the domestic market, they have achieved a wide international audience and critical acclaim beyond Spanish-speaking countries. Such films include: *Like Water for Chocolate* (1992), *Chronos* (1993), *Amores perros* (2000), *Y Tú Mama También* (2001) and *Sin Nombre* (2009).

Nevertheless, Mexican films that are successful on either national or international levels are relatively scarce. Being so close to the United States has definitely influenced the Mexican film industry despite the language barrier. For example, in the last two decades, 80–95% of the films exhibited in Mexico came from the United States. (Casas-Pérez, 2006; Sánchez Ruiz, 2002). As is the case with many national cinemas around the world, it is difficult for Mexican films to get shown. Hollywood films are favored in movie theaters because their huge promotional support means they attract bigger audiences. Another reason is that the American distributors who dominate Mexican market give preference to their own studios' films. For example, while 70 Mexican movies were produced in 2007, only 43 were released (Imcine, 2007).

The asymmetry between the Mexican and the U.S. movie industry is evident when comparing statistical information. For instance, Hollywood produces an average of 385 movies a year (Sánchez Ruiz, 2003) while Mexico struggles to produce more than 50 films a year. The total Mexican box office for 2003, including national and foreign films, was \$429.4 million. In contrast, U.S. films grossed \$20 billion

worldwide (Imcine, 2004; MPAA, 2007). In terms of film budgets, U.S. blockbusters can cost up to \$250 million² while Mexican films with a budget \$2 million are considered “super-productions.”

Mexican cinema has not been able to benefit from its proximity to Hollywood. There is a one-way traffic of labor mobility as Mexican filmmakers move north to find better work opportunities. In the 12 years since the North American Free Trade Agreement (NAFTA) was signed, there have been only 14 co-productions between Mexico and the United States. Social instability and strong competition from English-speaking host countries like Australia, New Zealand, and Canada have made Mexico a less attractive location option for U.S. film producers. Only recently have a couple of major Hollywood studio subsidiaries settled in Mexico City to coproduce movies with local companies of every size; this development is promoting commercial content through the hiring of famous Mexican soap opera actors.

In such a climate, State funding of Mexican films has been crucial. In 2007, Mexican films grossed only \$46 million in the domestic box office after the government had allocated \$61.3 million to local film production (Imcine, 2008). However, the situation has not always been like this. Until the beginning of the 1990s, the Mexican film industry was the most productive and important industry in the Spanish-speaking world (Gettino, 1998). Between 1926 and 1989, it produced 4,609 movies (Gómez García, 2006).

In the 1940s, Mexican cinema experienced its Golden Age. At that time it was the nation’s third biggest economic activity, producing high-quality films that captivated domestic and Latin American audiences. A risk-taking bourgeoisie had invested in a number of private production companies that developed a self-sufficient industry propelled by government intervention and institutions such as unions, a national film bank, two public distribution companies for national and international deals, an association of creative and technical workers, a star system, and legal frameworks that established 50% of screen quotas for Mexican movies.

In the context of the Second World War, Hollywood and the Mexican film industry cooperated, as the latter was considered crucial for Allied propaganda targeted at Spanish-speaking countries during the war (Peredo-Castro, 2004). After the war the Mexican film industry’s privileged position started to erode, and the 1960s saw the beginning of a crisis caused by competition from TV, the emergence of a private exhibition monopoly, the exhaustion of thematic and aesthetic ideas, and the obsolescence of production companies and the union system (De la Vega, 1991).

During the 1970s, the State was forced to subsidize film production. It assumed control of distribution, exhibition and of the studios. It also monopolized movie theater chains, established box office prices, and kept the 50% screen quotas for Mexican films. Despite these measures, State support fluctuated, as it depended on the attitude of the president and was not immune to the problems of

² Movies with production costs between \$250–300 million, for example, include *Pirates of the Caribbean: At World’s End*; *Tangled*; *Spider-Man 3*; *Harry Potter and the Half-Blood Prince*; and *Avatar*. Adding the costs of international distribution, promotion and advertising, the amounts increase significantly. For instance, *Avatar’s* overall cost is estimated at \$500 million (Cieply, 2009; Goldstain & Rainey, 2009).

stagnation, nepotism, and corruption. Despite the production of low quality films, the industry managed to maintain a yearly average of six theatrical attendances per person in the mid-1980s (Gómez García, 2005).

The subsequent development of the industry has been characterized by the conflict between two models of cultural policy: the welfare state tradition of subsidizing film and the continuous budgetary cuts of the neoliberal administrations. The film community and some political groups have struggled for the continuation of the first model against the prevailing economic policies of the last two decades, most recently by protesting the 46% cut to the subsidy budget for 2010 (Caballero, 2009).

Mexican Cinema Facing Global Capitalism

This study conceives films as goods produced and distributed in an industrial capitalist structure (Wasko, 2004). For this reason, it is important to take into account the contemporary historical framework.

Social theory has categorized the current historic period as the stage of transnational capitalism (Hobsbawm, 1997; Rosenberg, 2005), whose technoeconomical paradigm is *flexible production* (Hirst & Zeitlin, 1997; Piore & Sabel, 1990; Storper, 1997). In flexible production, information and communication technologies play an essential role in the configuration of a global network society, as well as in the development of technological and creative innovation systems that constitute the spearhead of the current economy (Castells, 1997). Cultural industries, including motion picture industries, are embedded in this historic context and participate in this process as main actors.

To explain flexible production historically, researchers (Hirst & Zeitlin, 1997; Piore & Sabel, 1990; Storper, 1997) have looked back to the world economic crisis of the 1970s. From that period onward, international economic competition increased. The world economy, mainly characterized by mass production, was changing, and flexible production—in which labor, machinery, inputs, and diversification of goods can quickly adjust to changes—turned out to be the most appropriate means of satisfying the new market demands. The research conducted for this article uncovered evidence of the existence of flexible production in the industrial organization of the Mexico City film district. Flexible production in this specific geographic area has its own particularities and they will be described subsequently.

The Mexican film industry's relations with the large capital of multinational media corporations based in the United States are embodied in financial, commercial, technological, and cultural flows. The political economy of culture approach has pointed to the negative consequences of the current oligopolistic film market encouraged by international regimes that are supposedly promoting "free market" economic policies (Frau-Meigs, 2002; Muñoz Larroa, 2009; Sánchez Ruiz, 2002).

As transformations toward flexible production occurred in the world economy, there were also changes on the international political sphere, specifically toward *laissez faire* policies and the retracting welfare State.

Mexican researchers (Crovi, 1999; Gómez García, 2007; Saavedra, 2008) agree that, from the beginning of the 1990s, the free market model changed the face of the Mexican film industry by reducing State intervention in the economy, liberalizing commerce, and privatizing public-owned companies. Eventually these processes led to the dominance of transnational capital companies. The changes were specifically included in national legal frameworks as prerequisites for the signing of NAFTA in 1994 (Galperin, 1999).

