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The opening up of Latin America to the exterior

*Aníbal Pinto**

In an article which appeared in issue No. 9 (December 1979) of the *CEPAL Review*, the author analysed the internationalization of the world economy and its significance and consequences for the periphery. As a follow-up to that article, and within the same general framework, he now raises the controversial question of Latin America's opening up to the exterior.

After a brief recapitulation of salient past developments, he considers future prospects and their implications for the structure and tendencies of external relations. He then examines the reasons for, varieties of and dangers in the policy of openness, as well as the significance, options and problems of a strategy founded on the development of industrialization and the achievement of a new form of integration into the world economy.

His basic argument is that the intensification of exports, particularly of manufactures, is a necessary and possible condition for stimulating industrialization in Latin America and improving its position in the world economy. For that reason he cautions against those policies of openness which aim at a radical reorientation towards an 'inward-directed' pattern of development, maintaining that export promotion should be complemented by expansion of the domestic market and regional integration, and should be conceived within the framework of the process of industrialization and development.

Consequently, present circumstances, as well as those which are likely to exist in the future, enable the author to assume the viability of an economic growth strategy including among its requirements the sustained expansion of exports, although at the same time, he does not deny the importance of other factors which complicate the situation, such as emergent protectionism in the centres and the political capacity to strengthen regional links, negotiate with the transnational corporations and guarantee the State a guiding role.

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I

Background and prospects

1. *Outline of developments since the 1950s*

In the first place, the pattern of trade relations from 1950 until recently shows both the considerable growth of export and import flows (particularly after the mid-1960s) and, on the other hand, the fact that this growth only represented a partial return to the degrees of openness to the exterior which prevailed at the beginning of the period 1950-1977. This is also more or less true of the trends in the terms of trade.¹

Secondly, it is clear that financial flows followed a very different course, increasing substantially—even during the difficult international period following 1973—and changing in some fundamental regards (for example, the increase in the private component of the flows). The main consequence in recent years has been the dependence of a considerable proportion of imports upon external financing and the absorption of a large proportion of export earnings by debt servicing. In addition, there were more moderate changes in the relationship between the regional product and debt, although here again there was a clear deterioration over the period.

As a result, a very troublesome vicious circle has arisen in which the growth of imports has called for a rising amount of external financing, the servicing of which in turn absorbs increasingly large proportions of the value of exports; despite the growth of the latter.

These circumstances raise clear but difficult choices, especially if the underlying situation remains the same or grows worse. On the one hand, to hold down the growth of imports in order to reduce the burden—and vulnerability—involved in the absorption of export earnings by rising service payments can unquestionably affect the rate of economic development, with easily foreseeable consequences, whatever opinion one may hold of that indicator's significance. On the other hand, if this

¹Quantitative information may be found in CEPAL, *Economic Survey of Latin America, 1978*, vol. II (E/CEPAL/G.1103/Add.1), Part Three.

approach is rejected and it is desired to maintain the growth of imports —albeit at more moderate rates— it will be necessary to secure either more external financing or a more vigorous growth of exports —or both at once, in varying combinations. The discussion which follows must be placed against this background.

2. *The prospects for external relations*

In embarking on this part of the article, it may be useful to start from the central idea that the process of internationalization of the world economy (and society) will continue, as will that of the steadily growing linkage of Latin America with the exterior and within itself. Naturally, the possibility that the process will lose ground or fail to make headway —as has occurred in other periods and is suggested at present— cannot be ruled out, but the long-term outlook does seem to lie along those lines.

(a) *Separation from and linkage with the international economy*

It must be admitted that the above premise runs counter to a position which became quite widespread in the 1960s and is still held in some circles in the periphery, although it is now less prominent in Latin America. We refer to the school of thought which advocates 'delinking' from the centres and from the global system in which they predominate.

In some of the best studies of this question this dissentient approach is summarized as follows:

"...the argument is not just that the international links are the conduits through which the dependant country is drained of its surplus for the benefit of the dominant countries. The international links also penetrate and deform the internal socio-political structures of the peripheral country, leading to the waste and misallocation of whatever is left behind by the foreigners. A decreasing number of delinkers argue that under these circumstances the dependent country is unlikely to industrialize and certainly will not be able to develop its heavy and capital goods industries. Most delinkers will now admit that dependent industrialization and growth are possible, but they

argue that such processes will feature not only the polarization and unevenness of classical capitalist expansion but an exaggerated and even more monstrous version of it"².

Without stopping to make a detailed analysis of this approach, it is worth pointing out that in the work of some of its more representative advocates³ this attitude forms part of a historical approach to the problem inspired to some extent by that well-known aphorism "reculer pour mieux sauter".

Thus, one of them writes:

"Saying that development of the periphery requires the setting up of autocentric national structures which break with the world market means expressing an undeniable contradiction. Capitalism has unified the world, in its own way, by imposing upon it the hierarchy of centre and periphery. Socialism, which cannot exist unless it is superior to capitalism in every way, cannot be a juxtaposition of national socialisms. It must organize the world into a unified whole without inequality, and cannot be completed until it has attained this objective. However, the road that leads to this end passes by way of the self-assertion of those nations that are victims of the present set-up, and which cannot assemble the conditions for their prosperity and full participation in the modern world unless they first of all assert themselves as complete nations."⁴

What is more, this position has been undermined by the recent tendency to become integrated in the world market displayed by the socialist countries —including China, whose past experience was often given as an illustration— or suffers from the rather unattractive nature of its concrete examples (such as Burma, Cambodia or Albania).⁵

² Carlos F. Díaz-Alejandro, "Delinking North and South: unshackled or unhinged?", in Albert Fishlow and others, *Rich and Poor Nations in the World Economy*, (New York, McGraw-Hill, 1978), p. 103.

³ See, for example, S. Amin, *Accumulation on a World Scale: a Critique of the Theory of Underdevelopment*, vol. 1 (New York, Monthly Review Press, 1974), and A. Emmanuel, *Unequal Exchange: a Study of the Imperialism of Trade* (New York, Monthly Review Press, 1972).

⁴ Amin, *op. cit.*, p. 33.

⁵ The case of Japan has also been adduced in these arguments, but this is to overlook, among other things, the

In brief, the discussion has centred on the paths which internationalization can or should follow, particularly from the standpoint of the periphery and, within it, the Latin American universe which has long formed part of it, with the characteristics and consequences described above. In sum, emphasis has now shifted to the selectivity of the process, i. e., the forms of integration (or relative delinking) within the prevailing current.⁶

(b) *A basic imperative: the imported component*

Going straight to the heart of the matter, it might be said that the most concrete reason why Latin America should continue fostering and developing its links with the world economy is its growing need and demand for a variety of imported goods both now and in the future. This is the prime and most obvious reason for internationalization. Of course, it has its evident counterpart in the need of a suitable quantity of foreign exchange which must be provided by exports and/or external financing.

A recent CEPAL study on this question provides a tentative estimate of the region's future needs of imports of goods and services, assuming a growth rate of 6.4% a year (slightly below the rate for the period 1965-1974) and income elasticity of demand for imports somewhat lower than in that period.⁷ Needless to say, these are not forecasts and it would be perfectly legitimate to start from other estimates. However, the figures in table 1 are suffi-

imperialist dimension of its economic transformation prior to the Second World War, although its relative delinking from the western centres in a number of aspects which cannot be enumerated here is undeniable.

⁶In the study mentioned earlier, C. Díaz-Alejandro recalls a well-known article by J. M. Keynes ["National self-sufficiency", *The Yale Review*, (June 1933)], in which, together with expressing his sympathy with those who would minimize, rather than those who would maximize, economic entanglement between nations, particularly in the financial field, he warns that "it should not be a matter of tearing up roots but of slowly training a plant to grow in a different direction" (Díaz-Alejandro, *op. cit.*, pp. 95 and 117).

⁷CEPAL, "Long-term trends and prospects of the development of Latin America" (E/CEPAL/1076), Santiago, 1979.

ciently striking to stand the test of reasonable objections.

Table 1

LATIN AMERICA: IMPORTS OF GOODS AND SERVICES (Millions of dollars)		
	Current prices 1970 dollars	
1970	17 420	17 420
1976	51 302	25 703
1980	81 237	32 431
1990	261 957	63 916
2000	741 163	121 783

Source: CEPAL, *Long-term trends and prospects of the development of Latin America* (E/CEPAL/1076).

As may be seen, even at constant prices the value of purchases abroad will very nearly double in each decade considered.

The buoyancy of this demand is shown by its growth rates (see table 2). While the rates calculated for the years 1980-2000 are below those for 1965-1974, which were exceptional in many respects, they are almost double those recorded in 1950-1960. As may be seen, it is estimated that such growth of imports will be particularly strong in the larger countries.

This picture should immediately be contrasted with the prospects on the export side, since exports are at once the primary means making possible these flows of imports, a telling component of global demand and the other basic channel of internationalization.

Looking once more at table 2, it is easy to see that here too the region is expected to develop dynamically, at rates above those of both 1950-1960 and 1965-1974, this latter period being that in which the two flows were most asymmetrical. In any event, there is one striking difference among the groups considered: the case of the group of medium-sized countries, whose exports increased very little in volume during the second period, although they had grown considerably in 1950-1960.⁸

⁸This is primarily due to the influence of the volume of oil exports by Venezuela, which were deliberately held down to conserve reserves.

Table 2

LATIN AMERICA: ANNUAL GROWTH RATES OF THE VOLUME OF IMPORTS AND EXPORTS

Period	Latin America		Large countries ^a		Medium-sized countries ^b		Small countries ^c	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1950-1960	3.5	4.0	2.8	3.1	4.3	5.7	4.3	2.8
1965-1974	9.4	4.6	12.2	6.2	6.3	1.6	7.5	6.7
1980-1985	7.1	6.3	7.7	6.8	6.6	5.5	6.3	6.1
1985-1990	6.9	6.2	7.5	6.8	6.4	5.2	6.2	6.0
1990-2000	6.6	6.8	7.1	7.5	6.2	5.9	6.2	6.1

Source: CEPAL, *Long-term trends and prospects ...*, *op. cit.*

^a Argentina, Brazil and Mexico.

