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The internationalization of the Latin American economies: some reservations

*Héctor Assael**

Since the mid-1960s, the Latin American economy —particularly in the case of the large- and medium-sized countries— has been undergoing a process of increasing internationalization, which is signifying a progressive assimilation and overlapping between the internal market of the countries of the region and the market in which world trade is carried on. This new pattern of development has been profusely analysed in the literature of economics, and as a general rule the emphasis has been placed on its positive aspects.

In the present article an attempt is made to do the opposite, that is, to identify and analyse its essentially unfavourable effects, so that a more balanced appraisal can be made of what has been happening in the growth processes of several Latin American countries. In line with this approach, two distinct types of reservations are specified in the article with respect to the trends generated by internationalization. On the one hand, those problems are grouped and examined that are primarily linked with the channelling of development and the evolution of internal demand and supply. On the other hand, consideration is given to the effects produced by alterations in the structures of domestic prices and of the remuneration of the factors of production.

In the light of these criticisms, the author stresses the need to formulate and apply economic policy measures whereby the consequences in question can be counteracted and modified.

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I
Internationalization: concepts and problems**

For some time now there has been talk of a process of 'internationalization' of the Latin American economy, which began somewhere about the mid-1960s and has gone on up to the present time, despite the contraction suffered by international trade and the world economy in 1974-1975, and the slower and more erratic course of their subsequent growth. It has also been somewhat frequently asserted that internationalization implies a new style of growth in which it is mainly exogenous factors that spur and orientate increasingly dynamic development. This results from a combination of brisk demand for primary commodities —especially between 1971 and 1973—, the dominant and steadily increasing participation of transnational corporations in the opening-up of the economy, the circulation of copious flows of financing, and even the expansion of exports of manufactures.[1]

In order to define the process more exactly, a point to bear in mind is that it has been concentrated in the relatively more developed countries of the region, principally those of large and medium size, which have made significant progress in industrialization since the Second World War and even since the depression of the 1930s. In contrast, in the majority of the smaller, relatively less developed and less industrialized Latin American countries it has been less marked, for the obvious reason that they already were, and probably will continue to

**I wish to express my gratitude for the intellectual stimulus I have received from Raúl Prebisch and from Aníbal Pinto and for their apposite comments. I should also like to thank Robert Devlin and Adolfo Gurrieri for their valuable criticism. Any errors that the article may contain, however, are the sole responsibility of the author.

[1]In this connexion see, for example, the observations made by Mr. Enrique V. Iglesias, Executive Secretary of CEPAL, at the press conference held in Santiago, Chile, on 22 December 1975 (especially pp. 20 and 21), as well as in the address delivered at the seventeenth session of CEPAL (Guatemala, May 1977), which was published in the *CEPAL Review*, Santiago, Chile, first half of 1977, pp. 246-279.

be, economies substantially open or exposed to world trade.

Accordingly, the concept of internationalization which is used in the present article refers primarily to the increasing openness of those Latin American countries in which there was really room for such a trend to occur, and which, in fact, had previously achieved significant economic development of the type termed 'inward-directed'.

This progressive opening outwards has taken place in differing degrees of depth and breadth. On the one hand, there are the countries where the movement has been pitched in a lower key, and has mainly implied active participation in world trade —especially through the expansion of non-traditional exports— and an increase in the relative importance of foreign investment and external financing in the growth of their economies. Nevertheless, in these countries, among other features of their economic policy, customs tariffs (or subsidies, or both together) have continued to serve as a vitally important instrument for the protection of domestic production, especially manufacturing industry; the direction of internal price policy is still determined by the governments concerned, and it has been handled more or less —not, of course, completely— independently of what has happened in the world market. Brazil and Mexico are perhaps two representative examples of this kind of internationalization.

On the other hand, there are the more manifestly internationalized countries, of which Chile and, to a lesser extent, Uruguay seem to be the most authentic examples, and which, besides accentuating the characteristics noted at the beginning of the preceding paragraph, have diminished customs protection or are reducing it to very low levels, while at the same time the policy of freedom of internal prices has been almost absolutely applied.

Where this latter option has been chosen, the essential characteristic has come to be a progressive assimilation —or a significant degree of fusion— between the domestic market of the countries undergoing internationalization and the world market. Thus, the domestic prices of the goods traded show a tendency to resemble international prices, which becomes all the more marked, the more intense and lasting is the internationalization process and the less the costs of transport, entry and marketing of the goods imported and exported.

This similarity of prices —which, of course, is not the same as equality, and allows for differences from one country to another— affects commodities and certain services which are normally traded in world markets, and its projections relate primarily to the following: *levels* of national and international prices; price *systems or structures* in force respectively at home and abroad; and, lastly, *fluctuations* in international prices —of specific commodities or across-the-board— which tend to be reproduced with similar degrees of intensity in the internationalized countries of the region.

Most of the questions raised and reservations outlined in the present article are more relevant to the relatively industrialized Latin American countries in which internationalization is most open and goes deepest. However, some of the considerations to be discussed later are also valid, up to a point, for the Latin American economies whose internationalization has been more moderate, that is, for those of the first type described. And with all the more reason, for certain countries which fall midway between the two extreme cases portrayed, as well as for others that may be currently adopting policies designed to make their economies more open.