The free market overhaul of the Mexican film industry began with the Cinematographic Law of 1992, which reduced the national screen quotas from 50% to 10%, simultaneously making it harder for Mexican films to be screened and damaging investor confidence. Second, the 1992 law liberalized the cost of box office tickets, benefiting some exhibitors. Rising prices of movie tickets and the low income of more than 80% of the Mexican population led to a considerable increase in DVD film piracy (Gómez García, 2006). Third, there was no longer an explicit obligation on the State to subsidize production. Film community pressure was successful in getting the 1992 law reformed in 1998, however, and it now incorporates a subsidy obligation, although the amount is not specified.

In the months after the Cinematographic Law was enacted, the State sold its chain of theaters and also privatized two important studios. The public distribution companies were declared bankrupt, which meant the closure of channels to systematically sell movies abroad and the end of Mexican films' presence in Latin America.³ One of the public distribution companies had 12 branches that operated in 20 Hispanic countries and competed with major U.S. studios (Paranaguá, 1996, p. 237). Also in 1992, the Foreign Investment Law was modified to enable foreign capital participation, giving national treatment to offshore companies involved in film production, distribution, or exhibition. The Secretary of the Treasury gave tax incentives to exhibitors and foreign investors in film production, but such incentives were not considered for national producers.

Nowadays, the winning actors of the film industrial reconfiguration are a handful of major distribution and exhibition companies—most of them American owned, plus a few national companies—that have shown significant annual growth and expansion. However, small- and medium-sized local firms, whether in the production, distribution or exhibition sectors, have disappeared, while others have lost business opportunities and remain in crisis (Ugalde, 2005).

Interviews conducted during this research uncovered independent exhibitors' complaints about unfair competition and illegal oligopolistic practices of collusion. In 2000 the Federal Commission on Economic Competition recommended that distributors cease discrimination against some exhibitors; by denying them copies of films or demanding advance payment, the distributors were effectively favoring big theatrical chains. However, the Commission did not enforce its recommendation and absolved distributors from anticompetitive responsibilities (Lay Arellano, 2005). Research conducted for this study found that, eight years later, such practices were still continuing.

³ Currently, Mexican films are sold internationally through U.S. or Spanish distributors, though exports are sporadic and not significant in number.

Another example of unfair competition is the disadvantageous position of local production companies when dealing with the major distributors and exhibitors that get the largest share of the box office revenue redistribution of the film. Data shows that from each dollar, 63 cents belong to the exhibitor, 24 cents to distributors and 13 cents to the producer, who has to pay investors and production costs (Ugalde, 2005). By contrast, producers usually get 70% of film revenue in the United States (Casas-Pérez, 2006).

Our research suggests that the undercapitalization of the Mexican production subsector is due to strong competition from Hollywood, the existence of oligopolistic practices, and the flight of capital to transnational companies, causing the disintegration of the local value chain (Sánchez Ruiz, 2002; Ugalde, 2005). To give an idea of the amount of capital transference, only 5% of the Mexican box office came from national films in 2004. Part of this money stayed in the country, but most of it went into the pockets of foreign distributors and exhibitors. Furthermore, 95% of the Mexican box office that year derived from foreign films and a considerable amount of it would have been transferred to the United States (Casas-Pérez, 2006).

Thus, after its Golden Age faded, Mexican cinema has been incapable of generating a self-sustaining and profitable local industry. That said, the potential of the industry to produce high quality films, achieve box office success, and regain audiences is still alive, although successes are very much the exception to the rule.

Current Film Policy

The Mexican State institutions involved in different aspects of film activity are distributed according to the competency of different State departments.⁴ Our research found a lack of communication among them. There is no centralizing administrative agency that could function as an intermediary, facilitating the management, administration, and implementation of an integral perspective, as well as a long-term film public policy, as exists in other countries. The closest example of such a body is the Mexican Film Institute (Imcine), although it only coordinates support for production projects. One of Imcine's key strengths is its ability to propose public policies for the elaboration of the National Plan for Culture under the auspices of the National Council for Arts and Culture (Conaculta) (Hugo Villa, personal communication, June 3, 2008). Nevertheless, this ability has not been used to approach the structural problems of the industry—namely the breaches in the value chain (Muñoz Larroa, 2009).

It is important to recognize that Conaculta, through the medium of Imcine, is the public entity charged with alleviating the Mexican film crisis. However, Imcine's low budgets are insufficient to reverse the dominance of American films. Besides this, the previous and current governments (Fox and Calderón) have constantly attempted to reduce the budgets assigned to film production. During discussion of budget spending (Ley de Egresos, 2003), the Fox administration proposed to remove or disincorporate the remaining public instances related to film (see Figure 1). While the Congress rejected the initiative, these

⁴ We refer here to the Congress and its culture commissions: the Secretaries of Treasury, Economy, Education, Labor, Communications and Transport, and Internal Affairs.

actions are examples of right wing conservative government's attitudes toward the general design of cultural policies.

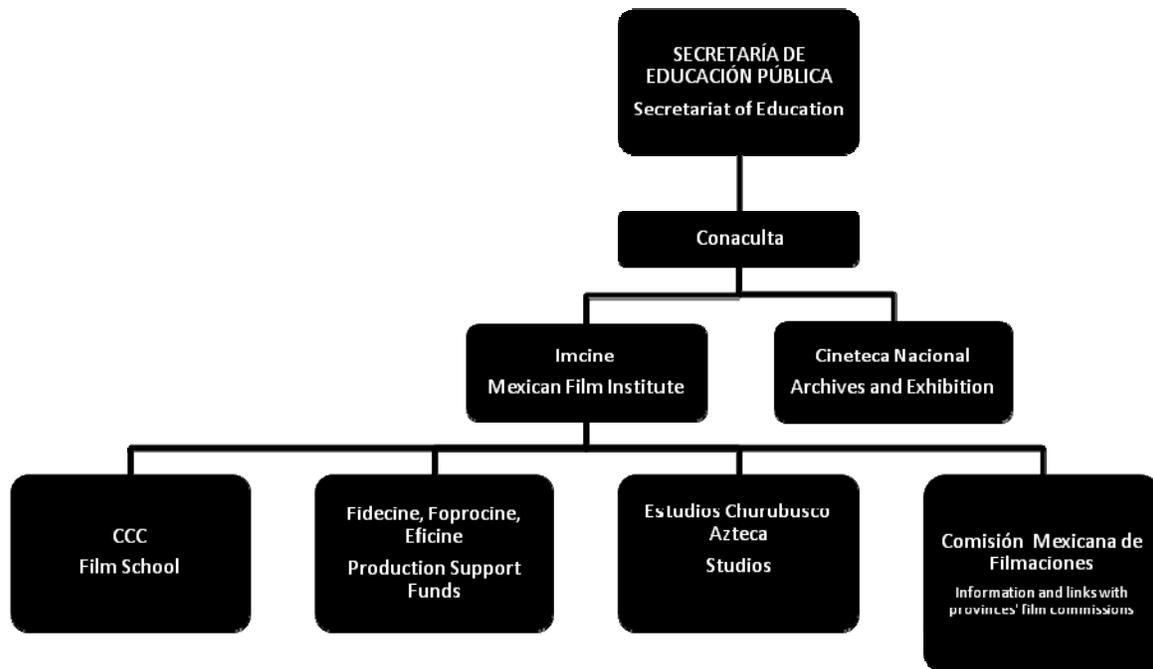


Figure 1. Film-Related Government Agencies.