^b Colombia, Chile, Peru and Venezuela.

^c Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay and Uruguay.

(c) *Structural implications*

If we accept that the flows of imports and exports will increase considerably, it is necessary to ask how this may affect the structure of the external links of the region's economies, particularly from the standpoint of the future proportions which foreign supply and demand will represent in the overall system. In other words—to use the terms in which the question is usually phrased—does this mean that the region is shifting from a stage of inward-directed growth to a stage of outward-directed growth or unequivocal 'opening up' to the exterior?

From an overall viewpoint, the answer appears to be in the negative. It may be seen from the data presented in table 3 that the estimated import and export coefficients in 1980-2000 suggest a situation resembling that in 1970, more open from the standpoint of imports, and more closed from that of exports, and in both cases with lower levels than in the 1950s and 1960s.⁹

⁹With respect to the differences between the two coefficients—particularly marked in the case of the medium-sized countries—it should be remembered that these are primarily affected by the behaviour of the terms of trade, net external financing and payments of profits and interest on foreign capital. The study in question does not anticipate major changes in these factors from the region at standpoint, but it is assumed that the terms of trade of the me-

However, the data also show clear differences between the groups of countries. The levels of external linkage are lower in the larger economies (although these do show differences between each other which cannot be examined here), rise significantly in the medium-sized countries, and are highest in the small countries, where they are well above the levels recorded in 1950 and 1960.

There are many causes underlying these differences: it is almost tautological, for example, to mention the present and potential size of domestic markets. In this connexion, and because of its significance for a later discussion, it is worth recalling the distinction perceptively drawn by A. Lewis regarding the role of foreign trade in development, either as the 'lubricant' of the process or as its engine.¹⁰

In the case of the larger economies, the growth of exports is an essential condition for securing the increased volume of imports called for by the expansion of the global product, even though this is mainly destined for the domestic market—although, of course, this is not to underestimate the dynamic effect of external de-

dium-sized economies will improve appreciably (basically due to trends in Venezuela following the rise in oil prices), as will the external financing coefficient in the small economies (see E/CEPAL/1076).

¹⁰A. Lewis, "The evolution of the international economic order", Princeton University, mimeo, 1971.

Table 3

LATIN AMERICA: IMPORT AND EXPORT COEFFICIENTS WITH RESPECT TO THE GROSS DOMESTIC PRODUCT

Year	Latin America		Large countries		Medium-sized countries		Small countries	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1950	15.7	14.0	12.8	10.4	23.2	22.3	18.2	18.6
1960	13.4	12.5	10.0	8.3	20.8	22.9	19.3	17.2
1970	11.5	11.3	8.3	7.7	16.6	19.0	22.8	19.8
1980	11.7	10.3	7.4	7.5	20.3	14.7	24.9	24.1
1990	12.5	10.3	8.6	7.6	22.5	14.7	26.7	25.4
2000	12.8	10.7	8.9	8.2	24.1	15.2	27.9	26.3

Source: CEPAL, *Long-term trends and prospects ...*, *op. cit.*

mand. Consequently, for these economies exports primarily act as a 'lubricant'.

In the economies with more or less limited domestic markets the situation is obviously quite different, since exports represent a considerable proportion of total demand and ultimately have a bigger effect on the growth of the economy. Thus they are closer to the 'engine of growth' image, although the role of the domestic market remains dominant.

Naturally, this distinction cannot be carried to extremes, but it is acceptable in general

terms and allows a variety of combinations in the case of concrete activities or countries.

This passing digression should not obscure out the basic conclusion regarding the question raised earlier, namely, that (bearing in mind the differences between the various groups) the outlook for vigorous growth of international links does not entail a substantial change in the structure or historical pattern of the process. In other words, inward-directed development will continue to predominate, both for the region as a whole and for most of its countries.

II

The opening-up process

1. *The reasons for opening up to the exterior*

The above data and the corresponding deductions appear to contradict some lines of thought and praxis which have recently gained great significance in Latin America and elsewhere. We shall begin by examining their general direction and the reasoning on which they are based, and then go on to consider some variants of them.

Broadly speaking, they can be summarized as sharing the premise that it is necessary to foster external relations, take greater advantage

of the opportunities arising from the international division of labour, and consequently attach priority to exports, imports and external financing.¹¹ All of this is covered by that familiar blanket term 'opening up to the exterior'.

What are the underlying reasons for this general approach?

¹¹ It should be noted that these concerns also arise in countries with very different styles of development and institutional systems, such as Cuba. Concerning the new guidelines of that country's economic policy in the 1970s, the *Economic Survey of Latin America, 1978* states that

It is worth mentioning some of them in passing, although they are doubtless well known, since they have a place in this discussion.

(a) *The international setting and the stubborn external bottleneck*

Two elements appear particularly salient. One of these relates to the international setting, and the other to some issues which have troubled Latin American economic policy.

The first stems from the well-documented expansion of world trade following the war, and particularly during the period 1965-1973, the magnitude and significance of which can only be appreciated fully in the light of the conditions that framed the region's development in the prolonged period ranging from the Great Depression to the end of the 1940s.

The most important factor in this overall picture was the openness of the United States economy, which in the course of the post-war period managed to double its import-product coefficient (from less than 5% to over 10%) and transform the dollar shortage of the beginning of the period into a glut which has ended up as one of the biggest problems of the central economies and a major cause of the international monetary disequilibrium.¹²

Within this transformation of the external setting the importance must be stressed of the impact caused by the experience of a group of—quite dissimilar—Asian countries¹³ which took advantage of the opportunities thus created with great flexibility and energy and developed a form of open or export-oriented industrialization which some have seen as an alternative to the model prevailing in Latin America and elsewhere.

"the new approach to production strategy meant that the economy had to have foreign exchange both for capital investment purposes and to supplement the domestic production of consumer goods; and this called for a high, steady growth of exports" (E/CEPAL/G.1103, p. 296).

¹²It is worth noting in passing that this is one of the few bases of CEPAL thinking *circa* 1949 to be set right by subsequent events, although this does not detract from the great significance of the shift of the "principal cyclical centre" from Great Britain to the United States.

¹³Primarily South Korea, Taiwan, Hong Kong and Singapore.

We cannot stop here to examine this experience and the comparative judgements it involves. Suffice it to stress the essential point: that the differences in the historical and structural patterns are so deep that superficial analogies merely call to mind the aphorism that such exercises are the main enemy of the social sciences. Besides, it is enough to review any conscientious analysis of such cases, even by their advocates, to recognize their peculiar nature (or natures).¹⁴ Nevertheless, their influence should not be underestimated.

Finally, the external setting was radically altered by the unprecedented fluidity and magnitude of credit flows, particularly from private international banks.

(b) *Endogenous factors*

These changes in the international setting have had their counterpart in the development of relations with the exterior as outlined above. This development has involved a characteristic facet of Latin American experience since the crisis: the chronic bottleneck and disrupting fluctuations of trade, stemming from the imbalance in the relative dynamism of imports and exports, and also from the overwhelming importance of a few basic export commodities.

Thus if the international factors implied increased opportunities and, specifically, demand for exportable products, these endogenous factors brought one of the most acute problems of regional growth, which had to be alleviated or resolved.

In addition to these elements, others should be mentioned which also spring from the domestic setting and the polyvalent and—from some angles—contradictory repercussions of the industrialization process. Summarizing a familiar CEPAL line of analysis, this development was subjected simultaneously to two forms of pressures. The first arose from the higher demand for imports stemming from growth in incomes and a number of inherent

¹⁴See, for example, "El desarrollo industrial orientado para la exportación: la experiencia de Corea", by Larry Westphal; summary by the author, with comments by Frederick E. Berger, in "Políticas de promoción de exportaciones", vol. I (E/CEPAL/1046), pp. 73-86.

characteristics of the process, such as the lack of vertical complementarity of the emerging industrial activities and the spur of service payments on foreign capital and loans.

The second source of pressure stemmed from the constraints of the domestic markets which, along with other factors such as the distribution of income, and according to the particular situation of each country, hindered the progress of certain stages of industrialization.¹⁵ While the small countries with difficulty approached the limits of 'easy substitution', based on branches of light or traditional industry and basic inputs, these constraints became conspicuous for the large countries embarking upon 'difficult substitution' linked with the growing presence of the transnational corporations.

(c) *The domestic potential*

All these aspects led, as mentioned earlier, to the need for and desirability of altering the pattern of relations with the exterior. But other factors which also affect the process from another angle should not be overlooked, such as the domestic capacity to undertake this task thanks to the new structures and potential created by the advance of industrialization in the broad rather than the sectoral sense.

As is shown by the experience of the countries which have advanced furthest in this direction, the process involved establishing a fulcrum or springboard whereby manufacturing exports could reach external markets; and this is obviously important for the prospects and options open in the future, a question discussed below.

As indicated earlier, we are not referring merely to the specific contribution of manufacturing activities in this field. Equally important has been the multifarious irradiation of industrial praxis in labour and entrepreneurial training, in the quantitative and qualitative growth of the public and private technocracy, in the modernization and readjustment of the institutional and instrumental apparatus of economic policy, and in many other respects. Indeed, this

is another application of the principle of 'learning by doing'.

It is true, as sometimes pointed out, that many lines of export diversification were set up prior to post-war industrial development or have nothing to do with it. However, it is difficult to believe that these would have broken into world markets without all the transformations which we have outlined.¹⁶

In brief, if the first set of factors induced or encouraged a reappraisal of the approach to external links, this last factor was for some the objective condition governing the viability of doing so.

2. *The variants of opening up to the exterior*

The form in which these motivating forces have been translated into lines of economic policy varies considerably from country to country, partly in the light of their particular situations and partly—and sometimes decisively—as a result of the way in which they interpret the problem. There is certainly an enormous range of ideas about the forms and functions of the global process of internationalization.