The matter of chief concern on the present occasion is to show certain sequels or trends which often emerge in economies that have undergone or are currently experiencing a process of internationalization. What is aimed at here is to single out those effects to which least attention seems to have been paid, and which, it may be said in advance, are usually those with negative connotations.

To a large extent these connotations constitute the 'cost' of internationalization, and therefore do not lead directly to a decision as to whether the process itself is advisable or not, but simply to a more balanced appraisal of it. Naturally, internationalization also produces important favourable effects —which should be included in the evaluation of the phenomenon—, but they will not be discussed in the present notes[2], since the literature on these aspects of the question is copious.

The unfavourable implications of internationalization can be classified in two major groups. On the one hand, there are the effects that make themselves apparent in the behaviour of the more generic —primarily macro-economic— variables. In this group consideration will be given to the trends that may be generated in the orientation of the development process, and the evolution and composition of domestic demand and supply. In the second group will be analysed those problems which arise out of changes in the structure of domestic prices and in the remuneration of the factors of production, as well as in the existing relations between earnings and prices.

II

Internationalization and channelling of development of the Latin American countries

1. *A new frontier for the industrialized economies?*

One way of looking at internationalization is to view it as part of a broader phenomenon and in a more far-reaching historical perspective, in which the industrialized countries with market economies are seen to be, as it were, extending the frontiers of their own economic system. Thus, developing countries in process of internationalization, among them those of Latin America, become a new frontier for the developed countries, so that for the outside world they come to represent what the 'conquest of the Far West' might have meant to the United States at the close of the last century.[3]

There is perhaps nothing intrinsically objectionable in this way of making growth

[2]Thus, one question that is not analysed is whether internationalization, individually or in conjunction with other factors, has had an appreciable impact on the economic growth rate of the Latin American countries which have undergone it. Nor does the article include discussion or integrated appraisal of the manifold effects on the allocation of domestic productive resources that are produced by the operation of national price mechanisms clearly linked to the world market. Similarly, no attempt has been made at a systematic review of those repercussions of internationalization which have a bearing on 'consumer benefit' analyses.

Another aspect that has not been touched upon relates to the principal factors or media that have influenced the internationalization process, as well as to the identification and evaluation of the economic policy measures applied by the governments of the region in order to attain the ends pursued. As regards the media, stress would have had to be laid on the vital importance assumed by the greater inflow of external capital resources to several countries of the region and the increasing participation of transnational corporations in national productive systems. With respect to the instrumental policies, a crucial role is undoubtedly played by those most directly related to the behaviour of the external sector. Although this is a serious omission —because of the interaction between the combination of economic policy measures applied and the type of internationalization which materializes, as well as its degree of intensity—, it does not seem to us to invalidate the essence of the main questions which are singled out later.

[3]Another approach would be to point out that internationalization corresponds to an essential stage in a broader —and generally accepted— process of world economic integration. Nevertheless, even in this more positive statement of the case, a distinction would have to be drawn between those developing countries which really are integrated in the world economy and those others that may rather be said to constitute appendices to it, dependent upon it but not properly incorporated.

more dynamic and in this type of centre-periphery relations, but what does need to be recognized is that it conduces to a tendency for the development style of the countries in process of internationalization to be strongly influenced by that prevailing in the main centres (the United States and, on a lesser scale, Western Germany, Japan, France, Italy and the United Kingdom). This influence will of course depend upon how broad in scope, how long-standing and how intense are the internationalization processes undergone by the Latin American economies.

In this way, despite the enormous differences between the centres and the periphery in respect of personal income and income distribution patterns, the internationalized countries have begun to find themselves prematurely faced with characteristics and problems proper to industrialized economies.

The most obvious manifestation of this linkage between the development styles of the centre and the periphery is the steadily increasing propensity observable in the Latin American economies to press on systematically towards levels and patterns of consumption resembling those of the industrialized countries. Internationalization facilitates, legitimizes and accentuates the demonstration effect[4] —originated at an earlier date, mainly through the influence of the communication media— which at the same time crystallizes in demand on the part of the upper and upper-middle income groups in the region, generally on the basis of comparatively lower prices that in the past.

A clear illustration of the foregoing point is afforded by the exaggerated extent to which the 'private-car civilization', with its more and more technically-refined vehicles, has gained ground in Latin America as a symbol of material progress and as the ideal means of transport which the population aspires to enjoy; additional evidence of this tendency is to be found in the growing number of Latin American families, in the upper and upper-middle income groups, that own two or more cars. Thus, in addition to the questionable channelling of resources —including fuel consumption— implied by the rapid growth of the automobile park, this trend has meant that a sizable fraction of national investment has had to be concentrated in the establishment and maintenance of the infrastructure required for the circulation of private cars. Accordingly, when one witnesses and suffers the harassing car problem by which many Latin American cities are beset, one cannot help wondering whether other systems of urban transport —based rather on utility vehicles or on simpler means of transport, such as the bicycle, which is widely used in some of the highly-industrialized European countries— are not more advisable alternatives.