Without denying the great importance that Imcine has to the film production industry, our research identified two main problems in Mexican film policies: their lack of continuity, and their State-assistance character.

On the one hand, this study found that 79% of the companies had embraced subsidies from two government funds: Fidecine (for commercial films) and Foprocine (for art films), which were established in the 1998 reforms of the 1992 Cinematographic Law. Nevertheless, the funds' amounts vary depending on the elected government. In the same way, the Eficine—launched in 2006 and better known as *Artículo 226*—is a fund for production, created with the investment of 10% of the fiscal contributions of businesses of any activity. We can say that, to a large extent, this incentive is responsible for the increased rate of film production seen in the last several years (see Table 1). However, this tax incentive was not included

in the new fiscal system in 2008 (Impuesto Empresarial de Tasa Única, IETU) and could disappear with the abrogation of the old fiscal law.

Table 1. Mexican Films Produced from 2001–2009.
(Gómez García, 2005; *Imcine*, 2009; Muñoz Larroa, 2009)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Films	21	14	28	36	53	64	70	70	66

On the other hand, the State-assistance character of film policies is evident when analyzing the discourse of official State documents (Imcine, 2007). The State sponsors cinema as an example of “the fine arts,” yet it does not develop strategies to improve the economic quality of the industry, although it is an explicit objective in film legislation currently in force. How the concerted efforts of the State to provide film production financial resources are wasted because of its abandonment of subsequent steps, such as the distribution and commercialization of films, is of particular concern. Those stages are controlled by an oligopoly of transnational conglomerates, which creates a bottleneck that must be dislodged to make the local film industry profitable (Muñoz Larroa, 2009).

The existing supports of the industry resulted from the struggle by the film community; other initiatives have failed, such as the creation of a fund from “one *peso* from the box office.” This initiative aimed to benefit film production and was approved by the Congress before being defeated in the National Justice Supreme Court by foreign distributors and exhibitors (Lay Arellano, 2005). On several occasions, the transnational oligopolistic interests tied to those of the Mexican political elite have acted against the public interest and above democratic institutions (Muñoz Larroa, 2009). This study established that only 43% of production companies considered that their interests as both companies and as a subsector were represented on a political level, and the majority considered their representation to be unsatisfactory.

The Theory of Geographical Industrialization

The theory of geographical industrialization, developed by the California School, has generated a useful and innovative explanation about the endogenous regional development of the film industry. This theory approaches the development of film production through the examination of its internal component relations. However, as this theory tends to ignore the importance of exogenous factors, its scope can be somewhat partial. This study argues that film industrial development is also influenced by external bonds with outside economic forces (Askoy & Robins, 1992; Coe, 2001). Such bonds can be with film distribution and exhibition subsectors, with other manufacture or service industries, and with national and international economies and economic players (Muñoz Larroa, 2009). Of these, the market logic pioneered and developed by Hollywood from the second decade of the 20th century is particularly influential.

*The Endogenous Development of Capitalist Industrialization:
The Importance of Place*

Geographical industrialization theory argues that industrial districts are productive centers that comprise an “industrial atmosphere” that consists of production companies, general and specialized service providers, industry-related companies, local labor markets, associations and institutions, local consumer markets, legal frameworks, and public policies and infrastructure (Porter, 2000). Cultural aspects are also embedded in the industrial atmosphere as tacit forms of knowledge, conventionalized practices, habits, and so forth (Scott, 2000).

Geographical industrialization authors consider it essential to evaluate how transactions among components of productive centers work: the degree of interaction, interdependency, and stability. An industrial district is defined by Markusen and Park as “a sizable and spatially delimited area of trade-oriented economic activity which has a distinctive economic specialization, be it resource-related, manufacturing or services” (as cited in Markusen, 1996, p. 296). An industrial district generates an adhesive quality, becoming an amalgam with the ability to both attract and maintain the attraction among the district’s components; however, its cohesive capacity can be threatened by changes in the global economy. Its ability to persist depends on the “power relationships, sometimes within the district and sometimes between district entities and those residing elsewhere” (p. 297).

According to the geographical industrialization theory, regional development is generated by the articulation among companies, workers, and institutions that comprise the film industrial district. Interconnections are crucial for the successful endogenous development of industrialization, although it does not guarantee it.

The fundamental explanation of geographical industrialization development is based on the expansion of the division of labor inside or outside a company. That is, industrial development is possible when the firm needs supplier services, inputs, consumables, or specialized work. In doing so, the company is able to create secondary economies, or *externalities*—economic or non-economic effects generated by the main productive activities. A single company can start facilitating the creation and economic involvement of other economic agents. For example, a film production company might be interested in a catering company’s services during shooting. Due to the dynamic interdependence among economic players, increasing returns are generated with each stage of reinvestment, which propel new rounds of production in a spiral of expansion (Young, 1928).

When this system begins working, not only do increasing returns occur inside the company, they also occur in the economy as a whole. As a result, spillovers into other sectors are generated. For instance, a film production company could necessitate the specialized development of new animation technologies. In doing so, it could interact with the video game and electronic hardware industries.

It is generally accepted that companies are fortresses that aim to promote efficiency, reduce transaction costs, and diminish opportunism in their transactions (Coase, 1937). A crucial decision for every company is where to locate itself. In this regard an industrial district presents competitive

advantages for specialized industries. According to Scott, place becomes "a unit of social and economic organization, as well as a center that concentrates conventionalized human practices whose characteristics leave deep signs in the form and cognitive meaning of products (mainly in cultural products) while they emerge from located systems of industrial activity" (Scott, 2005, p. xii).

Markusen (1996) elaborates a typology of industrial districts that vary according to their firm configurations, their internal versus external orientations, and their governance structures, all of which have different repercussions for regional development. The Marshallian industrial district and its Italianate variation consist of regions whose business structures are composed by small owned local companies. The Hub and Spoke district comprises business around one or more dominant and externally oriented firms. The Satellite district is "an assemblage of unconnected branch plants embedded in external organization links." Finally, the State-anchored district is focused "on one or more public-sector institutions." An actual district may be an amalgam of one or more types, and districts may mutate over time (Markusen, 1996, p. 296).

The Industrial Organization

The theoretical foundations mentioned before are related to flexible specialization theory. Scott (2000), as well as Christopherson and Storper (1987), have framed the current development of cultural industries within the capitalist stage of flexible production.

Theoreticians of flexible specialization (Hirst & Zeitlin, 1997) explain these transformations in the following ways. For methodological reasons, they distinguish between two technological paradigms. On the one hand, *mass production* mainly defines the production of great volumes of standardized, manufactured products using general equipment and an unskilled labor force. On the other, *flexible specialization* comprises the production of a shifting and wide variety of products through the flexible use of specialized equipment and skilled labor (ibid.). These extremes do not exist in reality; the most common situation would be a hybridized form of productive organization in which either mass production or flexible production predominates.

