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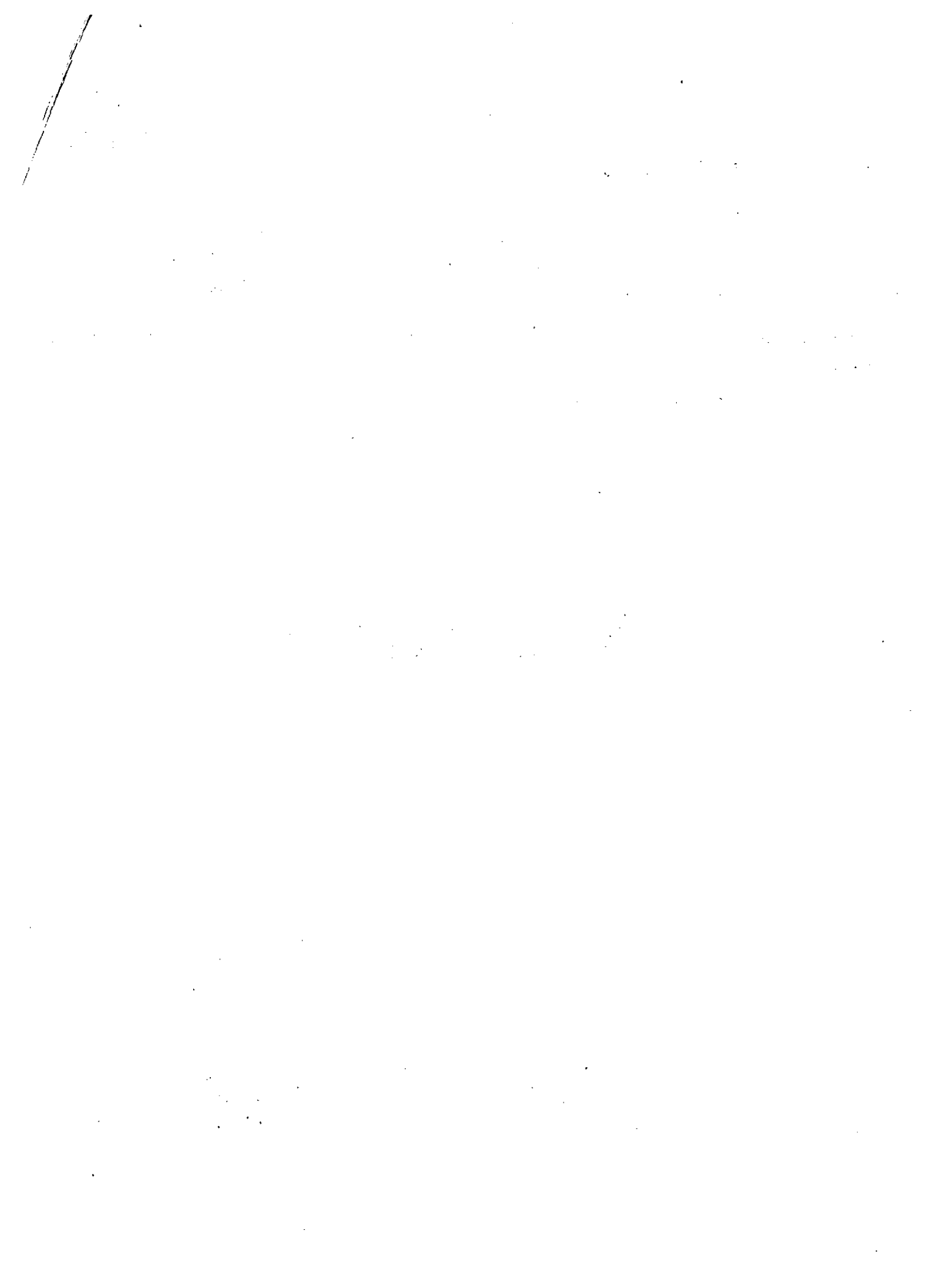
Economic Commission for Latin America



**SOME CONSIDERATIONS ON THE LATIN AMERICAN
INDUSTRIALIZATION STRATEGY**

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I. INDUSTRIALIZATION SINCE 1950

1. International framework

(a) The great cycle of expansion and recession of the central economies

After the end of the Second World War a cycle of expansion began in the advanced industrialized countries during which the per capita product rose several times faster than in the previous cycle. In the period 1913-1950, it grew at an annual average rate of 1% for Western European countries; but between 1950 and 1970 this rate rose to 4% per year.^{1/}

Unlike previous periods, when unemployment was a recurring threat and rarely fell below 10%, with the post-war prosperity the unemployment rates declined to levels below 4% and in many European countries under 2%.^{2/} All of this happened in a framework of a relative stability of the economies and with none of the major fluctuations of the past.