At a high level of abstraction two lines of thought and action can be distinguished, characterized primarily by the more or less comprehensive and radical nature of the alternative diagnosis of the situation prevailing until roughly the mid-1960s. These two broad currents may in turn be broken down into different conceptions of a number of more specific and relevant questions for the purpose of this analysis, such as the nature and role of industrialization, the degree and form of openness to the exterior, protectionism and import policy.

From the first and more general angle, it is no distortion or caricature of the facts to distinguish two basic approaches to the question. One might be termed the *ideological* approach, with no pejorative undertones; the other is rather *pragmatic*. From an overall point of view, looking at the Latin American picture in recent years it might be said that the experience of the

¹⁵ See *Economic Survey of Latin America, 1975* (United Nations publication, Sales No. E.77.II.G.1), Part Two.

¹⁶ It is worth bearing in mind the impact on the growth of non-traditional exports of investment in infrastructure—basic services, roads, refrigeration and packing plants (with large-scale State participation).

southern countries (Chile, Argentina and Uruguay) falls within the first category while Colombia, Brazil and the other countries of the region are closer to the second.

With regard to the ideological approach, it seems clear that the transformation of external relations is part of a much broader—what used to be called ‘totalizing’—context and is in fact only a fragment of a readjustment which covers practically all dimensions of social reality, although its impact is not the same in all of them.

This outstanding feature also signifies a substantial degree of *discontinuity* with respect to the past, both in general and in particular aspects, which is part and parcel of an alternative ‘ideal type’. If this is not found in the present scenarios,¹⁷ by explicit or implicit association one can go back to earlier ones, and particularly those of the nineteenth century, thus reviving former approaches.

The other main variant differs in both these respects, i.e., both in its degree and in its components. It does not have the same multi-dimensional nature and does not involve an essential break with the preceding trends and structures which it wishes to modify. In other words, it is based on the varying interplay of change and continuity.

To illustrate these contrasts, and given the impossibility of undertaking a systematic comparison here, let us turn to firmer ground and examine some specific aspects.

(a) *Approaches to industrialization*

There is little doubt that the views held on the past and future significance of industrialization, and of so-called substitution industrialization in particular,¹⁸ are one of the main points of difference both between the two above-mentioned approaches and between them and others which may be distinguished.

¹⁷The ‘social market economy’ of the Federal Republic of Germany is usually given as the archetypal reference, although many characteristics of that country’s experience do not correspond to the postulated ‘ideal type’.

¹⁸With regard to the concept and *raison d’être* of substitution industrialization, see *En Torno a las Ideas de la CEPAL; Desarrollo, industrialización y comercio exterior*, Cuadernos de la CEPAL, No. 13 (Santiago, CEPAL, 1977).

Without going further into the critique of the process, it is clear that the first position views openness to the exterior in general, and the promotion of exports and liberalization of imports in particular, as a drastic about-turn with respect to the earlier approach based on the domestic market and import substitution and selectivity. The objective is in fact to move from inward-directed to outward-directed development.¹⁹ In addition, within its overall view of the matter it subjects the general process of industrialization (and that of development) to the logic of comparative advantage, the decisions of the market mechanism and open competition with the exterior.

The ‘pragmatic’ approach, as may readily be supposed, adopts a different view which basically goes beyond the apparent contradiction between the opposed terms and attempts to bring them together in new combinations. To illustrate this approach it is worth saving time by recalling some observations by C. Díaz-Alejandro in his famous study of the Colombian case.²⁰ He states that the picture which emerges from the policies followed since 1967 is somewhat different from the textbook descriptions of the shift from import substitution

¹⁹In a recent study, for example, it was argued that “in the middle of the previous decade ... some Latin American countries began to implement the outward-directed development strategy by means of policies to stimulate non-traditional exports” (Ricardo Ffrench-Davis and José Piñera Echeñique, “Políticas de promoción de las exportaciones en los países en desarrollo”, in *Políticas de promoción de exportaciones*, vol. III (E/CEPAL/1046/Add.2), p. 55). Professor Rosenstein-Rodan, criticizing the negative trends in the development of some countries, attributes them to “the continuation of a mistaken policy of ‘import substitution’ instead of outward-directed development (successful example: Brazil)” (“Characteristics of Latin American development”, paper presented at the Second Panama Banking Convention, in April 1979 (mimeo)).

²⁰The quotations are taken from a presentation on the author’s work *Colombia*, Special Conference Series on Foreign Trade Regimes and Economic Development, vol. IX (New York, National Bureau of Economic Research, 1976) made at the Fundación para la Educación y el Desarrollo in Bogotá in 1973, and reproduced for an ILPES course in 1979. Attention focuses on the Colombian case because it is usually considered to have been more open than Brazil, besides having been a pioneer in this direction. The Brazilian case, on the other hand, self-styledly pragmatic, differs more profoundly from the ideological approach in a number of key aspects—the role of the State and of public enterprises, and the clear continuation of the process of substitution industrialization.

to export-promotion policies, and adds that the change from an import substitution policy to an export promotion policy in Colombia should not be regarded as a *volte-face*. More precisely, he stresses that the launching of the 1967 policies directed *relative* incentives towards exports in contrast with import substitution. However, and perhaps more importantly, these policies strengthened the incentives for selected import substitution and export activities in relation to the non-tradeables sector.

A similar interpretation and approach to the problem may be seen in other cases, including that of Korea.²¹

(b) Other related aspects

The contrast between the two approaches, as pointed out above, is also visible in a number of subsidiary aspects of the overall approach to industrialization: comparative advantages, protectionism and liberalization of imports.

It would be ridiculous to attempt to make a suitable review here of the first of these aspects, which is the subject of long-standing and unresolved controversy that becomes more nebulous with the inclusion in the analysis of legitimate and significant non-economic variables (national imperatives, social, humanitarian and cultural values, etc.). It is nevertheless worth mentioning from the standpoint of this discussion.

Starting from the other end of the range of positions, it is obvious that the pragmatic approach—by its very nature—has not managed to produce a clear and comprehensive theoretic-

cal corpus on this issue which is unquestionably extremely complex in that it necessarily goes beyond an economic framework.

However, it is important not to underestimate the valuable contribution to the analysis of this issue contained in studies and proposals in the field of planning, since these are the concrete manifestation of resource allocation criteria both within the domestic economy and with regard to the external sector.

Indeed, these contributions have made it possible to blend the different senses of the concept of comparative advantage—which can be *absolute* (where the natural resource endowment is predominant), *relative* (when it emerges from the contrasting of viable options) or *acquired* (in which national determination is crucial, and which involves 'learning by doing').²²

The ideological approach may not ignore the complexity of the problem, but its inhibitions are swept away by the value placed on a guiding criterion which is very clear and categorical, "that of comparison with international standards, which are basically determined by the levels of productivity and prices prevailing in the central economies. Greater or lesser competitiveness as compared with this point of reference will determine the 'economic viability' or 'efficiency' of the activities in question. 'Comparability' with these levels will justify their existence; 'comparative disadvantages' their elimination".²³

This is, of course, the extreme version of a Darwinian logic which has never actually existed, but it would be wrong to underestimate its past and present influence in sympathetic circles both in and outside the region.

²¹In this connexion, L. Westphal states that under the impetus of import substitution for non-durable consumer goods, the growth of the industrial product was quite rapid (12% annually) during the second half of the 1950s. However, at the beginning of the following decade opportunities for 'easy' import substitution began to dwindle rapidly, and ultimately industrial growth to slacken. He adds that selective import substitution has permitted the concentration of scarce investment resources in one or a few sectors at a time and thereby made possible greater exploitation of economies of scale and of the linkages among closely inter-related activities (Westphal, *op. cit.*, vol. VIII, pp. 73 and 76). A study in the same document on the case of Yugoslavia points out that import substitution and export promotion do not appear to have been seen as alternatives, but were followed in different sectors at different times. (V. Dubey, 'Yugoslavia: exportaciones de bienes y políticas de explotación', V. Dubey: *Resumen del trabajo*, *ibid.*, vol. X, p. 95.)

²²The experience of the industrial late-comers, whether developed or peripheral countries, provides a clear picture of the different combinations and focal points in each particular case. Broadly speaking, it seems evident that relative and acquired advantages have tended to weigh more than absolute advantages in the modern setting, although this can in no way be interpreted as an expression of arbitrary 'voluntarism'. It goes without saying that market size and the volume and nature of natural resources are important elements of comparative advantage, and in particular of degrees of openness.

²³A. Pinto, "False dilemmas and real options in current Latin American debate", *CEPAL Review*, No. 6 (second half of 1978), p. 38.

(c) *Protectionism and liberalization*

The different approaches to protection and liberalization of imports, which should be reviewed within the context of the general attitudes to industrialization, are sufficiently well defined to require merely a cursory examination.

In the southern countries, and particularly Chile, the change of direction on both these fronts has been radical. In the others, on the other hand, it is moderate and sometimes interrupted. In the case of Colombia, for example, the free-trade experiment of 1965-1966, following the traditional recommendations of the International Monetary Fund, was, in the words of one expert, a 'traumatic experience' which paradoxically paved the way for export promotion within a context of much greater control over imports.²⁴ Brazil's protectionist armour remained virtually intact, although it was substantially revamped in the mid-1960s in order to adjust it to the new stages of industrialization. On the import side there was also some liberalization,²⁵ although heavy duties were levied on luxury goods - unlike what happened in some countries further south.

It should be recalled here that on both these issues there had for long been some degree of consensus about the need to rationalize the system of protection inherited from the times of severe disequilibrium in the external accounts, to which attention was drawn repeatedly in CEPAL studies.²⁶ Policy on non-essential or luxury imports was likewise the subject of recurrent discussion. One representative attitude

stressed that drastic restrictions on such imports meant that resources would be siphoned off to produce them domestically, and therefore advocated some margin of freedom which in turn would provide an attractive field of taxation.