The Film Industrial District in Mexico City: A Diagnosis

Methodology

Due to methodological limitations,⁵ the objective of this section is not to display definitive evidence but to discuss some characteristics of the industrial organization of Mexican cinema in the

⁵ According to the official data (INEGI) in 2009, there were 182 audiovisual production units. As part of this investigation, in 2007, a directory of 124 production companies was compiled with information obtained through searches on the Internet, the Imcine directory, and the El Medio directory. The total population used in this study is problematic because the number of film production units is changing all the time. Moreover, we were not able to compare our population with the official statistics of the Economic

context of flexible production. Surveys were sent to Mexico City production companies asking for information about their business organization. The surveys were sent by e-mail and were followed by telephone calls and personal interviews.⁶ Of the 124 production companies queried, 30 responded to the survey for a response rate of 24.2%. While undoubtedly low, this response rate is higher than the average response rate achieved by this research method, which varies between 10% and 15% (Aaker, 1989).

Characteristics of the Film Production Subsector in Mexico City

The data gathered showed that the majority of production companies are relatively young businesses; only 10% of the production enterprises surveyed have been operating for more than 21 years (see Figure 2).

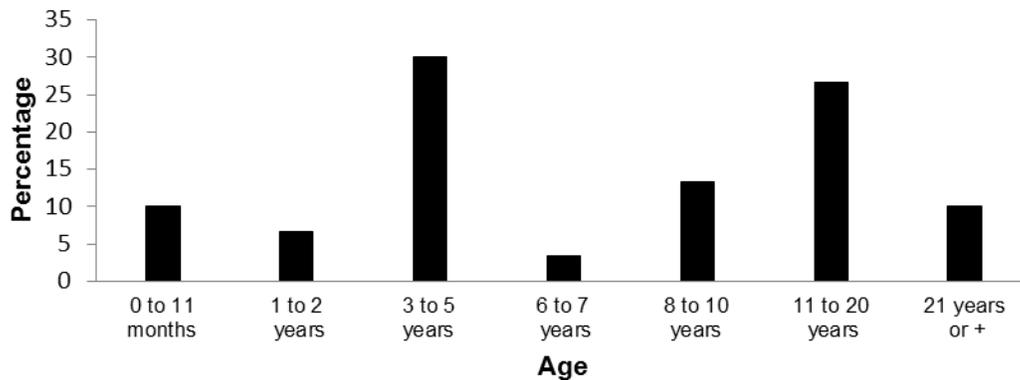


Figure 2. Age of Film Production Companies in Mexico City.

Geographical industrialization theory evaluates the companies' specific legal constitution, range of activities, ownership of fixed capital, and intra- and intersectoral relationships as indicators of their flexibility, that is, their ability "to move quickly" and change goals and strategies in the short term.

In terms of the legal constitution, 55% of the companies are constituted as *sociedades*,⁷ which are well adapted to a type of business that requires collective efforts to capitalize itself while also

Census, which is published every five years. For those reasons it is not accurate to suppose that our 2007 directory reflected the actual population of cinematographic companies in Mexico City at that time.

⁶ To avoid generating a skewed sample due to technological bias, we gave companies the option of completing the survey during a personal visit or via e-mail. The size and/or longevity of a company did not seem to influence its willingness to participate.

⁷ *Sociedades* in Mexican legislation are business entity forms similar to a limited liability company, a flexible legal form of enterprise that has a separate legal standing from that of its members, who are protected from liability acts or debts, meaning that it only risks the invested capital (Gascón, 2006).

providing certain protection to individual members. The rest of the companies have a sole proprietor.⁸ Overall, only a few belong to a transnational corporation.

Although film production is the main activity of these companies, it is not the only one; the survey results indicate that all the firms have diversified into other audiovisual production activities like television, advertising, graphic design, animation, and other multimedia endeavors (Figure 3).

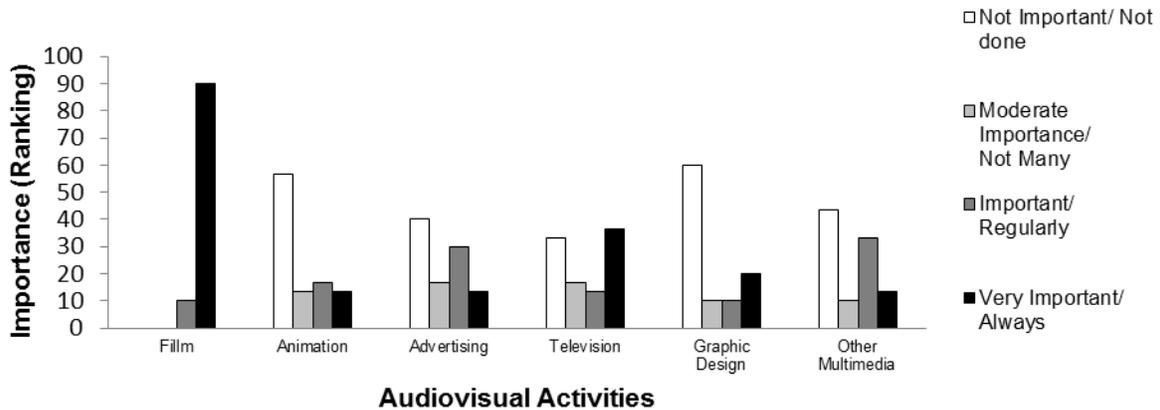


Figure 3. Independent Companies' Ranking of Audiovisual Activities.

Though the companies seem to specialize in the production phase, there is a large amount of pre- and postproduction undertaken as well, which suggests that generalization is more common than is specialization in accomplishing the production process. This is because in-house activities diminish costs and allow projects to be developed “personally.”⁹ Furthermore, the more services offered by the production companies, the more they are able to compete in obtaining external clients (Rodrigo Ordoñez, personal communication, May 20, 2008).

Some 80% of respondents in this study always (or regularly) hired film equipment and external facilities to carry out production. We can assume the following: (a) These companies do not own much fixed capital; (b) they depend on other companies through formal and stable contracts or on sporadic market transactions; and (c) they need equipment and specialized facilities in a disintegrated (subcontracted) way. All of these cases show a significant degree of flexibility, whether in the lack of capital or in the high level of labor division. We also found that when production companies own

⁸ In a sole proprietorship entity form there is no legal distinction between the owner and the business.

⁹ This generalization might be understood as vertical integration, a form of industrial organization in which all stages of production of a good, from the acquisition of raw materials to the retailing of the final product, are controlled by the company. However, most Mexican microcompanies lack a complex managerial structure and have a low degree of specialization, which makes it difficult to categorize them as vertically integrated.

equipment, they usually provide it for rent to other companies, allowing them to have alternate sources of income (see Figure 4).

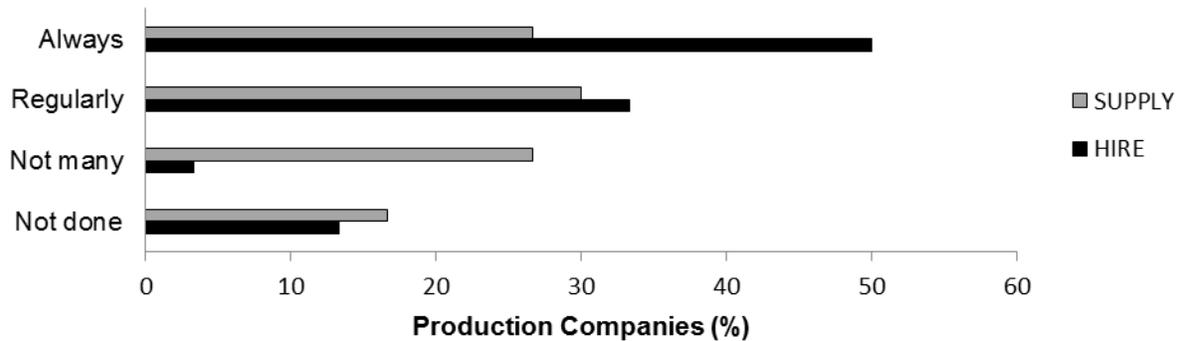


Figure 4. Facilities and Equipment Rental.