The tendency to follow closely the consumption patterns of the central countries —which include, for example, colour television, high-powered motorcycles and complex sound equipments, and of which plenty more examples could be given— has yet other connotations. First, it implies prematurely and intensively introducing into the developing countries problems or motives of concern, such as those relating to the quality of life and of the environment, which in the industrialized countries have gradually arisen with the attainment of high per capita income levels —in practice, not very long ago— and with which they are now endeavouring to cope. Secondly, it means accepting the dynamic limitations of a development model that is largely based on

[4]It should be recalled that this thesis, which projects the Schumpeterian demonstration-effect on to the international plane, was formulated as early as about 1950. See Ragnar Nurkse, "Some International Aspects of the Problem of Economic Development", in American Economic Association, *Proceedings*, Boston meeting, 1951, pp. 571-583, and *Some Aspects of Capital Accumulation in Underdeveloped Countries*, El Cairo, 1952, especially pp. 36-52; and, similarly, Raúl Prebisch, *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951, pp. 6-7.

the rapid expansion of consumption, and is not founded, or only on a lesser scale, on the speeding-up of the rate of investment. The limitations in question may be greater still when consumer goods designed in the centres and not in the developing countries themselves are indiscriminately brought in.

2. *Some asymmetries generated by internationalization*

A second characteristic of the development pattern fostered by internationalization is the existence, or even the promotion, of asymmetries which accompany a growth process of this kind.[5]

In the first place, as Raúl Prebisch has pointed out,[6] it is glaringly obvious that internationalization has done much to bring about a rapid and intense alteration and modernization of the structure of demand and consumption in the Latin American countries, and that a similar process has not taken place so fast or in so much depth in the composition of domestic supply and production.

This asymmetry is largely the consequence of what the transnational enterprises have done in response to their own criteria for the orientation of investment and production. But the action of the transnationals does not account for everything, and it is not a sufficient reason for the emergence of this disequilibrium between the composition of domestic demand and of domestic supply.

In point of fact, as the internationalization process is broadened and intensified, it is obvious that favourable conditions are generated or re-established for the operation of the traditional system of the international division of labour and of comparative advantages, in the orthodox sense. Hence emanate the dominant forces determining the structures of supply and demand, of which advantage can be taken, in differing degrees, both by domestic and by foreign enterprises. In any event, this occurs in conformity with the well-known potentialities and limitations characteristic of the economic policy option concerned.

Secondly, this way of channelling growth naturally accentuates the asymmetries existing in the degrees of progress that may be attained by production techniques in the different parts of the economic system. Thus, in the various branches of production, and also within one and the same sector, the dissemination of technical progress tends to speed up mainly in those productive activities which offer 'natural' comparative advantages and which therefore give rise to export trade. In contrast, technological progress is much slower, or non-existent, in those areas of production which serve the domestic market, and some of which disappear as a result of internationalization, or are never installed.

These aspects linked to concentration of technical progress and to structural heterogeneity in Latin American development have been discussed at length and with greater authority elsewhere,[7] for which reason it seems needless to dwell on the subject here. What should be repeated is that the increasing internationalization and

[5]The following analysis does not imply disregard of the possibility that there are types of disequilibria —temporary and mainly sectoral— which make it possible to accelerate the rate of development, as has been shown by A. Hirschman, in *The Strategy of Economic Development*, New Haven, Yale University Press, 1958.

[6]See Raúl Prebisch, *El nuevo orden económico internacional y los valores culturales*, mimeographed text, October 1977, p. 21. In the larger countries of Latin America (Argentina, Brazil and Mexico), however, a closer resemblance can be seen between the structures of domestic demand and domestic supply.

[7]See Aníbal Pinto, "Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano" and "Heterogeneidad estructural y modelos de desarrollo reciente de la América Latina", reproduced in a book by the same author, *Inflación: raíces estructurales*, Fondo de Cultura Económica, Mexico, 1973, pp. 38 to 140. An English version of the second of these papers was also issued by CEPAL under the title of "Structural heterogeneity and styles of development in Latin America", mimeographed text, September 1972, and was subsequently presented at the Third World Forum, Karachi, 1975.

opening-up of the economies of the region should give new topicality and great significance to the analysis of these problems and of their effects.

3. *Repercussions on external relations*

Special interest attaches to certain asymmetries which internationalization may be liable to aggravate in the foreign trade of the countries of the region.

In this connexion it can be seen, in the first place, that the internationalization patterns adopted by some Latin American economies provide, to a considerable extent, incentives to what is generally indiscriminate importation, with the aim of gradually approaching the degree of openness pursued, and also absorbing the inflow of foreign exchange generated by exports and by the capital coming in. The consideration generally prevailing in the corresponding economic policy is the desirability of imports *per se*, inasmuch as they are regarded as indispensable for 'purifying' competition in the domestic market and increasing the so-called consumer benefit.[8]

In line with this position, the main concern of the approach described is with the evolution of the level of imports, and no parallel importance is attached to the composition of those in prospect. Thus, it is the forces deriving from domestic demand and income distribution that dominate the changes in the structure of imports, especially when customs tariffs are relatively low and stand at much the same *ad valorem* level, and the differences among internal taxes on consumption are slight.