As a result of this rapid growth, changes occurred in the structure of production, which in turn took on considerable importance in the patterns of consumption and lifestyles of the population. These changes included a displacement of manufacturing production towards two major categories: the chemical and petrochemical industry and the metal manufactures and machinery industry, especially that related to the automotive, consumer durables and capital goods branches. In more recent periods, the electronics industry has come to play a preponderant role in economic and social transformation. These changes in the structure of the advanced economies clearly reveal the high technological content of the modern industrial society.

The relatively stable and sustained expansion referred to is highly related to the pragmatic and flexible character of the global policies applied in the industrial centres. Significant in this respect is the growing participation of the State in the economic processes, as demonstrated by the creation of public enterprises, the promotion and development of investment, the regulation of many activities based on their impact on the level of collective life, the application of social welfare policies and, no less important, the encouragement of research and technological development.

This expansive phase, however, was interrupted at the beginning of the 1970s when the industrialized countries entered a severe period of recession and contraction of their economic activity, with its well-known extent and consequences.

(b) The internationalization of the economies

Closely related to the trends described is the phenomena of the internationalization of the economies, which has now become an extremely relevant characteristic in the early 1980s.

As a result of successive rounds of negotiations among the industrialized countries, there occurred a sizeable tariff reduction on world trade, especially in the trade of manufactures produced by these countries. This made it possible to raise the annual growth rates of exports from the Western European countries from less than 1% in 1913-1950 to 8% in the 1950s and 9% in the 1960s.^{3/} Similarly, world trade of manufactures grew by 1.7% annually in 1900-1950, and 8.8% in 1950-1975.^{4/} This latter trend may be compared with a growth in world production of manufactures of 6.1%, with which the share of trade in the industrial product rose from nearly 14% in 1950 to almost 26% in 1975.^{5/} Undoubtedly this manufacturing

/trade growth

trade growth was of decisive importance for a greater international specialization, which in turn contributed to the high growth rate of productivity in the industrial centres mentioned above.

Of equal or greater importance than the growth in trade -or internationalization through trade- is the presence of transnational corporations, the principal agents of internationalization through production, which represent one of the most powerful instruments on the contemporary scene for the transfer of capital, technology, access to markets, knowledge and experience, patterns of consumption and even lifestyles. In fact, for many advanced countries, the production carried out by their subsidiary companies abroad represents a large proportion of their exports of manufactures, sometimes amounting to double or even quadruple the value of their own exports. Some estimates also indicate that trade within the transnational firms, associated with internationalized industrial production, probably represents about 25% of world trade of manufactures.^{6/} For Latin America and the Caribbean, this aspect is especially relevant, as it brings out the fact that more than 50% of the imports of manufactures by the United States (1977) from the region come from United States subsidiary firms.^{7/}

2. The regional framework

(a) Original objectives and policies of industrialization

During the period immediately following the war, decided efforts began to be made in Latin America to formulate and rationalize industrialist objectives. For in view of the inefficiency of the pre-crisis development schemes, and especially their different nature in the central countries as compared to the periphery, industrial development strategies were established on the basis of three basic objectives: the absorption of technological progress so as to achieve a more equitable participation in the benefits of development; the need to generate jobs for a population which was growing rapidly and experiencing intense rural-urban migration; and the need to sustain development on the basis of domestic efforts in order to free the economies from their traditional external vulnerability. Moreover, it was felt that industrialization should be the engine of social change and modernization.

The fundamental policies were aimed at achieving these objectives, and based on the active presence of the State they stimulated the domestic production of manufactured goods. The instruments used were tariff protection and para-tariffs (quantitative restrictions on imports); subsidies granted to the industrial activity, either directly in order to lower prices or indirectly by fixing prices of inputs, tariffs, exchange rates or interest rates; other incentives to private investment, such as tax exemptions, tariff exemptions for imports of capital goods; public investment; training of labour, etc. Frequently, moreover, industrial policy was supported by the operation of specialized government development and/or financial support agencies.