The characteristics already mentioned confer on firms the ability to choose between different options to compensate for the diseconomies of film production—high risk, undercapitalized and inconsistent production. In other words, while flexible production in Hollywood or Paris is carried out in response to the need of specialized work (Scott, 2000), the flexibility of the Mexican film district responds mainly to the lack of financial resources. This conclusion was reached through the interviews with producers and through consideration of the empirical survey results: Only 25% of the respondents were able to survive from the derived returns of their film activities and reinvest them. By contrast, 71% of the companies depended on income originating from different activities to reinvest and survive, and only 4% of the production units were maintained with profits made from both kinds of activities.

In terms of the financial resources used by the respondent companies (see Figure 5), we found that State funds ranked highest (79%), with the company's own capital (64%) ranked second and money from distributors and exhibitors (32%) the third most important resource.

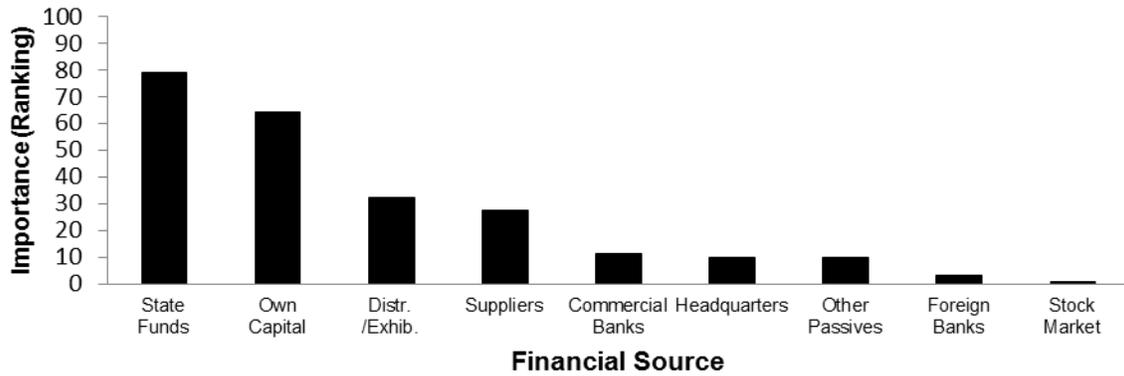


Figure 5. Companies' Financial Resources Ranking.

These results confirm the dependency on State support and the lack of a self-sustainable productive industrial infrastructure.

Structure of Film Production in Mexico City

Most production firms in Mexico City are independent or semi-independent companies that belong to the micro- and small-sized categories and are locally owned (see Figure 6). They coexist with a handful of major Mexican companies.

Micro 1-20
 Small 21-50
 Medium 51-100
 Major 101- +

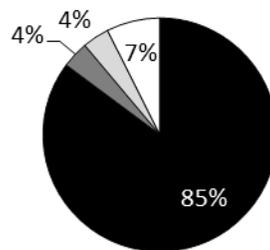


Figure 6. Size of Film Production Companies by Number of Employees.

It is common to find producers setting up a company to produce and release only one film and then creating a different company to simplify its fiscal obligations (Cauhtémoc Bravo, personal communication, May 6, 2008; Rodrigo Ordoñez, personal communication, May 20, 2008). This contributes to business instability.

Major and Independent Companies

Major national companies account for 5% of production enterprises (see Figure 7) and have managed to recover investments and collect revenues from their films. They also have access to State funds, and some of them have the financial endorsement of big corporations that are integrated horizontally, with their own divisions designated for film distribution. Despite their advantages, such "major" national companies generated only 8% of the annual production of films in 2004 (Ugalde, 2005).

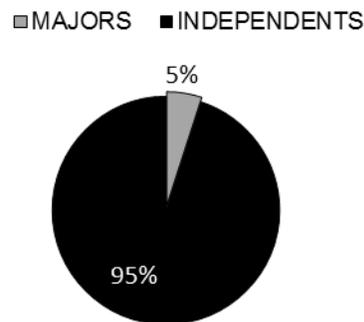


Figure 7. Type of Film Production Companies.

According to our calculations, 95% of the production companies in Mexico City are independent companies (see Figure 7). They are micro- and small companies with an average of six permanent employees. Independent companies are those whose sphere of operation rarely or never intersects with major companies. This particular status means that decisions regarding transactions, strategies, and objectives are made inside the company itself. Independent firms do not lose independence when they co-produce with others. Nevertheless, many independents become semi-independents when they develop strategic alliances with other companies or when they end up being subcontracted by other enterprises. In other cases, independent companies are acquired totally or partially and become subsidiaries.

Patterns of Industrial Organization: Flexible Specialization or Flexible Undercapitalization?

In terms of direct financial interest in independent film production companies, majors in Mexico are less involved than are their Hollywood equivalents (Scott, 2005). Major and independent companies in Mexico coexist without developing a stable cooperative system in the form of specialized outsourcing. This functional distance might be explained by the small financial capability of major national film companies

and their low demand for specialized work, such as special effects, computer graphics, and so forth. On the other hand, the private television networks with big financial capability share a no-risk attitude and lack an interest in cinema. They constitute a duopoly and are integrated vertically, which means they have internalized their productive processes. For this reason, they do not usually generate positive economic externalities that translate into economic spillovers toward the local audiovisual sector¹⁰ (excepting the television advertising industry).

Nevertheless, we found co-productions between majors and independents, which imply the existence of unstable cooperative relations between firms that collaborate to diminish risks.

Survey data suggests a medium level of companies interacting with other audiovisual companies, with 43% of those relations being co-productions. Some 30% are subordinated relations in the subcontracting mode. Finally, 5% are subsidiaries. None of these three relationships is exclusive; the same firm can establish all of these relationship types simultaneously.

Interviews conducted for this study indicate advertising and State-financed television are the sources that generate most external business for the film production subsector. As previously argued, subcontracting that originates from major firms is scarce. The most significant synergies and spillovers created by the relationships between majors and independent private companies in Mexico City are in the areas they share: actors, technical workers, and auxiliary and specialized services.

Auxiliary and Specialized Suppliers through Different Phases of the Value Chain

Mexico City film production companies depend heavily on external suppliers that cover transportation, catering, legal services, insurance, accountancy, telecommunications, security, and other needs, as well as on intrasectoral providers like sound recording, special effects, editing, film equipment, studios, talent agencies and PR, distribution, and so forth (see Figures 8 and 9). Accordingly, most of the relations found in our study were sporadic, meaning they were conducted infrequently in the market exchange. Another important kind of transaction reflects a greater degree of frequency and stability through subcontracted relations. Finally, there are some mutually beneficial long-term agreements, like sharing revenues, in the form of alliances. It is in the last two types of transaction that face-to-face relations become decisive in establishing trust connections. Sometimes, service suppliers are aware of producers' inability to capitalize quickly—for example, from film revenues or tax refunds—and they agree to delayed payments for their services. Interviews highlighted how “small the world of cinema is,” referring to how everybody knows each other and nobody wants to disappoint others (Cauhtémoc Bravo, personal communication, May 6, 2008).