In other systems of economic policy, on the contrary, more balanced consideration tends to be given to the evolution of the amount and the composition of imports. As a result of previous definition of which types of goods will produce the most desirable economic and social effects, priority is accorded to imports of these items, and, likewise, the expansion of imports is deemed advantageous primarily in so far as such goods increase their participation in the total. As a counterpart, the urgency of the need to export and to receive foreign capital also depends upon the quantity of foreign exchange needed to bring in the recommendable amounts of these priority imports.

Furthermore, it should be recalled, even though but in passing, that the internationalization phenomenon accentuates certain traditional and specific characteristics of trade between developing and industrialized countries. The greater the degree of openness of the developing economies, and the lower (and more similar) their customs tariffs and exports subsidies, the stronger will be the tendency for their exports to consist mainly of primary commodities, in which possible advances in production technology and in the amount of value added in the production process are more limited and slower.[9] Moreover, in some important instances, the goods exported may be non-renewable, like petroleum and other mineral products.

The inequality of trade is apparent in the fact that the imports of the economies under consideration, for their part, are increasingly constituted by industrial products and others with a high and ever-rising content of technology and of the corresponding value added. In addition, they are generally renewable goods, and the degree to which they are essential is variable.

4. *The difficult road to integration*

During the last ten to twenty years the economic integration of Latin America and,

[8]It often happens, however, that the domestic producer attempts to face up to external competition by devoting more effort to making the goods he manufactures similar to those imported —and more complex— than to improving them or making them cheaper.

[9]The exports of manufactures that have increased or may increase to a significant extent in the conditions described consist essentially of goods resulting from relatively simple processing of domestic or imported primary commodities.

more specifically, the various subregional systems in operation, have undoubtedly played a role of vital importance in the determination of the growth rate and pattern of the Latin American countries. There are plenty of background data available to substantiate this assertion, but this does not seem the right moment to do so.[10]

Nevertheless, notwithstanding what has just been said, it is also true that several signs point to a possible integration crisis, particularly in respect of some of the subregional agreements. Paradoxically, this has happened despite the fact that Latin America's production potential and its diversification and flexibility have evolved towards a higher standard which seems to offer better real conditions than in the past for consolidating the integration movement and pursuing it in greater depth.

Why, then, this propensity to crisis? The reply seems to lie, to a significant extent, in the fact that as the internationalization of the Latin American economies is accentuated, forces are mobilized which are antagonistic to integration and militate against its dynamism.

The first of these stems from the conceptual antithesis that would seem to exist between the theoretical and historical justifications and origins of integration on the one hand, and, on the other hand, those factors making for increasing freedom of trade which go hand in hand with the internationalization process. When the internationalized economies assume that freedom of trade on equal terms with the whole world, without differentiation between developed and developing countries, is clearly favourable for their growth potentialities, of course they gradually lose faith and interest in integration movements. This may happen irrespectively of whether the assumption in question is correct or mistaken, and notwithstanding that in practice there are perhaps no fundamental or insoluble contradictions between what internationalization signifies and the minimal requisites for the operation of integration agreements.

A second negative force consists in that internationalization has resulted in a gradual undermining of the bases of a mechanism incorporated in some of the existing subregional agreements, which encouraged and facilitated the movement towards the integration of the subregional markets concerned and, potentially, of the whole of Latin America.

In the Central American Common Market, first, and in the Andean Group afterwards, an instrument of fundamental importance has been the simultaneous operation of a common external tariff *vis-à-vis* the rest of the world, and an automatic and progressive reduction of tariff duties as between the countries members of the subregions, to the point of bringing intra-regional customs tariffs close to zero, or down to relatively low levels. In Central America this process has been carried out and completed normally, while under the Cartagena Agreement advances have been made in liberalization, and at the same time the negotiations for the determination and adoption of a common external tariff have been progressing at a rather slow pace.

Naturally, if internationalization has led and will continue leading to the establishment by several Latin American countries of relatively low and similar customs tariffs for the whole world —for example, if almost all tariffs were to drop to about 25% *ad valorem* or less—, the very concept of a common external tariff to guarantee a minimum of protection loses significance and dimension. Furthermore, in such circumstances hardly enough space or room for manoeuvre is left to permit the operation of intra-regional liberalization schemes capable of having any major impact on the creation of reciprocal trade in the subregions.

[10]For purely illustrative purposes, it is worth while to note that in 1975 intra-regional trade accounted for between 16% and 18% of Latin America's total trade. This was pointed out by the Executive Secretary of CEPAL, Enrique V. Iglesias, at a press conference held in Santiago, Chile, on 21 December 1977 (mimeographed text, p. 11).

In addition, this brake on integration is important not only for the possible progress of subregional agreements. It also seems likely —if a glance is cast at the not-very-distant future— to constitute a considerable obstacle to fulfilment of that long-standing and attractive aspiration which contemplated the establishment of a single and fully-integrated common market for the whole of Latin America: an objective which seemed nearest when it was, curiously enough, approved at the Conference of Chiefs of State held at Punta del Este in 1966.