(b) Difficulties and criticisms

In various sectors, and of course also in the view of ECLA, some difficulties and obstacles were noted which tended to frustrate some of the original expectations. Employment problems grew, and pockets of unemployment and underemployment proliferated in the cities; market structures which were not very competitive were generated, and this led to the formation of industrial monopolies and the production of goods at high cost; marked trends towards the production of all types of goods

/occurred with

occurred with little selectivity, but exports of manufactures were not developed sufficiently; a new external trade dependency was created because of the inputs and capital goods which had to be imported, leaving a small margin of compression of imports in order to deal with adverse situations; a new form of structural, technological and social heterogeneity arose within the industrial sectors; possibilities of development in other sectors, particularly agricultural, were limited, etc.

The criticisms, however, are not meant to question the industrialization strategy, but rather to diagnose an insufficiency of development and investment, and the need to introduce some structural corrections in the economic systems, particularly those related to the distribution of income. Moreover, the study of what happened emphasizes the need for medium- and long-term planning in order to co-ordinate and balance the development of the various sectors.

(c) New objectives in the 1960s

On the basis of this critical analysis and on international events such as the Cuban Revolution, as well as efforts to set up integration agreements (ALALC, CACM, Andean Group), new central objectives were formulated: (a) redistribution of income and structural reforms of systems of ownership in order to incorporate the low-income masses into the benefits of development and consumption of industrial goods, and (b) inter-American and regional co-operation to encourage a new and massive effort at investment in trade and growth of industrial exports which would diversify the structure of external sales and make it possible to achieve more advanced structures of manufacturing production.

The implementation of these objectives must be sought in the framework of long-term planning in order to ensure the necessary consistency, as well as provide for a systematic evaluation of the degree of progress being made in the accomplishment of the objectives.

(d) Changes in approach

But the 1960s and the first years of the 1970s became a period of profound political changes in various countries of the region. These may be characterized, on the one hand, by some failures in mesocratic alliances, both in their populist and in their development-based forms, which had given political and institutional support to the industrializing strategies; and, on the other hand, by the emergence of systems which made room for the existence of neo-liberal ideologies which generally did not assign an explicit role to industrialization. Alternatively, the approach of trade opening and liberalization of markets and prices was encouraged. The dynamic role which the State had played in the past was restricted to establishing the general operating rules of the economy and correcting the most flagrant excesses. Although the extreme form of this approach only occurred in a few cases, especially in the Southern Cone, the model was attractive to other countries, partly because its diagnosis answered criticisms which, although they had been expressed before, had not been completely overcome; and also because it included certain values and objectives which coincided with those proposed by traditional power groups. A recent ECLA study on industrializing policies, social order and neo-liberal styles expands on this subject and describes its impact on the process of industrialization.

/In addition

In addition to the difficulties experienced by Latin American industrialization due to world stagflation, shrinking demand for primary products from the advanced centres, increase in oil prices and rising international interest rates, in some countries there were also problems resulting from the low priority given to industry, lack of protection, paralyzation of investments and the resulting regressive changes in the distribution of income. However, these changes in approach in no way represent a general rule in Latin America, since in many cases industrial efforts persist and the corresponding investments are becoming larger.

3. Latin American industry and the international scene

(a) Production of manufactures in the period 1950-1980

In 1950 Latin American industry on the international scene corresponded to under 4% of world production of manufactures, while 80% was concentrated in North America and Western Europe.^{8/} But this panorama experienced some major variations, basically because of the emergence of Japan as an industrial power and the considerable increase in participation of Eastern Europe and the Soviet Union on the one hand, and various regions of the Third World on the other, especially the countries of Southeast Asia. Latin America, for its part, increased its share by over 5% in 1980.^{9/}

This meant that the region could expand its industrial production at a faster rate than the world average, particularly than that of the advanced industrial centres of the West. Average worldwide growth amounted to 5.7% in the period 1950-1980, while the Latin American rate was 6.7%.^{10/} It can be said, then, that the evolution of regional industry shows a positive result in the above terms, although it must also be recognized that other relatively backward regions underwent an even more dynamic industrial development.