¹⁰ Observation suggested by Dr. Allen Scott during the process of research.

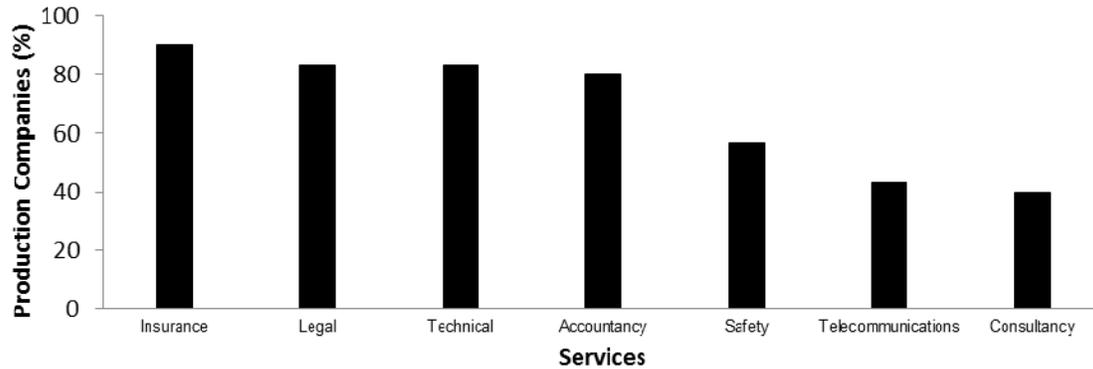


Figure 8. External Services Required.

Despite the incipient nature of relationships between producers and service suppliers, the results discussed earlier point to the potential growth of interdependencies within them. The opposite occurs with regard to intermediary services, however. In the Mexican film district, the importance of talent, casting, distribution-deal agencies, and other intermediaries is reduced because obtaining those specialized services involves the escalation of costs. This situation presents major obstacles, given that firms have insufficient long-term equity to support their assets. Consequently, Mexican production companies have established other priorities, and producers have become “multitask workers,” functioning in multiple roles and thereby removing the need for specialized intermediary work. The contrasting strong relevance of intermediary services in Hollywood suggests the pertinence of ties among economic agents and the high level of articulation and flexible specialization in that industrial district.

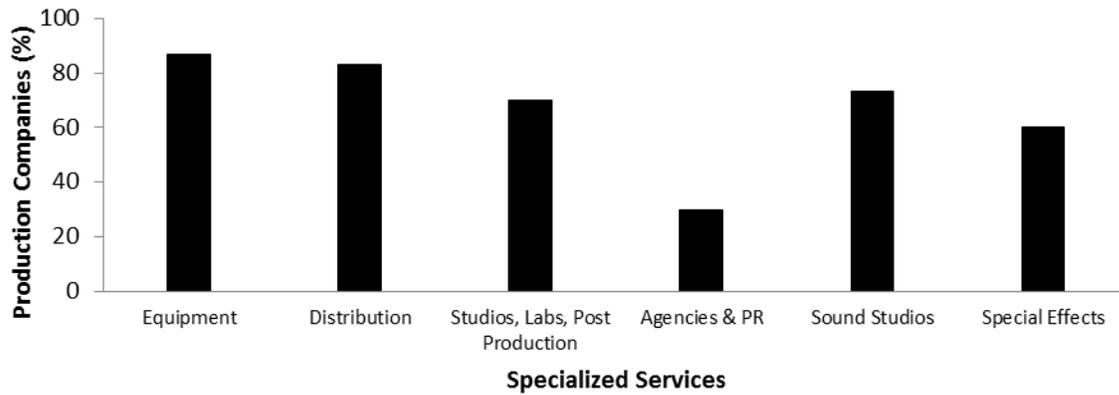


Figure 9. Intrasectoral Services Required.

Labor Patterns

Film production is a labor-intensive activity that requires a large amount of skilled and nonskilled workers in both the creative and technical fields. Film creates direct part-time and full-time employment. In 2009, the Mexican film industry was able to generate 12,500 direct jobs (Caballero, 2009). Additionally, it generates an important amount of indirect employment in different economic sectors.

Film production in Mexico City is dominated by temporary work because production projects last from approximately three to five months. Permanent employment is downsized and typically reserved for producers and administrative personnel. The temporary use of independent contractors, which makes labor relations flexible, allows the production companies to save on fixed costs and adapt for intermittent production by not having a payroll with permanent employees and social benefits. Some production companies that find it difficult to secure financial resources can produce films only in this way, while others with sufficient capital returns simply desire to “maximize gains at the expense of one of the most vulnerable actors, the worker” (Marcela Fernandez, personal communication, June 17, 2008).

Official data for 2004 indicates that Mexico City accounted for a total of 3,951 employees in film and video production and postproduction, including video clips and advertising, but excluding television, which had 7,765 employees (INEGI, 2004). According to estimates from two of the most important film production unions, their membership amounts for nearly 1,570 workers. This means that nonunionized workers account for almost 60% of the total labor. Unionized actors are not taken into account because they are mainly TV and theater actors, not film actors; if they were included, the total would jump to

9,000 unionized workers.¹¹ With regard to distribution and exhibition, Mexico City employees filled 2,304 jobs in 2004 (INEGI, 2004).

What did this study find to be the main labor problems that confront Mexican labor unions and workers in the film production district?

1. Film workers face an extremely unpredictable labor market. There is no constant work and yet great competition. In between projects, the worker—whether from the creative or the technical side—must resort to another type of employment to make a living.
2. Diminishing unionization and increasing numbers of nonunionized (or free) workers.
3. Continual cutting of labor benefits for both unionized and nonunionized workers.
4. Rigidity of some unions generating distrust among workers.
5. Some small independent producers, which consider unions as obstacles for production, ignore the possibility of negotiating better conditions that could benefit both sides (Víctor Ugalde, personal communication, June 4, 2008).

In the past two decades, the union system has gone through a transitional crisis, from forms of production with labor stability to the new demands of flexible production. At an internal level, the unions have had to accept the negative repercussions of historic corruption practices like clientelism and fraud, as well as corporatist attitudes that generate rigidity, distrust, stagnation of expertise, and decreasing rates of formal union membership. At an external level, unions have had to face the disappearance of a corporatist welfare state in favor of a neoliberal-oriented reregulation that resulted in the dismantling both the sources of work and also the social benefits achieved by unions in the past.¹²

¹¹ Agustín Mesa, personal communication, April 30, 2008; Fernando Fernández, personal communication, May 14, 2008; Marcela Fernández, personal communication, June 17, 2008.

¹² Between 1988 and 1994, the privatization of the film industry led to a series of strikes that resulted in the closing down of private and public film companies. Workers lost those strikes in the areas of production, distribution, and exhibition. The situation worsened with the selling of the workers' means of production—studios and equipment—and with the substitution of unionized labor for nonunionized young workers to fit the image of new enterprises, as well as job cuts and their replacement by automatic systems (Saavedra, 2008).