Lastly, it can be argued that internationalization has increasingly attracted to the region foreign capital whose characteristics are not particularly favourable to intra-regional trade and integration, but do, to a much greater extent, encourage trade between North and South. In recent years external credits granted by international private banks have represented about 70% of total external loans, a proportion twice as great as in 1965 or thereabouts.[11]

Concurrently, importance has been lost in relative and sometimes absolute terms by bilateral and multilateral official loans with an integrationist content, which were linked in one way or another to the mobilization of regional trade and the execution of joint investment projects to which two or more Latin American countries were parties. A case in point is afforded by the trend towards restriction of the credit activities of the United States Agency for International Development (AID) and, on a lesser scale, those of the Inter-American Development Bank (IDB), in view of the fact that the imports which the special-fund loans granted by these two institutions were used to finance had to come from the United States or from Latin American countries.

It is true that these 'tied' loan formulae had their drawbacks, and likewise that the falling-off in the official assistance received by Latin America cannot be attributed mainly to the relative abundance of private bank loans. Nevertheless, what also seems clear is that if integration is to make progress it needs imaginative and discriminatory financial mechanisms to support it.[12] Complementarily, as a working hypothesis it may be assumed that the region has been better prepared to put up with a smaller inflow of official loans in so far as it has had fairly easy access to private bank financing.

5. *Current problems of the world economy: their effects on internationalized countries*

For some ten years, between the mid-1960s and 1973, the world economy —and especially that of the central countries— enjoyed satisfactory development. The aggregate domestic product of the countries members of the Organization for Economic Co-operation and Development (OECD) increased at an average annual rate of 5.5%, while at the same time there were no major recessions and expansion was relatively stable; internal inflation in the various countries was moderate, averaging less than 5% per annum for OECD; and progress was made towards greater freedom of trade, while concurrently the industrialized countries adopted systems of customs preferences for imports of goods from the Third World. In other words, the world economy, which constitutes the principal scenario for internationalization, presented a combination of the right conditions for facilitating this process and for

[11] See Carlos Massad and Roberto Zahler, *Financiamiento y endeudamiento externo de América Latina y propuestas de solución* (E/CEPAL/1041), 14 July 1977, pp. 23 to 26. (Reprinted in the same authors *Dos estudios sobre financiamiento externo*, Cuadernos de la CEPAL Series, N.º 19, Santiago, Chile, 1977.)

[12] It may be said in passing that as early as the end of 1974 the idea was suggested in CEPAL that Venezuela might give impetus to the integration of the region, if for the payment of 'additional' purchases that it would effect in Latin America it were to issue 'letters of credit' which would serve in their turn, on successive occasions, to pay for further purchases in other countries of the region, including Venezuela itself, in which last case the financial operation of the various letters of credit issued would be closed.

preventing the introduction of certain exogenous maladjustments into the peripheral countries.

Today the situation has appreciably altered. The industrialized economies have not succeeded in regaining sufficiently dynamic and steady growth rates; after a measure of recovery in 1976, the aggregate product of the OECD increased by only 3.5% in 1977, and a similar increment is estimated for 1978.[13] Likewise, the prospects for what remains of the 1970s and for subsequent years are not bright, since the policies that the OECD countries are adopting have not yet managed to reconcile the economic expansion objective with the restrictions imposed by marked inflationary pressures —standing on an average at about 10% per annum—, high unemployment indexes, and financial disequilibria of various kinds, such as the new and heavier cost of petroleum and of energy in general.[14]

Furthermore, there are manifest signs that a significant reversal has taken place in the former progressive trend towards world free trade. As the Executive Secretary of CEPAL has pointed out, "in face of the persistence of the problems affecting the world economy and the anxiety felt as to the future course of events, the developed countries are finding themselves up against steadily increasing pressures in favour of the protectionist option".[15] In this connexion, it may be noted that the measures to restrict imports adopted by the central economies during the last two years have had an impact on several categories of products (mainly meat, textiles, clothing, footwear, steel, transport equipment and a group of electrical and electronic articles). Nor has satisfactory progress been kept up in the implementation of systems of preferences.

Accordingly, the setting for internationalization and for the growing openness of the Latin American economies is now provided by a situation diametrically opposed to that of a few years ago. And these economies, through their external relations, are exposed point-blank —more so than in other periods— to the disequilibria that the central economies are undergoing.

Thus, the region is now more severely affected by the repercussions of the slow and unstable growth of the central countries, and has to endure a higher degree of imported inflation.[16] In addition, the increasing pro-

[13]See OECD, *Economic Outlook*, Paris, July 1978.