Be that as it may, the crux of the disagreement appears to lie in the differences of approach to the interrelated functions of protectionism, export promotion and the flow and nature of imports within the development process. The ideological approach places all these elements in the framework of the greatest possible openness, which should thus come close to the ideal of perfect competition both domestically and in foreign trade. The different varieties of the pragmatic approach agree that rational and effective protection is needed and that export promotion should be the basic instrument for increasing the purchase of those imports which contribute most to development and well-being, all of which cannot be achieved without the application of selective criteria concerning their nature.

3. *The dangers of opening up to the exterior*

Going beyond the reasons underlying the search for a new pattern of external links and the major forms which can be distinguished in this connexion, it is worth pausing to consider a number of dangers latent already encountered in this experience. This must be done before proceeding to examine the options visible for the future.

A recent study makes a valuable contribution to the analysis of this problem and can guide our approach to it.²⁷ The study argues that a distinction must be drawn from the outset between the risks "that make themselves apparent in the behaviour of the more generic—primarily macroeconomic—variables" and those "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". The two kinds of effect are obviously closely

²⁴ Díaz-Alejandro, *Colombia, op. cit.* Elsewhere the author states that "the Colombian experience indicates that drastic import liberalization is neither a necessary nor a sufficient condition for export growth" (p. 208). Going further into the matter, he adds that while there does seem to be a decline in extravagant and large-scale new initiatives in the field of import substitution, it remains true that the import control machinery is still used vigorously to protect existing activities (and some new ones).

²⁵ A direct reflection of this is the growth of imports of non-durable consumer goods, although their share of the total (around 5%) did not increase significantly. See *Economic Survey of Latin America, 1975, op. cit.*

²⁶ See, for example, *En torno a las Ideas de la CEPAL; Problemas de la Industrialización en América Latina*, Cuadernos de la CEPAL, N.º 14 (Santiago, Chile, CEPAL, 1977).

²⁷ H. Assael, "The internationalization of the Latin American economies: some reservations", *CEPAL Review*, N.º 7 (April 1979), pp. 41-55.

related, the latter being dependent upon the former in the main, although as they develop dynamically they reinforce each other.

Within this overall picture one singularly important possibility is that the "open economy" approach may involve a very serious error of perspective inasmuch as it focuses excessively or solely on the significance of external demand rather than the present or potential importance of the domestic market.

We have already shown the actual relative importance of three factors in the past and estimated their future weight. There can therefore be no doubt about the predominance of the domestic market, all the more so if its potential continues to be developed, as advocated in most official policies and patently justified on social and economic grounds.

It should be pointed out immediately that this argument does not postulate a naïve or mutually exclusive contradiction between these two engines of growth or alternative patterns of production activity. On the contrary, as was mentioned earlier, it is clear that they must be complementary, as has very often been the case in the past.

However, the seeds of conflict, perhaps only relative but nonetheless important, do exist, as past experience shows. Frequently the extension of external links has not gone hand in hand with an equal strengthening (in relative and sometimes even in absolute terms) of the domestic market and the production activities geared to it, with the consequences which have been fully documented in the literature on the question.

Some examples show the cause of this possible or actual contradiction.

(a) *Investment and domestic demand*

The orientation of investment is an outstanding example in this respect. If the level of investment does not rise significantly, the preference for export-linked investment inevitably means that investment primarily or exclusively destined for the domestic market will decline in relative or absolute terms.

Clearly, economic policy can and should guide the investment process—equally to avoid the opposing bias of neglecting investment

in activities with some degree of export potential. But if instead policy is directed disproportionately or excessively in the opposite direction—despite doctrinaire proclamations on the non-involvement of the State—the cumulative distortions may be substantial within quite a short time.²⁸

In addition, these latent or real possibilities are strengthened by the social implications of a change of policy which is very radical or lacks the necessary balance.

The prevalence of the inward-looking approach was naturally accompanied by the priority objective of expanding the domestic market for the activities directed towards it, and social policy (on wages, subsidies, social security and so on) was geared to this end with all the limitations and shortcomings which can be attributed to such a state of affairs.

Naturally enough, the alternative approach implies a more or less substantial change on this front, because its very nature is to give pride of place to external rather than domestic demand, above all in terms of the relative and dissimilar growth of each. Furthermore, since the level of earnings is a decisive element in external competitiveness, a rise in the former must by definition have a negative effect upon the latter. The broader implications are equally clear. Using the means at its disposal, this policy will aim to hold down earnings, while the approach focusing on the domestic market must *simultaneously and primordially* seek to increase the effective demand for goods and services which is to be satisfied.

Finally, it should be emphasized, as it is in Assael's study, that the interplay of incentives and disincentives in an injudicious export strategy may mean that "favourable conditions are generated or re-established for the operation of the traditional system of the interna-

²⁸ It might be added that some legislation aimed at the unilateral promotion of industrial and non-traditional exports may give rise to administrative and discriminatory problems, which have often been a feature of legislation fostering import substitution activities. This has been suggested, for example, in criticism of the legislation adopted by Peru in this field at the beginning of 1979. See the *Informe Económico* supplement to the newspaper *El Mercurio* (Santiago, Chile), for July 1979.

tional division of labour and of comparative advantages, in the orthodox sense". The limited or smaller importance placed on inward-directed industrial development would seem to accentuate this tendency, while the enhanced opportunities in some primary branches would tend to encourage their falling into foreign hands, particularly in the case of mining, because of the scale of the investment involved and other well-known factors.

(b) *Imports and regional integration*

Still on a general level, it seems clear that these potential or emerging trends will be strengthened if the export-oriented approach is combined with a determined or indiscriminating policy to free imports, either as a functional part of the open-economy ideology or as a means of tackling the problem of the occasional gluts of incoming foreign exchange. The substantial, and often undifferentiated cuts in tariffs and the rejection of other protectionist measures (such as import deposits or exchange rate management)²⁹ and of progressive internal taxation are common elements in this approach.

Repeating judgements quite widely advanced in the region during the past century in criticism of attempts at protection, it is argued that in this respect external openness places within reach of 'the consumer' the goods and services offered in the industrialized economies with high average incomes. However, it is perfectly clear that many of these—precisely those for which the demand is most dynamic—are beyond the effective purchasing power of the majority of the population, whose income level only barely allows them to meet their basic needs. Of course, this is not to deny the 'trickledown effect' in the case of many

²⁹This instrument, much used and abused in earlier times, has become an object of ideological execration whose equivalent in the opposite camp, might be said to be currency devaluation. However, it seems clear that a very selective and limited differentiation of rates may be a useful and expeditious instrument on many occasions, particularly in economies with appreciable structural heterogeneity — for example, where the export sector (or its main branches) has much higher levels of productivity than the average level in the economy. This would also appear to be a very important aspect as regards the external projection of industrialization.

goods of low unit value which abound in modern consumption (whether imported or not), but in this case it is important, not to underestimate the possible distortions caused if this occurs at the expense, absolutely or relatively, of expenditure on necessities.

Finally, we cannot close this review without referring to the negative effects on regional integration projects.

Besides the many different domestic obstacles which have affected its course, it is well known that the propitious winds of international trade and the availability of abundant financial resources have also helped to douse the frame of integration, although without in any way removing its deep-seated historical *raison d'être*. Furthermore, in some countries these factors were compounded by the deliberate or implicit repercussions of the 'open economy' approach, despite the changes in the world economy since 1973 — a point to which we shall refer below.

The opposition to the economic and general logic of regional integration, which is only seen as a means of reproducing the errors of substitution industrialization in a broader context, goes together with the rejection or elimination of incentives and machinery designed to promote it, such as the establishment of a common tariff towards the rest of the world, the well-harmonized preferential cut-back in duties on trade among members, and the joint planning of investment.

(c) *Repercussions on prices and wages*

From the other angle identified in this analysis, another salient point is the hypothetical or proven impact on the level and structure of prices and wages resulting from the injudicious application of a policy of opening up to the exterior.

As argued in the above-mentioned study, "domestic prices of goods ... tend to be assimilated to world market quotations [and] are affected by the more extensive and expeditious export and import possibilities". However, "the trends that are generated in respect of the remuneration of profitability of the factor of production in the developing countries in pro-

cess of internationalization are not so clearly defined".³⁰

The difference in effect stems largely from the relative supply and cost of capital and labour, as well as the lower domestic or international mobility of the latter, and these tend to accentuate the divergence. Thus forces are unleashed which produce a situation whose extreme case has been described as "international prices and domestic wages".

Obviously, to emphasize these contrasts is not to postulate that the purchasing power of wage earners could be the same in all countries whatever their level of development or levels of productivity. What is clear is that some policies of external openness have increased the gap between wages and the prices of many essential products by bringing the latter up to international levels.³¹ Consequently, the factors which may cause losses in real wages are strengthened by changes of a regressive nature in the price system. What is more, it should not be forgotten that in well-known cases this tendency is worsened by the (relative or absolute) drop in prices and greater availability of products for the higher-income groups as a result of the freeing of imports.

This trend is also linked with the nature of the goods which make up the so-called-non-traditional exports. Although this category varies from country to country, as we shall see

below, it is well known that many, and sometimes most, are agricultural goods and light industrial products (processed foods, clothing, footwear, etc.). It is therefore these products which suffer the strongest price impact, both because of the fact that external market prices are usually higher and because of the incentives which they are given, all of which has a reflex effect on the domestic prices of these goods and of related products. An additional danger, which has materialized in some cases, is that the unbalanced emphasis on exportable agricultural products results in a decline, or slow growth of crops for domestic consumption.

These effects become even more serious if a significant or increased proportion of imports consists of non-essential or luxury articles. In a word, a growing proportion of wage goods is being exchanged for others primarily or exclusively destined for the top income groups.

In short, then, through these and other channels an unfettered opening-up of the economy runs the risk of re-establishing, creating or deepening economic and social features which have long been criticized in Latin America, and the correction of which is a priority objective of most official policies proclaimed in the region, sometimes even in the very countries which appear to be taking a different road.