Geographic Patterns

The film industry in Mexico is concentrated in Mexico City, as shown by the high location coefficient of 2.7.¹³ The concentration of production, service providers, specialized labor markets, and related institutions in Mexico City make it the most advantageous region in the country for establishing a film production company. The agglomeration generates symbiotic relations among the economic agents mentioned previously: It reduces the costs of transactions, increases the exchange of information, and facilitates the hiring of specialized workers (Scott, 2005). Despite its geographical agglomeration in Mexico City, the film industry is in crisis, facing unemployment and lacking specialization.

As depicted in the map of Mexico City (see Figure 10), there are five city districts in which the 124 film production enterprises are located: Miguel Hidalgo, Benito Juárez, Cuauhtémoc, Alvaro Obregón, and Coyoacán (Muñoz Larroa, 2009). This pattern of location is not accidental; it is in these five geographical districts where the emergent global city is embodied (Parnreiter, 2002). As noted in previous sections, the financial services, transportation, telecommunications, and service suppliers are fundamental to film production. Mexico City specializes in those services, particularly in the five relatively wealthy districts just mentioned. As Parnreiter noted, these services characterize the global city, as they have helped to integrate the national and regional economies with the global economy and to connect the different links in global chains of production.

¹³ A location coefficient of 2.7 for Mexico City indicates that more than twice the national average percentage of workers in the film industry are employed there (authors' calculation is based on data obtained from INEGI, 2004).

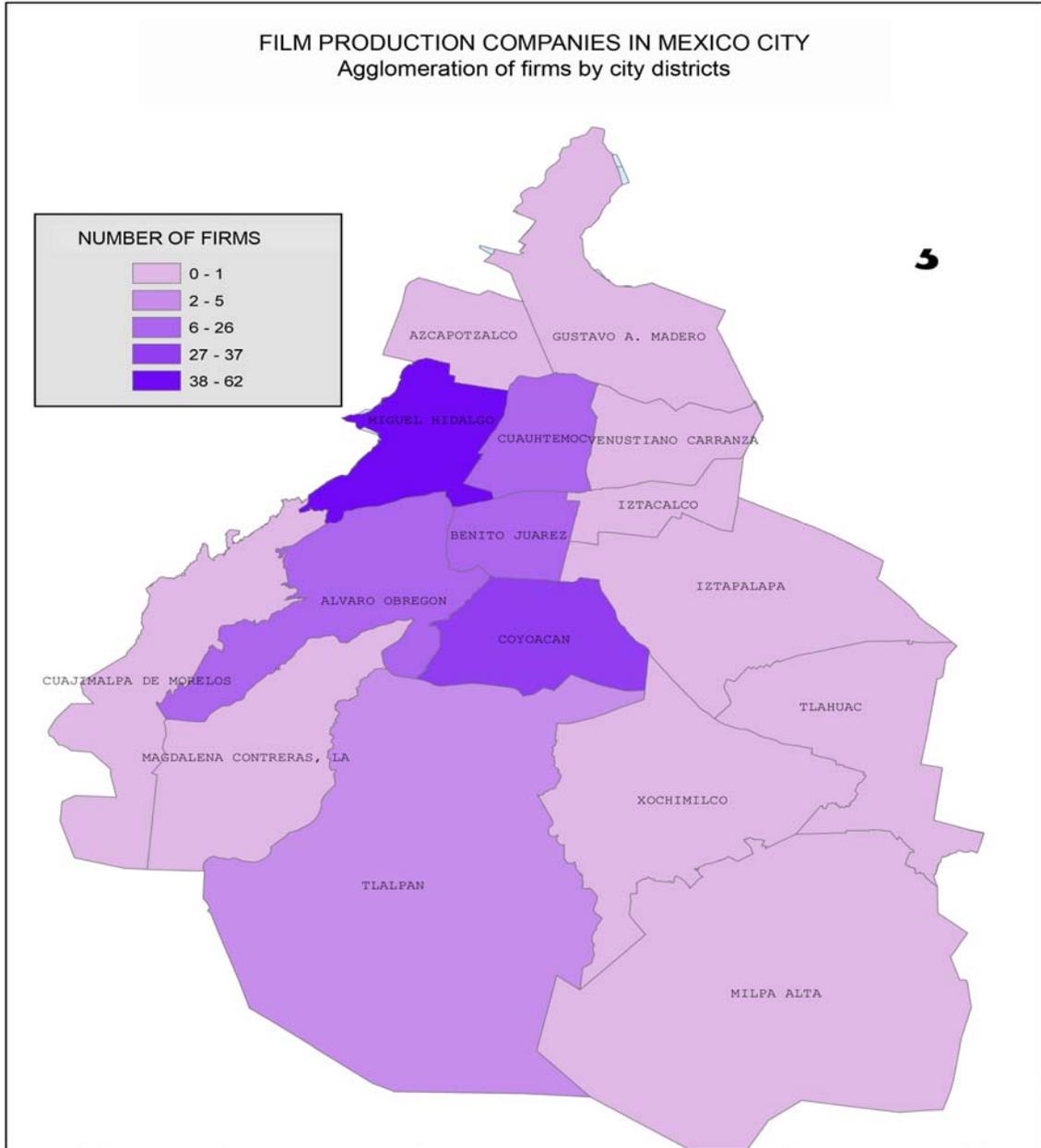


Figure 10. Film Production Companies in Mexico City.

The same pattern of concentration occurs in the metropolitan area in terms of cultural capital, higher education levels, and humanistic, artistic, and multicultural traditions. The city is home to the majority of the film and audiovisual arts schools; it also preserves the historical landmarks and institutional structure that have survived from the Golden Age of Mexican cinema. Moreover, the urban area accounts for 16% of the movie theaters in the country and one third of Mexican box office revenues (Gómez García, 2006).

This concentration is largely the result of a historical control process within a centralist political frame. And yet, there are also economic benefits being derived from the film industry cluster through the generation of positive externalities. Despite this, the existence of a film industry cluster in Mexico City does not necessarily imply a connection among companies, institutions, and workers or the generation of increasing economic returns. Given the present poor capital structure of the subsector and the limited economic spillovers that accrue from economic actors' interaction, the cluster's economy depends most heavily on governmental subsidies—in other words, from external contributions instead of the cluster's own income.

Conclusions

This article argues for the need to overcome the apparent opposition between the two rival theoretical schools of contemporary film industry criticism in the 1990s: The political economy of culture and the geographical industrialization (see, for example, Askoy & Robins, 1992, and Storper, 1993). Both schools share the same economic theory foundations and justify the role of the State as a regulator of market mechanisms (Muñoz Larroa, 2009). As Conor (2004) well observed, however, the two schools differ in their notions of power structures. The political economy of the culture model (macroscope) emphasizes the corporate power of majors, its oligopolistic organization, and its "vertical and horizontal reintegration as strategies of consolidation, risk minimization and profit maximization." (p. 14). On the contrary, the geographical industrialization model (microscope) argues that a partial dispersal of power has occurred through flexible specialization organization, with the accompanying disintegration and deconcentration of majors' activities in favor of local independent companies, local services providers, and overseas destinations—that is, Hollywood runaway productions (Conor).