[14]In this connexion special mention should be made of the thesis maintained by so unimpeachable a source as the Bank for International Settlements (BIS) in its last annual report, the relevant paragraph of which reads as follows: "There are, however, signs that inflation, or the fear of accentuating it, may well not be the only reason for the slowdown in the growth of some of the major industrial economies. It is possible to argue that independently of a worldwide slack in demand, a break has occurred in their growth trend. There are a number of reasons that make such an assumption plausible. The share of profits in national income has declined, and in several countries this declined started before the recession. The volume of fixed capital expenditure stopped growing several years ago. Large excess capacity has emerged in specific industries —such as steel, shipbuilding, textiles, artificial fibres, some basic petrochemicals, and so on— either because of earlier synchronized investment booms or because of the successful industrialization of a number of developing countries. Even the nature of technological innovations, which now tend towards automation or labour saving, appears to be basically different from the kind of innovation which in the past gave birth to investment booms in the electricity, motor-vehicle or petrochemical industries. Such maladjustments suggest the possibility of a slowdown of the 'Kondratieff' type after several decades of virtually uninterrupted fast growth. However, the worldwide slack in economic activity makes it exceedingly difficult to assess the genuinely structural nature of these developments. Clearly, some of them can simply be attributed to the fact that the world economy, and especially that of the western industrial world, is working well below the optimal use of capacities. Problems that are basically cyclical easily appear to be structural in these circumstances. But there are so many signs pointing in the direction of genuine structural imbalances that it would be foolish for policy-makers to ignore them by aiming at growth rates comparable to those of the 1960s". See Bank for International Settlements, *Forty-Eighth Annual Report*, Basle, 12 June 1978, p. 8.

[15]See the press conference quoted above, 21 December 1977, p. 8.

[16]On the subject of imported inflation in Latin America, see CEPAL, *Economic Survey of Latin America, 1974*, United Nations publication, Sales N.º: E.76.II.G.1, Part One; and Héctor Assael and Arturo

tectionist measures referred to above endanger the development prospects of several particularly dynamic activities with great expansion potential, and, generally speaking, checkmate the very feasibility of advancing towards freer world trade.

In short, the situation described seems to constitute a considerable threat to the effective functioning of the internationalization movement in the form it has been taking. Furthermore, the Third World still enjoys only limited political participation in the various international forums, which are the place for adopting decisions on ways and means of resolving the diverse problems that are affecting the operation and structure of the world economy.

III
Internationalization and its effect on price-levels and relations in the Latin American economies

As was pointed out before, internationalization involves an increasing degree of assimilation between the domestic markets of the developing countries and the market in which world trade is carried on. In turn, since the conditions prevailing in the international market are essentially dictated by the existing situations in respect of prices of goods and services and remuneration of the factors of production in the industrialized economies, certain linkages are consequently established between prices and remunerations in the developing and the developed countries. Some of these links, and what is more important, their probable and most visible implications, will next be examined.

1. *National and international prices: possible differences and modes of assimilation*

In the first place, domestic prices of goods —save for those which constitute exceptions because they are suitable only for home consumption— tend to be assimilated to world market quotations, with margins of variation caused mainly by transport costs; by taxation on imports, on exports or on both; and by importers' and exporters' profits. In practice, via foreign trade, the prices of goods in the developing countries —and in the Latin American countries in particular— are affected by the more extensive and expeditious export and import possibilities that increasing internationalization affords.

In the prices of services this trend towards assimilation is less general than in those of goods, because in many instances, of course, the possibilities for trade in services are limited.

The trends that are generated in respect of the remuneration or profitability of the factors of production in the developing countries in process of internationalization are not so clearly defined, mainly because this remuneration depends in different sectors or areas of production upon improvements or deteriorations in the relative prices of goods, brought about by the increasing openness of the economy.

In any event, it is the factors of production which are in relatively short supply that have the best and most rapid possibilities of obtaining a proportionally larger increase in their real income, in keeping with the price variations that are taking place. In the developing countries, the factor in this position is capital, in the shape of machinery and equipment, financial resources, or land and other types of fixed assets.

Conversely, labour —the resource that

Núñez del Prado, "La inflación reciente en América Latina", *Revista de Economía Latinoamericana*, Caracas, 1977, special number 50, pp. 9 to 78.

is comparatively plentiful— benefits less or more slowly by the internationalization process. Comparison of wages and salaries in the developed and in the developing economies, however, shows that in the remuneration of labour the difference previously existing is generally greater than in the case of capital. In this connexion, an important role is played by the very limited international mobility of manpower. Thus, only a few groups of workers with very special skills are qualified to secure a definite improvement in their real income.

If the trends described actually occur, what usually happens is that internationalization influences the functional distribution of income, reducing the share of wages and salaries, and increasing that of returns on capital. The implementation of a set of policy measures may of course counteract (or intensify) this tendency.

The process whereby wages are gradually left on the sidelines of internationalization, at least as regards the speed with which they increase, could generate some compensation for the absolute income of workers over the medium term only if the greater share of profits and other income from capital in national income were to be turned to good account in raising the coefficient of savings and investment and, consequently, the rate of economic growth.

2. *Kinds of goods whose prices have a wider margin of internationalization, and effects thereof*

In examining the characteristics of the Latin American countries' domestic markets and the prices prevailing in them, especially in the early stages of the road to internationalization, it is feasible, and would be useful, to identify the instances, or the nature of the goods, in which domestic prices were or are markedly lower than the corresponding international quotations.