III

Options and problems

1. *The role of industrial exports*

If we now return to the premises set forth at the beginning of this article, it is easy to see that to secure a dynamic, synchronized rate of growth of foreign trade calls for policies that can avoid what have been described as the dangers of

openness as well as the difficulties that have arisen in the past. In other words, the process of internationalization should be placed on foundations which allow a different, more favourable and more dynamic insertion in the world economy.

³⁰ Assael, *op. cit.*, p. 50.

³¹ A defender of such policies, besides confusing the sense of the contrast described above by arguing that it overlooks the manifest and inevitable differences in real incomes between the countries compared, recognizes "that for many decades our prices were below international levels" and adds elsewhere that "in general prices in Chile

are similar to or even often above international levels *due to the openness of our economy to foreign trade*" (our underlining). Rolf Lüders, "Precios internacionales y sueldos chilenos", in the Santiago newspaper *La Tercera de la Hora*, 8 August 1979; the article was a reply to an article by the sociologist Pablo Huneeus, "Precios y precios", *ibid.*, 23 July 1979.

It goes without saying that an approach to this issue must cover all of its many dimensions, some of which do not lie within the economic sphere but are nonetheless extremely important. Even within that sphere, it will not be possible to deal with all its aspects, although some of them, such as the attitude to imports, have been outlined above. Others, such as the problem of indebtedness, cannot be examined here, and in any event there is an abundance of recent literature on the question.

Instead we shall focus on what emerges as the crucial issue in the discussion, namely, the role of manufactured exports. These combine two very important functions: first, they facilitate and promote the continued development of the industrialization process, expanding its domestic and external underpinning; and secondly, they alter the 'outdated model' of the international division of labour, the main lines of which still exist in the relationship between centre and periphery.

(a) *The differential prospect of exports*

First of all, an obvious question must be asked: why single out manufactured exports? Do not basic commodities offer similar or better opportunities?

Without returning to the past record, which speaks for itself, a convincing reply is given by World Bank data on the prospects for world exports. As shown in table 4, the projections of the probable evolution of the components of world exports between 1975 and 1985 suggest that manufactured exports will far outstrip all others, thus continuing the trend recorded in the period 1960-1975. With regard to the less developed countries, the growth rates will be much more differentiated than in the case of the world average, and there will again be a growth rate of slightly over 12% annually. Consequently, by 1985 43% of the exports of those economies will consist of manufactures, which will account for 64% of the rise in their sales between 1975 and 1985.

To round off this picture, table 5 compares the growth rates of the volume of the main agricultural and mining exports —excluding oil— in the years 1960-1976 and gives estimates to 1990. The breakdown by products gives a better view of the more global trends presented in table 4.

Needless, to say, this is not to underestimate the present and future importance of commodity exports, particularly for Latin America as a whole and above all in the case of the countries where there are good prospects of

Table 4

PAST AND PROJECTED GROWTH RATES OF EXPORTS, BY PRODUCT GROUPS

(In 1975 dollars)

	Less developed countries		World		Percentage of exports of less developed countries			Percentage share of increment	
	World	1960-75	1975-85	World	1960	1975	1985	1960-75	1975-85
Fuels and energy	6.3	6.2	3.6	3.4	39	40	30	42	18
Agricultural products	4.2	2.6	4.4	3.1	43	27	20	16	12
Minerals, excluding fuels	3.9	4.8	4.2	5.8	7	7	7	6	6
Manufactures	8.9	12.3	7.8	12.2	11	26	43	36	64
<i>Total goods</i>	<i>7.1</i>	<i>5.9</i>	<i>6.4</i>	<i>6.4</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: World Bank, *World Development Report*, 1978, Washington, tables 13 and 25, and unpublished projections prepared for the same reports.

increasing these exports or where industrialization is still in its early stages and needs more complex support, such as that provided by sub-regional integration.

Table 5

DEVELOPING COUNTRIES: PAST AND PROJECTED GROWTH OF THE VOLUME OF THE MAIN AGRICULTURAL AND MINING EXPORTS

Product	Value in 1974 ^a	Growth rate of the quantum of exports of the developing countries (percentage)	
		1960-1976 ^b	1974-76/1990
Copper	5 320	3.7	3.3
Sugar	5 083	2.8	2.7
Coffee	3 984	1.7 ^a	2.6
Fats and oils	3 877	5.7 ^c	5.2
Logs		8.8 ^c	2.2
Sawnwood	2 747	8.6 ^c	8.0
Cotton	2 291	-0.2	-0.3
Rubber	2 212	3.6	3.6
Iron ore	1 693	6.9	3.9
Phosphates	1 692	5.2	5.1
Cocoa	1 555	2.2 ^d	2.5
Tin	1 256	0.9	1.5
Maize	1 153	5.4 ^e	3.6 ^e
Rice	1 094	-0.7	0.0
Tobacco	691	3.9 ^c	5.3
Tea	672	1.8 ^c	2.3
Meat	609	-1.7 ^f	5.4
Bananas	602	3.3	2.1

Source: World Bank, Division of Commodity and Export Projections.

^aNo year is entirely representative because of price fluctuations; for example, in 1975 copper and phosphate prices were exceptionally high.

^bHistorical trend.

^c1961-1976.

^d1955-1976.

^eGrowth rates refer to all cereals.

^f1961-1963/1976.

In this connexion it is worth drawing attention to the widespread progress made in the diversification of commodity exports. According to a study of 55 non-oil-exporting economies, the proportion of countries dependent on one commodity for more than half of the total

value of exports fell from 49% in 1960 to 18% in 1974.³²

(b) *Industrialization and manufactured exports*

Resuming a discussion which began when examining the varieties of opening up to the exterior, it is now necessary to stress the symbiotic relationship between industrialization and manufactured exports. As was suggested above, such exports are essentially a means of obtaining the 'lubricant' (imports) needed to continue with the process of industrialization in its broadest sense, and of expanding the market so that the process can be more dynamic, profound and economically efficient.

In other words, export-oriented openness, far from being a break or *volte-face* with respect to past industrialization, should be viewed—to paraphrase Von Clausewitz's famous aphorism³³—as the continuation of industrialization by more propitious and historically necessary means.

The other side of the coin is even clearer. If it is considered possible and necessary to expand manufacturing exports in future, how can this be done without maintaining or strengthening the industrial development capable of generating the goods in question?

All of this should of course be viewed in a context in which, as we have already seen, present and future demand in the domestic markets will continue to require the steady, preferential growth of manufacturing supply, of which it is at the same time the main or at least a significant support (as the case may be).

The emphasis placed on these aspects may appear excessive bearing in mind that nowadays nobody is *in principle* against industrialization. Even the extreme orthodox ideological current has moderated its previous total antipathy, which nonetheless remains considerable. However, the heavy one-sided emphasis

³²H. B. Chenery and D. B. Keasing, *The Changing Composition of Developing Country Exports*, World Development Report, Washington, Background Paper, N.º 5, 1978.

³³"War is nothing but a continuation of political intercourse with the admixture of different means."

placed on export promotion and the subjection of the manufacturing process to the rigorous satisfaction of the rules of international 'competitiveness' intrinsically involves self-imposed constraints upon its development and its hierarchical, functional relationship with the other objective.

In brief, then, the false choice between inward-looking and outward-looking industrialization (or between earning foreign exchange from exports and saving it for other, more suitable purposes by producing for the domestic market) is resolved by blending the two options, which rather than being mutually exclusive in fact strengthen each other within the framework of the overall diversification and expansion of manufacturing. Thus an advance along the lines of inward-directed industrialization may have as its direct or indirect consequence an immediate or future rise in exports (as has usually been the case), and progress in exporting may also stimulate inward-directed industrialization as a result of its forward or backward linkages (as has also occurred in other cases).³⁴

The harmonization and ranking of these factors raises complex and to some extent novel problems for development and industrialization policies, which have led to different formal or informal forms of planning and of State intervention. The 'invisible hand' or absolute free play of market forces has been relegated to the limbo of pseudo-academic abstraction.³⁵ The real discussion is in fact confined to weighing up the respective roles of planning (or the deliberateness of economic policy) and of the market, to the relationship between these two determinants of the allocation of resources and, above all, to the nature of the economic and social objectives pursued.

Clearly, we cannot discuss here all these aspects which together constitute the bulk of an

industrialization strategy.³⁶ Limiting ourselves to the issue under consideration in this section, the following statement from a CEPAL document referred to earlier may be taken as a guideline:

"In brief, unless the development policy changes sufficiently to boost manufacturing exports still further and at the same time achieve an active and efficient substitution of imports in the less developed sectors, it will be difficult to modify the structural characteristics hindering the development of the Latin American economy."³⁷

In another apposite summary, an eminent Peruvian economist couched the dilemma in the following terms:

"Either industry begins to generate its own foreign exchange earnings in order to support its high rate of growth, or the rate of growth of industry and thereby of the economy as a whole must slow down to the rate of increase permitted by the availability of foreign exchange, i.e., roughly to the rate of growth of primary production."³⁸

(c) *A digression on substitutive industrialization*

At the risk of interrupting the thread of our argument, it is necessary to pause here to introduce an issue closely linked with the question under discussion which we have deliberately left aside. We are referring to the controversial question of what is known as substitutive industrialization. For some, as is well known, this form or aspect of Latin American growth is a kind of 'original sin' which has fortunately fallen not only into disrepute but also into disuse. Others, on the other hand, are perhaps more

³⁶See in this regard "Analysis and prospects of Latin American industrial development" (ST/CEPAL/CONF. 69/L.2), submitted to the Second Latin American Conference on Industrialization, held in Cali, Colombia in September 1979.

³⁷"Las exportaciones manufactureras de América Latina: experiencias y problemas", by Angel Monti, with comments by Norberto González, in "Políticas de promoción de exportaciones", vol. I (E/CEPAL/1046), p. 12.

³⁸Daniel M. Schydrowsky, "Policymaking for national economic growth", in Luigi R. Einaudi, ed., *Latin America in the 1970s* (Santa Monica, California, Rand Corporation, 1972), pp. 100-101.