A closer look at the experience in terms of groups of countries shows that the regional average obscures a variety of national situations. For on the basis of a vast set of factors, such as the scope of domestic markets, levels of development previously reached, forms of opening and insertion in the international economy, character resulting from the presence of transnational corporations, political and institutional conditions and the orientation of the national development strategies and policies, to mention just a few, the intensity of industrialization shows uneven results. Thus, for example, there are countries which are relatively highly dynamic, with annual industrial growth rates higher than 7%. This is the case both in large countries, such as Brazil and Mexico, and in some medium and small countries, including Venezuela, Costa Rica, Ecuador, Honduras and Nicaragua. On the other hand, there are countries which show more modest results, with rates lower than 4% annually, such as Argentina, Chile and Uruguay, in the Southern Cone, as well as Bolivia and Haiti. It is noteworthy that the countries having the oldest industrialization, such as those of the Southern Cone, have had a lower rate of growth than the regional average.^{11/}

(b) Trade of manufactures

A relevant feature of Latin American industrial growth is the increase in the degree of international competitiveness, which made it possible to raise the share of exports of manufactures of the region from 0.8% to 1.3% of the world total between 1955 and 1975.^{12/}

/Despite the

Despite the increase in the international competitiveness of Latin America and the Caribbean, the region continues to have a low coefficient of industrial exports in relation to the gross manufacturing product. In 1970 the world average of this coefficient was 21%, with 40% for Western Europe, 30% for Asia (except Japan and Israel), 25% for Japan, 13% for Africa ^{13/} (excluding South Africa) and North America 8% for Eastern Europe and the Soviet Union, and only 5% for Latin America and the Caribbean (7% in 1975).^{14/} This indicator reveals one of the problems that has had to be faced by Latin American industrialization -its relative lack of ability to penetrate export markets, a fact which should be taken into account in defining new industrial policies. Many countries of the region, however, applied active policies to develop and support the export of manufactures. Occasionally there were very early antecedents, at the beginning of the century, but the concern for this aspect of industrial development arose with some strength only during the 1950s and even more in the 1960s, when fairly dynamic attempts began to bear fruit and ideas began to mature on integration and reciprocal trade among the countries of the region. Furthermore, the persistent protectionism of the centres against manufactures exported from Latin America is proof of the degree of competitiveness achieved by many industries of the region.

In any case, the progress of Latin American industry is clearly obvious in the reduction of the relative weight of regional imports of industrial goods in the world total, which dropped from 13% in 1955 to 7.2% in 1975.^{15/}

These two trends, that is, the increase in the amount of industrial exports and the sizeable decrease in the share of the volume of industrial goods imported, tended to improve the relative trade balance of manufactures of Latin America compared with the rest of the world, although with rapidly growing negative balances in absolute terms. At the same time, the extreme concentration of exports on raw materials was reduced considerably. For while in 1955 only about 3% of the total value of exports of the region came from the industrial sector, in 1978 this proportion had risen to nearly 26%.^{16/} This latter fact of course represents one of the principal successes of the industrialization and export promotion policy, along with the effects of the integration agreements and intra-regional trade.

From the viewpoint of national experiences, the growth in Latin American industrial exports shows great heterogeneity. Most of this expansion was concentrated in the three largest countries, Argentina, Brazil and Mexico. This group of countries increased its share in the region from nearly 64% in 1961 to more than 72% in 1978, consistent with the more advanced industrialization of these countries.^{17/}

4. Industrial employment

One of the most interesting aspects of the assessment of industrial growth trends is their effect on employment, since, as mentioned above, one of the original reasons taken into account in encouraging the process of industrialization in Latin America was the dynamic imbalance between the high rate of population expansion (2.8% annually between 1950 and 1980) and the labour absorption capacity of the primary sectors. Studies are often done on the response of industry to the challenge to create new sources of employment. Generally, these analyses consider the magnitude of the different forms of underutilization of labour in Latin America, which have been estimated at levels of around 20 or 30% of the labour force, in terms of total equivalent unemployment.^{18/}

A closer look at the problem, particularly the rising trend in industrial employment, shows far from negligible results. The average annual growth of manufacturing employment in 14 countries of Latin America amounted to 3.4% annually between 1950 and 1980. Excluding Argentina, a country which had a high proportion of industrial employment at the beginning of the period and whose rate of labour absorption was slow, or 0.9% annually, the result for the rest of the countries amounted to 3.8% annually.^{19/} An evaluation of these figures should take into account that regional expansion of the labour force was 2.4% per year,^{20/} so that industry played an active role in absorbing labour, especially if it is measured in relative terms. This role would appear even more impressive if the indirect effect on employment in other sectors -effects which are felt to be very relevant- were calculated.