Special research on this subject would be of great interest and would merit high priority, and would allow the point to be fully clarified. But there are a few questions on which a hypothesis can be advanced here, even in default of statistical data to give it full support.

It seems obvious that in the Latin American countries the products that are traditionally cheaper —on several occasions too much so, with the result that their production has been discouraged— have been foodstuffs for domestic consumption, largely in correspondence to the relatively low levels of personal income and of their production costs. Outstanding among these items are a number of staple crops and several livestock products, the existing differences between their domestic prices in the industrialized and in the developing countries, respectively, being very large and striking. These discrepancies may be accentuated inasmuch as in the North the domestic prices of foodstuffs are often artificially high, as a result of the policies applied there to protect farmers' income.

Once the economies have begun to grow more open, a relative rise in the price of foodstuffs is brought about in two principal ways. On the one hand, the domestic prices of exportable goods that are consumed within the country are pushed up to the level of international quotations (with the deduction of possible export taxes and transport costs), since otherwise it would be more profitable to export the entire output and leave the domestic market without supplies. Bans on exports or the establishment of export quotas are not very effective —and may even run counter to the ideology of the system— when economies are being opened up to the outside world.

In contrast —to digress a little—, among the products that are comparatively dearer in the Latin American countries, durable consumer goods have traditionally figured. For this reason internationalization causes a relative and sometimes an absolute reduction in the domestic prices of such goods. This is favourable to the evolution of the real purchasing power of the higher income groups.

Secondly, an exaggerated bias towards an agriculture-for-export model and the corresponding use of the cultivable land may lead to neglect of production for domestic consumption, involving serious food shortage problems, with the consequent rise in prices. In this connexion, an unpublished study by Professor José Mendoça de Barros, of the Instituto de Pesquisas Económicas da Universidade de São Paulo,[17] points out that in Brazil's case crops for domestic consumption —including beans, rice and manioc— would seem to have been progressively abandoned, with the resultant supply and price difficulties, in order to devote more land to the production of certain exportable commodities, such as soya and sugar.

The steady upward trend in the real price of foodstuffs during the phase of internationalization of the Latin American economies is a phenomenon which can be assessed, albeit fragmentarily and indirectly, through the study of other supplementary data.

For example, in a study on inflation in Latin America,[18] it was noted that during the period 1970-1975, in almost all the countries of the region, the food item in the consumer price index showed a persistently and significantly steeper rise than the overall index. Of course, this change in the price system was due to several factors —which this is not the place to discuss— but in any event the clearly-defined and recurrent trend recorded during a period of increasing internationalization is symptomatic.

It is also worth while to refer to a comparative study of food prices in Chile and the United States which was carried out in the second half of 1976. On this occasion it was shown that except for beef and one or two kinds of fruit and vegetables, food prices were the same in Chile as in the United States, and in many cases considerably higher. Among the most striking examples of the latter tendency were poultry and eggs, and virtually all food products with some degree of processing.[19]

Given confirmation of the hypothesis that greater openness has pushed or levered up domestic food prices to relatively higher levels in the Latin American countries,[20] it would be important also to trace what proportions of income the basic subsistence of the population comes to represent. Such an evaluation would be particularly relevant for the salaried and wage-earning population, since these are probably the groups whose income has been the slowest to rise.

It should be added that in contrast to what has happened in the industrialized countries, in the developing countries the introduction of certain technological advances whereby the production cost of certain kinds of foodstuffs can be reduced has not been sufficiently intensive. Products that are relatively cheap in the central countries —e. g. poultry, pork and their by-products, eggs, and milk and its by-products—

[17] Quoted in the São Paulo newspaper *Gazeta Mercantil*, 10 December 1977, p. 9.

[18] See "La inflación reciente en América Latina", *op. cit.*, table 6.

[19] See "Los precios en el ascensor", *Ercilla*, Santiago, Chile, 3 November 1976, pp. 21 and 22.

[20] An article recently published by Irving Kravis, Alan Heston and Robert Summers, "Real GDP per capita for more than one hundred countries", *Economic Journal*, June 1978, pp. 215 to 242, sheds additional light on the subject, by making it possible to compare data on two non-Latin American developing countries. A comment on this article in *The Economist*, 22 July 1978, p. 70, holds a note of surprise:

"Between two countries with the same level of GNP per head, prices are usually lower in one which is most isolated from the impact of world prices. The more open the economy, the more prices are likely to be dragged up to world levels. This second assumption is surprising. The reverse might be expected: does not protection raise home prices? No, the results from the ICP (International Comparison Project) suggest that large, poor countries do have lower prices than small, more open ones at similar levels of income per head. In India, for example, the price level for all components of GDP was about 30% of the American level in 1970, while in Kenya it was 47%. Both had roughly the same level of GDP per head, but India was a much larger and less open economy."

Probably the difference identified is basically due to the behaviour of food prices.

are among the dearest in the underdeveloped countries. Accordingly, the element of compensation in the average cost of food which is characteristic of the industrialized world has been lacking in Latin America.