³⁴See Pinto, *op. cit.*

³⁵This is also true of the industrial-exporting economies of Asia and those which apply radical policies of external openness. In fact all of them use a battery of conventional and unorthodox instruments to stimulate their outward-directed development; what is difficult to find in these cases is the integration of these provisions (which are sometimes in themselves positive) within the overall context of the economy and the development of industrialization.

understanding about its origins and functions, but sometimes entertain comprehensible doubts about its present significance and validity

An albeit cursory discussion of the question is therefore worth while in order to single out some points which may be useful for the general discussion.

Without reviewing here what has *actually* been proposed on this question in the literature of CEPAL,³⁹ it should be stated at the outset that essentially the concept has a *historical* connotation: in other words, it is set in a particular time and place, primarily that of the relatively more developed economies of the region in the period roughly ranging from the Great Depression to the early 1950s. This is the true setting in which substitutive industrialization took place — and CEPAL did not invent it but merely incorporated it in its analysis and diagnosis of the regional economy.

What was its *raison d'être*? That the constraints of the external sector forced or induced domestic supply to meet the demand that could no longer be satisfied by imports (which were insufficient and had been reallocated to higher-priority ends) and which also represented a market which was safe, known and within the reach of the real human and financial capacities of the existing enterprises. This is the context of the phase of 'easy substitution' in the general framework of inward-directed development.

The situation tended to change steadily and substantially in the course of the 1950s. In addition to the more obvious obstacles such as economies of scale, market size and technological and financial requirements, there was the paramount factor that the attractive potential and opportunities stemming from existing demand were relatively exhausted. Thus it was no longer mainly a question of *replacing* existing imports by national production but rather of *anticipating* and in fact creating (by the demonstration effect, consumer credit, advertising

and so forth) a demand for goods neither produced nor imported, except in small quantities which fluctuated in accordance with the varying supply of foreign exchange. This is the picture which characterized the second stage, wrongly labelled 'difficult *substitution*' since essentially it was not filling a void left by the restriction or elimination of imports which satisfied a pre-existing market. In other words, it would be better to speak instead of 'difficult *industrialization*' to define the subsequent period which, in any event, also followed the general approach of inward-looking development, i.e., directed towards and based upon the domestic market.

The example of the motor-vehicle industry, or of 'heavy' or dearer durable goods, takes us to the heart of the matter, although citing them in no way implies any judgement on their level of priority or significance. For well-known reasons, even in the larger countries (perhaps with the relative exception of Mexico because of its more liberal import policies) the above-mentioned problems have made it difficult to respond to the latent or embryonic demand for such goods either through imports or through domestic production. Since the first path was closed or very narrow, only the second remained, primarily opened up by the transnational corporations. It is they, and in other fields the State or large national consortia, which broke the barriers of 'difficult industrialization' that did not fundamentally involve import *substitution*, except in contrast with a hypothetical, non-existent alternative, i.e., the satisfaction of that demand by purchases abroad. To hammer home this point, it is obvious that following such a path Brazil could never have imported annually nearly one million motor vehicles — its output in recent years.

In sum, then, substitution proper becomes relatively less important as inward-directed industrialization advances and now begins also to be directed outwards as part of its growth effort and of the general requirements of development.

But the fact that the role of industrialization via import substitution has diminished does not mean that it has become obsolete or invalid. Nothing could be farther from the truth. As shown by the experience of some

³⁹ See, for example, *En Torno a las Ideas de la CEPAL: Desarrollo, Industrialización y Comercio Exterior*, *op. cit.*, and *En Torno a las Ideas de la CEPAL: Problemas de la Industrialización en América Latina*, *op. cit.* See also "The growth and decline of import substitution in Brazil", *Economic Bulletin for Latin America*, vol. IX, N.º 1 (March 1964), pp. 1-59.

economies of the region, the advance of manufacturing and of overall growth also creates and increases the demand for imports—primarily of capital goods and basic inputs—and thus makes it possible or necessary to embark on their substitution at the national or regional level in view of the growing need for foreign exchange which it is difficult to satisfy because of competing demands or the limitations of the external accounts. This variant of *substitutive* industrialization therefore remains valid, although without the decisive importance it had in the past, and within a new general context.

Of course, the problem presents different features from country to country, as we have seen, and the relative emphasis placed on the above approaches varies, but this does not detract from the validity of our general position. Thus substitution proper, diversification aimed at an emerging or anticipated market and relations with the exterior—the region or the rest of the world—are so many aspects of the general effort to promote industrialization and forge links with the world economy.

We shall now continue dealing with the questions raised before this digression.

2. *Criticism of the possibilities of a new insertion*

While there is no shortage of observers who express doubts and reservations concerning the prospects for the achievement of a new form of insertion in the international economy, there are others who are critical from the opposite angle: in other words, they accept the possibility of a change in the pattern of trade, but do not consider that it would benefit the periphery. In the words of one of the spokesmen of this current, world-market-oriented industrialization does not brake but rather perpetuates the historic process of dependent, unequal development of the countries of Africa, Asia and Latin America.⁴⁰ Repeating this idea, another author defines and broadens it as

follows: so long as the industrial exports of the periphery take place on capitalist terms of trade and still more within the framework of the new patterns of capitalist accumulation, they will continue to be a mechanism for the external expropriation of surpluses, of unbalanced and unfair trade.⁴¹

These opinions may cause some surprise since they appear to forget the age-old complaint of the periphery about its commodity-exporting status, in addition to ruling out one of the central objectives of the new international order. When all is said and done, this may be considered another variety of the 'disaster' viewpoint, in which any possible change turns out worse than the existing situation unless it conforms to other rules which are rarely defined with any degree of depth.

Of course, this risk does not escape the attention of the more alert proponents. Thus, one of them remarks that his approach does not mean that he underestimates the importance of any process of export diversification, and still less should it be viewed as an expression of yearning for the old forms of world trade and of the international division of labour.⁴²

In fact, these proponents base their criticism and warnings both on some specific forms of opening up to the exterior (such as those linked to assembly industries or 'free zones') and also, in other cases, on the nature of the more orthodox or 'ideological' policies reviewed above.

However, there are more general questions which transcend those aspects and have considerable significance for the topic of this study.

(a) *Nature of industrial exports*

One of these—as mentioned earlier—concerns the nature of the manufactured goods which have in the recent past constituted the main means of entering the central markets, i.e., non-durable consumer goods.

The criticism on this subject is well known

⁴⁰Otto Freyer, *World Market Oriented Industrialization of Developing Countries: Free Production Zones and World Market-Factories* (Federal Republic of Germany, Max Planck Institute, 1977), as quoted in Vuskovic, *op. cit.*

⁴¹P. Vuskovic, "América Latina ante nuevos términos de la división internacional del trabajo", *Economía de América Latina* (Mexico City), No. 2, March 1979.

⁴²*Ibid.*

and highly respectable, and ranges from the lower technological sophistication and low demand elasticity of such products to the possible effects on supply and prices in the countries of origin — a matter on which we commented earlier. Furthermore, from a dynamic standpoint, there is concern about the possible freezing of a pattern of trade which would reserve a place for the periphery only or primarily in those branches of manufacturing, with all the *relative* disadvantages and limitations this would imply.

Two aspects of the problem should be distinguished here: this path may be the most accessible in order for a developing country "to be able to enter the export market"; but this does not prevent it from continuing to diversify towards activities with greater technological potential and more dynamic demand.⁴³

In fact this has been verified in a number of countries recently, although naturally it is strongest and most prevalent in the more industrialized countries. Thus between 1965 and 1975, for example, Brazilian and Argentinian exports of capital goods increased their share of total manufacturing exports from 16.8% to 25.4% and from 14.7% to 18% respectively.⁴⁴

Naturally, this trend or possibility is by no means necessary or inevitable, and it would be naïve to underestimate the obstacles standing in its way, which will very often call for the intermediation of regional groupings, as will be

argued below. However, it would be even more mistaken to view it as a *cul-de-sac*.

Furthermore, it is worth stressing the historical perspective of the problem. As a general rule, and for obvious reasons, the industrial late-comers entered foreign trade not through the faster-growing, more sophisticated activities but through relatively simple manufactures accessible to their stock of human and material capacities.⁴⁵

Consequently, it is historically groundless and to some extent naïve to suppose that the periphery could immediately launch its manufactures exports in the branches that are technologically most complex and are decisively affected by factors such as economies of scale and entrepreneurial and State organization, which must be created gradually, often through the actual links with the world or regional markets themselves.

To close this discussion, and remembering the many allusions to the effect of the capitalist setting, it may be worth bearing in mind that the traditional or emerging trade structures also occur in relations between the periphery and the socialist countries, and also to a lesser extent among the latter. Thus most exports from the periphery to the socialist countries consist of commodities and light manufactures, and among the latter it is primarily the more industrialized economies which export the technologically more advanced products. Naturally, all this takes place within a setting of growth and change of those relations.⁴⁶

⁴³ This concern has also been shown by economists of the centres, as may be seen from the following passage from a major article on the question:

"A serious approach to increasing the international division of labour in manufactures through foreign trade must adopt a more dynamic and longer-term point of view than current comparative advantages if the developed countries do not wish to be accused of a new wave of neocolonialism.

"While concentrating on labour-intensive products may be the only path by which a developing country can enter the export market, the earnings obtained from rising incomes should be invested in modifying the structure of exports. In the long term, the industries in which technological progress and future growth are highest must be widely distributed among all countries, developed or not, in line with the new lines of comparative advantage, just as they are currently distributed among the developed countries." Hollis Chenery, "La división internacional de la fuerza de trabajo: el ejemplo en la industria", *El Trimestre Económico*, (Mexico City), N.º 155 (July-September 1972).