As in relation to other aspects of the process, there is a notable variety in the behaviour of the countries here as well. Except in the case already mentioned Argentina, in the other two large countries the growth in industrial employment was very high, or around 4.2% annually. In the more recently industrialized medium-sized countries such as Colombia and Venezuela, these rates were 3.4% and 5%, respectively. On the other hand, countries which industrialized early, such as Chile and Uruguay, showed low rates of 1.6% and 0.9%, respectively.

The problem of urban employment in Latin America is largely explained by the high rate of expansion of the non-agricultural, economically active population, which amounted to 3.7%, or 4.1% annually excluding Argentina, in the period mentioned.^{21/} This phenomenon reflects the effects of rural-urban migrations, largely motivated by the incentives offered to the rural population of better living conditions in the urban sectors and the higher salaries which may frequently be obtained in these markets. Of course, industrial expansion, with its direct and indirect effects on the growth of job opportunities, has very much contributed to the generation of these incentives.

II. INDUSTRIALIZATION STRATEGIES AND POLICIES

1. Various scenarios

It is important to recognize that an industrialization strategy is not defined solely on the basis of a series of policy instruments and prospective goals. The relative importance of the different instruments, as well as the actors involved and the social and cultural context being developed, form general scenarios which may differ markedly from one another. It is thus appropriate to make a brief reference to the types of scenarios which today contain the ideas about the process of Latin American industrialization, recognizing, of course, that the general nature of the relevant assessments prevents them from being absolutely valid for all cases and situations, especially in a region with such high degrees of heterogeneity among countries and even within them.

The discussion that has taken place in the past decade outlines at least four clearly differentiated scenarios for stimulating development in the Third World countries. One corresponds to neo-liberal ideologies which concede priority to liberalization of the market and financial and trade openness, of the kind that has been attempted in some Latin American countries, especially of the Southern Cone. The second places decided emphasis on exports of manufactures, mainly in the style of some countries of Southeast Asia. The third, fairly diverse scenario, centres on the essential needs of the population and a significant degree of severing of their external connections, frequently individualized in the form of inward or endogeneous development. Finally, the fourth scenario, recommended by the International Development Strategy,^{22/} emphasizes North-South co-operation and the establishment of a new international economic order, at the same time granting considerable importance to domestic and collective efforts among developing nations.

The basis of the neo-liberal approach is the reduction or elimination of controls and regulations, as well as indiscriminate external openness, both commercial and financial, the reduction in the role of the State and the public apparatus, especially in its investment and entrepreneurial function, and on the absence of sectoral priorities for development, under the assumption that the market alone should determine the comparative advantages to be exploited by the private sector.

This approach is inconsistent with and even disparages attempts at regional integration, postulating that they limit the range of comparative advantages compared with the rest of the world and furthermore tend to transfer the inefficiencies of national protection to the regional level. On the other hand, it concedes partial credit to the ideas being discussed about the new international economic order, in the belief that all growth policies tending to limit the free operation of the international market reduce efficiency.

The appraisal of this scenario should take into consideration, *inter alia*, that the international market hardly approximates the competitive ideal postulated in the theoretical models. It is important to keep in mind some of the central characteristics of the present international order, such as the deep technological gap between the industrial centres and the peripheral countries, which is manifested in great inequalities in productivity and capacity for saving and investment; the imperfections of the international markets increasingly due to the great importance of transnational corporations, around which a large proportion of trade and scientific and technological research centres; the nationalist feeling which continues to govern trade policies, including those of the advanced industrial centres; and many more could be mentioned.

/The scenario

The scenario or approach which concedes a definite priority to exports of manufactures is identified in the debate with the strategy of industrial development which has been adopted in some countries of Southeast Asia, such as South Korea and Taiwan. Undoubtedly, in the area of exports, the respective "models" had considerable success, one of the bases of which was, at least initially, an abundant supply of cheap labour which provided comparative advantages to activities with high labour intensity, where there occurred a rapid growth in productivity. However, the emphasis on "openness" to exports found substantial support in practice in a rapid expansion of the domestic market. Also important was a great effort at saving and investment, initially strengthened by large amounts of external capital, and a series of pragmatic policies designed to protect national production by means of tariffs and subsidies. The State also played an active role in supporting investment, the adaptation of technologies and infrastructure work, and progress towards more advanced industrial structures.^{23/}

In consideration of these aspects of the development policy of the countries in question, it may be said that these experiences, although some of their objectives coincide, have little to do with those of the Latin American Southern Cone illustrated by the scenario described above.^{24/}