However, both models seem to coexist in actual film districts. For example, in our analysis of the Mexican film cluster, corporate power from Hollywood and national majors coexist alongside the agglomeration of small local companies that are struggling to succeed, with some successfully establishing network connections with other related agents, which is the key to building efficient economic outcomes.

In recent studies, the geographical industrialization theorists incorporated the transnational companies' oligopolistic power as an essential aspect of their analysis (Markusen, 1996), particularly in distribution and production of films (Christopherson, 2006; Coe, 2001; Scott, 2005; Vang & Chaminade, 2007). In conclusion, the importance of both theoretical explanations seems to be widely accepted. Geographical industrialization provides an endogenous insight, while political economy of culture gives an account of the external links that influence the film cluster, including a variety of historic and structural socioeconomic factors.

Furthermore, we believe that the apparent opposition between the two theoretical schools was based on the limited empirical analysis available two decades ago regarding the relations of major and independent companies in Hollywood. Likewise, there was a lack of sufficient examination of Hollywood's ties to other national industries around the world. The aim of this study is to contribute to the theoretical debate, with specific reference to the study of the Mexican film industry.

The film district in Mexico City is characterized by flexible production industrial organization and is motivated by the undercapitalization of the production subsector and the "one project" model that defines contemporary audiovisual production.

There is a moderate tendency toward collaboration among the audiovisual companies, mainly inspired by the necessity to combine financial efforts and to a lesser extent by the specificity of the work required (resulting in outsourcing)—contrary to what happens in Hollywood. Interactions between the production companies and service providers are potentially important, but there are precarious relations between production companies and film-related institutions (except for public production funds) and between the labor market and the labor union system.

These characteristics do not lessen the importance of geographic proximity among the agents already noted in making economic relations more efficient. Mexico City offers positive externalities by hosting a film industry cluster and offering the benefits of urbanization: labor, infrastructure, services, and markets, along with human, social, and cultural capital.

The film industry district displays some of the characteristics of a State-anchored district, following Markusen's (1996) district typology (see Table 2), because it depends to a large extent on State financing as a complement to private participation. The decision making for this type of State investment is undertaken by a government institution (Imcine). The production subsector has few relations with foreign companies. In contrast, the distribution and exhibition subsectors are controlled by foreign majors through subsidiaries.

Table 2. Characterization of Mexico City Film Industrial District.

Source: Notes based on Ann Markusen's typology.

INDUSTRIAL DISTRICT	MEXICO CITY
SORT OF DISTRICT	State-anchored district
INDUSTRIAL ORGANIZATION	Flexible production
LOCAL RELATIONS	SMEs only relate with local majors to coproduce
LINKS WITH HOLLYWOOD MAJORS	Hollywood majors control and dominate marketing, distribution, and exhibition. Hollywood majors do not subcontract Mexican SMEs. However, there is a moderate upward tendency to coproduce among Hollywood major's subsidiaries and large and small local firms
TV INDUSTRY	Hub and Spoke district, in other words, dominated by large local firms. The TV duopoly is vertically integrated, resulting in limited economic spillovers
INSTITUTIONAL FRAMEWORK	Wide range of private, public and civil film-related institutions. Low levels of articulation, stability, and frequency regarding film production firm relations with intermediaries and institutions. There is an incipient but significant level of transactions between the production companies and service providers, but a precarious relation between the companies and film-related institutions, as well as between the labor market and the labor union system
LABOR MARKET	Faces a declining labor demand. Predominant pattern is one of freelancing. Recent attempts have been made to reconfigure the deteriorated unionized labor system, which has problems of rigidity, distrust, and decreasing membership. Resistance against neoliberal policies and mobilization to maintain social benefits
GEOGRAPHIC AGGLOMERATION FACTORS	Urban benefits of a global-city region in terms of services and infrastructure. Historic centralization. Existence of human, social, and cultural capital. Benefits of an agglomeration economy, namely positive economic externalities

The film industry in Mexico is disconnected from the television industry in terms of broadcasting of Mexican movies or involvement on film production. Despite being financially successful, the TV networks have two major limitations: (a) They consist of a noncompetitive duopoly; and (b) both of those companies are vertically integrated, which impacts negatively on the possibility of sharing economic spillovers with the film industry.

The economic policies in Mexico have fomented the concentration of transnational capital. Moreover, these policies have permitted the establishment of noncompetitive market structures, that is,

oligopolies. This has led to the generation of (a) ruptures in the productive chains, (b) crisis among small and medium national producers, and (c) the separation of the production sector from the financial and commercial ones.

The repercussions identified by other researchers (Sánchez Ruiz, 2002; Ugalde, 2005) that have derived from the oligopolistic structure of the TV industry and the film distribution and exhibition subsectors can be observed clearly in the analysis of the endogenous development of the productive subsector. The film industry's undercapitalization, as identified throughout this study, is creating the functional disarticulation of the industrial organization (between companies), and labor organization (among companies, workers, and institutions), as well as the limitation of potential growth.

The results of this research suggest the necessity of establishing functional bonds between productive economic actors through industrial strategies of technical and creative specialization, as well as knowledge expertise. Mexican cinema has the opportunity to compete by differentiating its products from those of Hollywood as long as the value added has an innovative, creative, and specialized quality.

Existing public cultural policies are far from facilitating growth. Instead of focusing on paternalistic intervention or adopting assistance approaches, the role of the State should be to regulate the market against unfair competition through the enforcement of anti-monopolistic measures. For instance, the State should enforce fair revenue redistribution contracts among producers, distributors, and exhibitors. It is the State's duty to balance the interests of the audiovisual district as a whole with those of Mexican society, instead of favoring the TV duopoly (by refusing concessions for new channels) and the film exhibition and distribution oligopoly (by submissively yielding to lobbying). State policies must establish fair rules of competition and implement long-term and integral film public policies covering the three subsectors of the industry—production, distribution and exhibition.

It is essential to develop clear labor legislation to safeguard the specific needs of film workers and production companies in their symbiotic relationship and to rejuvenate labor organizations to protect wages and social benefits. It is recommended that independent companies continue uniting to create representational organizations. Additionally, it is important that the poorly evaluated governmental bodies in Mexico City improve the performance and speed of their bureaucratic proceedings.

Finally, to develop a self-sustaining industry, it is necessary to reclaim the huge local audiences that are currently consuming Hollywood products. One way would involve participation of TV and other media not yet explored, such as the Internet. Another way would be to invest public and private capital in new theaters that show only local films (idea shared with José Antonio Elo, personal communication, May 19, 2008; Francisco Peredo-Castro and Víctor Ugalde, public conference, June 16, 2008). Beyond any doubt, the strengthening of a local star system would also be recommended.

In conclusion, the results of this study contribute to our understanding of the particularities of film production companies in Mexico City. The study also reveals the inequality that stems from the close relationship between the political powers and the dominant actors of the film industry, which impacts negatively the audiovisual sector, the labor conditions of technical and creative film workers, and Mexican

society in general. This study's analysis recognizes the cultural importance of State film funding and suggests that cultural policies should advocate supporting small and medium-sized audiovisual companies and opening up the distribution and exhibition subsectors to repair the value chain of the Mexican film industry.

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