⁴⁴ Chenery and Keesing, *op. cit.*

⁴⁵ The most conspicuous example is that of Japan, which has been described as follows in a well-known study: Japan first imported manufactures from more developed countries, then began to produce domestic substitutes, and finally managed to become an exporter of those products. At first, Japanese exports of manufactured products tended to go to countries which were less developed than Japan itself. Subsequently, it was capable of exporting to industrially more advanced countries, as its labour force became more skilled and experienced, the quality of its products improved and the commercial skills of its businessmen became more sophisticated. (S. H. Robock, "Una dicotomía falsa: industrialización a través de sustitución de importaciones o mediante industrias de exportación", *El Trimestre Económico* (Mexico City), N.º 159.)

⁴⁶ This statement is substantiated by examining the composition of the Soviet Union's imports from developing countries. According to "Trade relations among countries having different economic and social systems", prepared by the UNCTAD secretariat in July 1978, traditional items, including a variety of manufactured articles, made up more

(b) *The problem of wage levels*

The second objection in this field relates to the levels of remuneration in the export industries of the periphery. It is argued that these entail conditions of 'superexploitation', which are moreover a fundamental requirement for their development, with a number of understandable social and economic internal and external repercussions.⁴⁷

The existence of this problem cannot be denied, and to illustrate it some deplorable examples have been given of how in some places the low level of wages is emphasized as an incentive for attracting investment, above all from abroad to 'industrial free zones'.⁴⁸

However, in a proper appraisal of the question other considerations mentioned earlier in another context (see section 3 (c) above) must be taken into account.

Of course, the relative lowness of wages in the periphery is one of the main reasons for the viability of manufactured exports, in conjunction with other equally important factors such as the general level of development and size of the domestic market, resource endowment, geographical position, policies followed, and so on. These differences have always had some effect on the development of the international division of labour and of industry, by smoothing the way for newcomers to the manufacturing 'club'.⁴⁹ However, they have never been decisive, and therefore investment and industrialization have continued to be concentrated in the nucleus of central countries, in other words, where wage levels are highest.

than 82% of the total in 1975-1976, the remainder being made up of chemicals, machinery and transport equipment and manufactured articles (SITC section 6).

⁴⁷The concept of 'superexploitation' has a double meaning in the literature in which it is used: one is absolute and refers to the physical hardship of the work involved and the extremely poor conditions of subsistence; the other is relative and refers to the extremely unfair distribution of the value created by the labour force (between the latter and the owners of the means of production). In other words, a wage earner may be 'superexploited' from one standpoint or the other, or both at once. The lack of precision in the use of the concept makes it ambiguous, all the more so since the meanings are historically relative.

⁴⁸Freyer, *op. cit.*

⁴⁹As is well known, the United States is the great exception to this rule. The relative shortage of labour, the

The question becomes still clearer if one starts from the explicit or implicit (for lack of an alternative statement) proposal that wages in the export industries should be the same as those prevailing in the developed centres. Apart from the obvious obstacles such a situation would involve for international or regional competitiveness, it would also greatly increase structural heterogeneity (including of course social inequality) in the periphery, inasmuch as it would cause technical progress to be still more concentrated in that segment of the production structure, thus further hindering its spread throughout the economic and social structure (even with the necessary priorities). In a sense, it would involve establishing a developed enclave within an overall peripheral situation which would continue with average levels of remuneration and productivity merely a fraction of those of the industrialized economies; not to mention the relegation of the population and activities stagnating in the so-called 'primitive' strata.

In fact, paradoxically this argument tends to coincide with the orthodox approaches starting from a different standpoint. While the latter argue that industrialization in general and export activities in particular should meet international standards of efficiency, competitiveness and prices (and also wages, although this is a desideratum to be achieved at some indefinite point in the future), this approach sanctions manufacturing exports only if wage levels are on a par with those of the central economies.

A glance at CEPAL writings on the options raised by industrialization may be useful for shedding light on this problem.⁵⁰ In brief, CEPAL argued that international comparability should not be a guiding element in decisions on this process, since the latter is subject to a number of internal and external considera-

abundance of natural resources and other factors led to a relatively high wage level from the outset, which in turn spurred the advance and spread of technology. It must be stressed, however, that these circumstances have not recurred in the great majority of cases.

⁵⁰See, for example, R. Prebisch, "Theoretical and practical problems of economic growth" (E/CN.12/221), and *En torno a las ideas de la CEPAL; Problemas de la industrialización en América Latina*, *op. cit.*

tions—absorption of redundant labour; necessary impact of the introduction of technical progress on primary activities; effects on the external sector and terms of trade, general training, etc. Thus the decisions to be made in the process involve weighing up these elements and the relative advantages in the allocation of resources which are identified and assessed.

Paraphrasing this general argument, it could be maintained that the *essential* point as far as wages are concerned does not lie in the comparison of absolute levels between the periphery and the centre but rather in a comparison of levels *within* the developing economies. In other words, they might be lower in the periphery than in the centres, but what really matters is the relationship between wages paid in export industries and those typical of the peripheral economies as a whole, or, from a narrower standpoint, in comparable activities.⁵¹

This question clearly raises other problems which cannot be side-stepped. Chief among these are issues relating to the distribution of the income generated by the export sector. Let us assume that due to various factors—relatively low wages, incentives provided, creation or expansion of foreign markets and so on—a substantial surplus is created or increased. What happens to it? How is it distributed between the labour force, enterprises (national or foreign) and the State? Or in the case of a State-owned enterprise, between the State and the workers?

Some extreme replies may be imagined from the standpoint of the alternative doctrines. For some, the surplus should be absorbed by the labour force, with the deliberate or *de facto* purpose of raising wages to international levels, whereas for others it seems necessary, in the interests of competitiveness and of the requirements of accumulation, that the profits should go primarily to the owners of capital,

while wage rises should be held down to the lowest socially and politically acceptable level—although in the abstract it is also postulated that they should rise to international levels.

In both cases, it should be noticed, the surplus would fundamentally go to the private sector—except for the Treasury's usual share. In both cases, the productivity of labour or of capital is used to justify these aspirations. In addition, it seems clear that these are 'micro-economic' approaches in the sense that worker-enterprise relations are considered outside the global context of the system and its interrelations. The conflict of interests and classes is individualized or particularized, even though in the political formulation it is seen as a collective matter.

Hence these two extreme perspectives—which of course have their nuances and qualifications—neglect or underestimate the social origin and component of surpluses, and, if you like, of much of the profits or value added. This component stems from a number of different sources, ranging from the myriad influences of economic policy and politics to the significant contribution of the national heritage—resource endowment, accumulated know-how, inherited infrastructure, and so forth.⁵²

When this collective dimension is taken into account and weighed in the balance, it becomes less difficult to answer the question raised above. The heart of the matter is that the opposing claims of the labour force and of the owners/entrepreneurs must be harmonized with the social appropriation and use of some of the value created, a process which in all known capitalist and socialist systems takes place through the State (all the more so, obviously, in the case of State-owned or controlled enterprises). To some extent, this corresponds to what Raúl Prebisch has called the "socialization of the surplus", although the concept has other connotations in his work.⁵³

From the narrower viewpoint of this discussion, that approach would mean, roughly

⁵¹ There is no need to consider open or disguised unemployment, because this would be to take the hypothesis to an extreme. However, when studying the options of industrialization it has usually been considered that the use of idle human or material resources is an important factor in deciding on the economic and social justification of activities which do not satisfy orthodox canons.

⁵² See in this regard A. Pinto, "Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano", *El Trimestre Económico*, No. 125.

⁵³ See his articles on peripheral capitalism in issues 1, 6, 7 and 10 of the *CEPAL Review*.

speaking, that the levels and margins of wages and profits in export industries should not depart very far from the 'historical' and representative (i.e., more or less average) levels of the economy in which they are rooted, without prejudice to the preferential and qualified situations which might be created temporarily for their development or in the light of exceptional circumstances (for example, dangerous work, inhospitable location, etc.). Naturally, these general rules will inevitably be conditioned by the balance of power among the protagonists involved. Nevertheless, this does not negate the possible usefulness of this approach as an alternative to the simplifications or errors of the traditional approaches.

In brief, 'superexploitation' or the private retention (by entrepreneurs or wage earners) of the profits from the activities in question (whether or not their aim is to lead to equivalence with the industrialized economies or the international market) represent extreme options which may not necessarily exist in fact — and this is what has actually happened. Often the profits and wages of the export industries are above the average levels of the system and sometimes above those prevailing in the modern sector. However, it is usually also the case that direct or indirect fiscal action makes it possible to redistribute part of this surplus to the community, particularly if the activities are State-owned.

3. *Regional props*

Following this cursory review of some aspects of the state of supply and demand which affect the goal of 'industrializing' exports, mention must now be made of other more general factors.

The first of these is the present and above all the potential importance of regional and subregional trade in Latin America.⁵⁴

There is no need to review the theoretical and practical work of CEPAL in this field. As is well known, in the early 1950s it began stressing the need to progress beyond a form of

industrialization based on 'watertight compartments' as Raúl Prebisch put it. This was no doubt the first call for greater openness, which combined the need to continue the process in a broader, more favourable framework, boost manufactured exports and lay more solid foundations for directing the process towards the world market.

There is little doubt that the inherent difficulties in the road towards this objective were compounded in the mid-1960s by the relative easing of the external bottleneck, either because of the better performance of some commodity exports or due to the larger inflow of foreign credit. There are good reasons for maintaining that the latter was at least as important as the former, if not more so, in damping the drive towards integration.

The changes in the international setting during the present decade, and particularly the loss of dynamism of the central economies, may in some degree re-establish the priority of regional trade, which has continued to grow at a satisfactory rate. But it would be mistaken to assume that only a major external bottleneck could stimulate that trade. What is most significant is that the development of industrialization and the volume and growing needs of imports have opened promising horizons for reciprocal trade within the region.

Another point is that certain orthodox approaches claim to see some incompatibility between promoting regional agreements and taking advantage of the opportunities offered by international trade. The opposite view would appear to be better founded, however: i.e., that by affecting the speed of the process and the advance in product lines with greater export potential, progress in the first of these directions helps to create a more solid platform for seizing those opportunities. At least, this is what is suggested by experience in this field elsewhere, such as the EEC and the socialist bloc in Europe.