3. *International prices and the instability of established price relations*

When consideration is given to the price movements that internationalization causes in the developing economies, and the new price relations thus established, it is generally assumed as a corollary that the new price signals will have a certain measure of stability and will set a course without erratic fluctuations towards a more favourable allocation of resources. The truth is, however, that in the case of many agricultural commodities their international prices have suffered and will probably continue to suffer sharp fluctuations.

As regards agriculture, since the production periods of most agricultural commodities cover a least a year, an important and highly variable determinant is thus introduced which influences decisions as to the different crops that should be grown in each period. In addition, even if the fluctuations of international prices are closely followed, there may be a high proportion of uncertainty in the economic results achieved, inasmuch as the production flows materialize a year (or more) after the adoption of the decision on what to produce, and by that date the price signals may well have changed their direction.

In recent years there have been many examples of primary commodities for which international quotations have fluctuated considerably. For illustrative purposes it is worth recalling what has happened with respect to the prices of soya, wheat, maize, sugar-beet and sugar. Following the variations in the prices quoted for these crops, in some countries of the region the composition of agricultural production has undergone highly significant changes which have not always proved favourable, in terms of the normality of domestic supplies, or of export earnings, or of both.

In face of these probable effects of internationalization and the higher social costs that may derive from them, it is of interest to evaluate whether it would not be preferable for agriculture to be guided by criteria more stable than the mere consideration of international prices.

Naturally, there would be no question of establishing domestic prices absolutely divorced from what is going on in world markets. Rather, the line of action suggested would be to operate with a maximum-minimum price interval for which the point of reference would be the world market price of the agricultural commodity concerned. As a complementary policy, the authorities could orient the movements of domestic prices through the application of a system of taxes and subsidies.[21]

IV
An attempt at recapitulation

It has been hinted in this article that internationalization is something more than a change in the degree of openness of the Latin American economies, especially for those in which the process has taken place in greater depth. Rather does the concept imply a different development pattern, in which essential importance attaches to a progressive assimilation or overlapping between the internal market of the developing

[21] To look no farther, in Colombia the price policy followed for coffee is dictated essentially by the idea and necessity of mitigating in the internal economy the sharp periodical fluctuations in world quotations for this commodity.

countries and the market in which world trade is carried on.

Generally attention is drawn to the positive implications of internationalization. On this occasion an attempt is made to do the oppositive, that is, to identify and examine its primarily unfavourable effects, so that a more balanced picture may be formed of what has been happening in the growth processes of several countries of the region.

To this end, consideration is given, on the one hand, to the trends generated by internationalization in respect of the orientation of development and the composition of domestic demand and supply. Within this approach it is noted, in the first place, that the internationalized developing countries have begun to face, before their per capita income level warrants it, problems and characteristics that have been and are proper to the industrialized economies, given their high per capita income.

Secondly, some asymmetries are analysed which may be introduced into the development pattern fostered by internationalization. One of these consists in that the modernization induced in the structure of demand and consumption has not been accompanied by a similar change in domestic supply and production. Another is to be found in the differing degrees of progress that may be attained by production techniques in the various parts of the economic system. Furthermore, several asymmetries may occur in the composition and operation of the internationalized countries' foreign trade.

Thirdly, it is pointed out that internationalization may have mobilized forces antagonistic to the Latin American integration process and liable to impair its dynamism. In this context three factors have been singled out: (i) the conceptual antithesis that seems to exist between the basic principles of integration and the positions implied by internationalization in respect of increasing freedom of foreign trade; (ii) the loss of effectiveness of the common external tariff mechanism in the new commercial context of the region; and (iii) the decrease noted in the inflow into Latin America of official external loans to encourage integration.

Fourthly, it has seemed of interest to point out that because of their steadily increasing openness the Latin American economies are now harder hit by the repercussions deriving from the present slow and unstable growth of the central countries, as well as from the inflationary pressures that are affecting them.

Moreover, the article considers the problems that arise when, in consequence of internationalization, changes take place in the existing levels and structures of domestic prices and of the remuneration of the factors of production in the developing countries. From this angle, the observation is made, in the first place, that salaries and wages are probably the principal price or remuneration in the economic system which does not tend to undergo short-and medium-term adjustments to international levels, or does so, if at all, on a selective basis and at a relatively slow pace.

Secondly, the idea is suggested that in the developing countries the traditionally cheapest products are foodstuffs for domestic consumption, and that therefore it is their prices that show a wider margin of increase because of internationalization. This would seem to have pushed up the cost of the basic subsistence of the population and increased the proportion of income which this represents among the groups that have seen only a slow change in their earnings.

Lastly, in analysing the indications for the allocation of resources given by international prices, it is argued that they may be erratic and fluctuating, especially in the case of agricultural commodities. In the past few years, indeed, there have been marked changes in the international quotations for several primary commodities, whereby an element of instability has been introduced into the periodical decisions on the composition of agricultural production in the more openly internationalized Latin American countries.

In short, several reservations with respect to the internationalization process are noted in this review, which, of course, is far from exhaustive. If these reservations are valid, it will be useful to bear them in mind for the evaluation of the process itself and, possibly, for the formulation of policy measures which might attenuate some of its consequences.