It is quite clear that the imperatives here vary according to the size of the domestic markets and other factors, but this does not warrant the deduction that the larger economies could remain indifferent to the potential of regional trade, especially since they have better possibilities of benefiting from it and

⁵⁴It has not been possible to discuss here the question of 'horizontal co-operation' among countries of the periphery.

their absolute dimensions are relatively small in comparison with the main industrial economies. For the smaller economies, on the other hand, membership in larger economic groupings enjoying reciprocal preferences seems to be an absolute *sine qua non* for the advance of their industrialization and their external sectors, despite the fact that such links present major difficulties precisely due to the more incipient state of that process.

Be that as it may, regional integration stands out as an essential ingredient of the industrial-exporting strategy in that it limits risks, increases opportunities and reduces dependence on the central economies.

4. *The role of the transnationals*

What part can or should the transnational corporations have in the effort to change the periphery's position in the world economy?

This issue is crucial to the matter, due to the dominant and often exclusive position of these corporations in the technologically more sophisticated industries which have the best external and domestic demand prospects. In other words, the chances of qualitatively diversifying the structure of manufacturing exports depend to a high degree on the part played by the transnational corporations, at least within the present context.

Past experience in this respect shows clearly that they have concentrated on the domestic market and that their propensity to import is far greater than their contribution to exports. In addition, it is equally well known that intrafirm transactions predominate in both these flows, thus giving rise to transfer pricing and other well documented shortcomings.

Various studies have shed light on this state of affairs,⁵⁵ although satisfactory or comp-

lete data are not available. For the purposes of this study it may suffice to consider the data in table 6, although these refer only to the manufactured exports of United States corporations.

As is perfectly clear, the bulk of these exports is directed towards the other central economies, and this also represents an appreciable percentage of the corporations' total sales. This figure is again high for the group of countries of Asia and the Pacific whose industrialization was developed on the basis of the external market. The picture is very different for Latin America, however. While current values rose appreciably between 1966 and 1974, their absolute level is low (US\$ 1,421 million compared with total exports of some US\$ 40 billion in 1974), as is the percentage this represents of their global sales (less than 7% in 1974), which are primarily directed to domestic markets, as was emphasized above.⁵⁶

Some researchers in this field, such as C. Vaitos, are sceptical about any change in these relations. He argues that, at least in the medium term, it is unlikely that the transnational corporations will make a major contribution to the world redeployment of manufacturing activities through strong exports from the less developed countries. He believes instead that their major role will continue to be in import-substitution manufacturing activities in those countries.⁵⁷

Without insisting on the interrelations and possible reciprocal reinforcement of these two approaches, it is worth recalling some of the progress made in involving the transnational corporations in the export drive. As is pointed out in a study referred to earlier, "in recent years ... exports by TNCs of industrial goods have become sizable, in part because developing countries have been bringing pressure to bear on transnational corporations to export more; in some cases the achievement of specified export levels has been made a condition for permission to expand plant and to import goods. In the case of new entrants in the industry concerned

⁵⁵ See, for example, UNCTAD, "Transnational corporations and expansion of trade in manufactures and semi-manufactures: the role of transnational corporations in the marketing and distribution of exports and imports of developing countries" (TD/B/C.2/197); UNCTAD, *Dominant Positions of Market Power of Transnational Corporations; Use of the Transfer Pricing Mechanisms* (United Nations publications, Sales No.: E.78.II.D.9); and C. Vaitos, "World industrial development and the transnational enterprises: the Lima target as viewed by economic actors" (Sussex University, mimeo, 1978).

⁵⁶ The higher figure in the case of Argentina appears to be due to exports of transport equipment to other Latin American countries, including Cuba.

⁵⁷ Vaitos, *op. cit.*

Table 6

MANUFACTURING EXPORTS BY FOREIGN^a SUBSIDIARIES OF UNITED STATES
CORPORATIONS IN 1966 AND 1974

(Millions of dollars)

	Total exports		Exports to United States		Exports to other countries		Exports as a percentage of sales	
	1966	1974	1966	1974	1966	1974	1966	1974
World	8 817	40 998	2 679	11 228	6 138	29 770	18.6	23.3
Developing countries	578	2 792	219	1 024	359	1 768	8.4	10.6
Latin America	362	1 421	129	509	233	912	6.2	6.8
Argentina	...	295	...	73	...	222	...	10.4
Brazil	...	423	...	175	...	248	...	5.5
Colombia	18	97	4	11	14	86	5.9	8.2
Mexico	49	233	23	152	26	81	3.2	4.7
Other countries of Asia and the Pacific	208	1 184	88	480	120	704	23.2	24.9

Source: Bureau of Economic Analysis of the United States Department of Commerce, *Survey of Current Business*, vol. 56, No. 5 (May 1976), pp. 25-34.

^a Majority control.

and in other import-substitution activities, prior commitments concerning exports have also been required".⁵⁸

Bearing these observations in mind, it is worth noting that not too long ago—even as late as the mid-1960s—it was difficult to find Latin American manufactured products, particularly equipment and machinery, in the markets of the region. Furthermore, various cases were known in which the parent companies of international corporations had actually prevented such exports.

There is no need to stress that this panorama has changed substantially. Unquestionably, the exports of the larger and more industrialized countries continue to predominate, and exports to the central markets are still small—although they too have begun—but these limitations do not belie the fact that bargaining power *vis-à-vis* the corporations has grown, despite the long-standing obstacles which still remain and the new ones which are arising.

In fact, in studies of this and other questions there is usually a lack of historical perspective and of understanding of the contradictory

and continually changing nature of the courses of the economy and society. For this reason, facts and considerations such as those given above are usually mingled with professions of naïve optimism or, worse still, uninspired conformism. But the picture is different if the identification of new developments—promising or negative, or both at once—goes hand in hand with a critical spirit and the search for positive transformations, as has usually been the case in the approach taken by CEPAL.

Consequently, it does not seem justified to reject out of hand or entertain excessive reservations about the hypothesis of a greater contribution of foreign corporations to the diversification of manufactured exports. Ultimately, this will depend to a large extent on how the questions discussed below are tackled and resolved.

5. The responsibility of national policies

One fundamental question concerns the nature of, and the opportunities opened up by, national policies and decisions in this field and in relation to the overall problems we have been examining.

⁵⁸ UNCTAD document TD/B/C.2/197, para. 11.

The responsibilities of the State are as broad as they are pressing; and in practice in most cases they have been faced up to in varying degrees and manners. Of course, there are exceptions, but these appear as eccentric and probably transient deviations from the rule; and besides, as mentioned above, even in these cases the State has in fact exercised its power, although in a direction opposed to, or different from, the predominant tendency.

This public role is obviously conditioned by the social and political power relations within each country and at the international level.

The picture formed by the trends which we have examined would appear to indicate that there is a sizable margin for manoeuvre to orient the industrialization strategy in such a way that it helps to secure a different form of insertion in the world economy, by entering into partnership with the transnational corporations and bringing pressure to bear upon them. The familiar view which almost completely identifies national entrepreneurs (private and public) and the State technocracy with foreign interests now appears rather less convincing or indisputable than a few years ago —although this is not to neglect or underestimate the problem. This is the result both of the strengthening of these circles' own interests and objectives and also of the emergence of new forms of association with foreign corporations which go beyond the simple choice between foreign or national control.

In addition —and what is perhaps more decisive— this change stems from the upheavals which have occurred in the central economies, particularly the United States, and also from the shifts in relative power and the increased competitiveness among them, as well as the presence of the socialist group. The first of these has increased the periphery's degree of independence and the second has strengthened its hand at the negotiating table. It is enough to think back to the picture prevailing 10 or 20 years ago in this sphere to realize the extent and importance of these changes.

All in all, it is clear that the possibilities which have arisen vary significantly according to the specific weight of the countries. And here we encounter once again an aspect which necessarily recurs in CEPAL analyses: the impor-

tance of regional and subregional integration. Both from the standpoint of the requirements and opportunities of industrialization, inward- and outward-directed, and from that of the periphery's bargaining power at the world level and *vis-à-vis* foreign corporations, this must be a key objective, underpinned, of course, by the preferential development of domestic markets.

We shall not discuss here another vital aspect of the question, namely, the precise nature of the policies and instruments designed to carry these purposes into practice. There is a wealth of Latin American experiences in this field in the last decade, analysed in many studies.⁵⁹ We shall only point out that while considerable progress has been made in studying and identifying the factors designed to promote exports, much remains to be done in terms of including this objective within the global industrialization strategy and the process of integral development.

6. Summing-up

The following basic conclusions can be drawn from the foregoing discussion:

(i) to secure relatively dynamic development in the forthcoming decades will call for the maintenance or intensification of the flow of exports, and particularly of manufactured exports, because these offer better prospects than commodity exports, constitute a requirement for fostering industrialization and represent the main path for achieving a new form of insertion in the world economy;

(ii) this objective does not involve a structural change in the nature of Latin American industrialization in the sense of a *volte-face* or an opposition between the inward-directed or outward-directed forms of the process. The two are complementary, and domestic markets will continue to be its main support — reinforced by regional and subregional agreements in this field;

(iii) some variants of 'openness to the exterior' have rejected or underestimated this relationship, advocating instead a line of conduct which follows or reproduces nineteenth-centu-

⁵⁹ See in particular CEPAL, "Políticas de promoción de exportaciones" (E/CEPAL/1046 and Add. 1-10).

ry approaches to the question involving various potential or already clearly visible dangers to economic, social and political variables of the utmost importance;

(iv) a suitable strategy in this sphere—at least according to the standpoint taken by CEPAL studies—must from the outset include the question of the promotion of manufacturing exports in the broader framework of the process of industrialization and of development in general;

(v) the analysis of the present or foreseeable conditions affecting the strengthening of this process by means of such exports suggests that this is a viable approach, despite the constraints which have appeared in the central markets, provided that the policies followed are capable —*inter alia*— of developing regional links, negotiating with the transnational corporations and ensuring the State's role of guide and guardian.