The third scenario, centered on the satisfaction of the needs of the population, emphasizes the configuration of a structure of production which concedes priority to the creation of jobs and the access of the poorest groups to essential goods and services. Thus, it defines a guideline for restricting the proliferation of unnecessary expenditures, especially those based on the imitation of foreign formulas of consumption and lifestyles. It is unnecessary to add that this scenario assumes a definitely redistributive character and a central rationale determined by the incorporation of the traditionally excluded social sectors, such as small farmers and urban workers with few skills and little capital, etc. As a result, the external relationship postulated by this scenario is very selective and only fills the role of functionally supporting domestic development efforts, by means of providing basic consumer or capital goods, but adapted to the more autonomous technological standards that are being promoted. In addition, this scenario seeks intra-regional and interregional complementation and co-operation in development, with an emphasis on the collective efforts of the whole domestic population.

The fourth scenario, corresponding to the formulations with respect to the international development strategy, concedes preeminence to the restructuring of the international economic order, emphasizing new forms of relationship between the advanced industrial centres and the countries of the periphery.^{25/}

Nevertheless, this scenario has certain characteristics relevant to the other scenarios mentioned. Thus, it is important to bear in mind that the various scenarios contain common aspects and coincide in certain areas, so that it is not possible to draw a sharp line between the universes of the respective formulations.

In the international strategy, the objective of industrialization assumes an explicit and decidedly antagonistic role, although this does not mean holding back or neglecting other sectors, especially agriculture. But it does mean making considerable progress in seeking to strengthen all those intersectoral relations which could make growth more dynamic. In particular, it is a question of improving the industrial structures with the aim of resolving their problems of relative backwardness. On the one hand it is the insufficiencies of the intermediate and capital goods producing sectors which sharply limit the dynamic effects of growth and investment. On the other hand, and related to the previous point, there is a

/need to

need to participate more actively in the more dynamic commercial flows, which are found precisely in the products of the intermediate and capital goods industries. The regional markets themselves have a potential which, through reciprocal trade, could generate a new and sizeable stimulus for the development of such industries, especially with reference to the domestic market countries which have difficulty in achieving an adequate scale.

However, it should be understood that the main stimulus for industrial expansion, except in extreme cases, comes from the domestic markets. The empirical evidence shows this, even in countries characterized by an evolution towards high manufacturing export coefficients. On the one hand, the main component of the growth of demand for industrial goods is the domestic market, resulting both from population and income growth and from the incorporation of backward social sectors and the improvement of intersectoral relations. On the other hand, as this market grows it is making industries which are more demanding in terms of scale more feasible. Development of exports fulfills an additional function, in addition to making the domestic markets more dynamic, in that it also provides scale and generates foreign currency to satisfy growing import needs which are largely due to the development of manufacturing itself. For a vigorous industrial growth is not synonymous with a decrease in the import coefficient, as shown by the experience of the advanced centres after the war. Industrialization itself imposes additional needs for imported manufactures. Balance is achieved when greater competitiveness and productive efficiency make it possible to export manufactured goods according to a pattern of intra-sectoral specialization.

Certainly such affirmations should be understood on the basis of the characteristics of each country and in the framework of the regional market, in view of the sometimes severe restrictions due to the small size of national markets. This process of structural improvement cannot be applied, then, the same way to large countries as to small countries with a more incomplete productive structure or with a more limited supply of resources. Consequently, there is a need for the corresponding strategy to be carried out in a framework of regional complementation, harmonization of investments, co-ordination of economic and trade policies, and reciprocal technical assistance.

Similarly, there is a need for international co-operation from the industrial countries, as this would allow for a rational use of the technological progress, entrepreneurial and financial capacities and markets of the latter, according to mutually beneficial systems of exchange.

2. Need for an industrialist strategy

It seems essential to return to the subject of the industrialization of the Latin American countries and of the periphery in general as a necessary condition of a projected long-term dynamic development. As stated on numerous occasions, the subject of industrialization was originally brought up in a context -such as that of the post-war- in which the old system of the international division of labour between centre and periphery had lost validity as a mechanism for the growth and development of the latter. It was then observed that the particular ways of applying technical progress and increases in productivity -which produced a drop in the relative prices of raw material from the peripheral countries but an increase in the income of the productive factors employed in the manufacturing activities of the centres- led to a very unequal distribution of benefits. Moreover, there were the consequences of the Great Depression of the 1930s and the disorganization of the world economy as a result of the Second World War.

/After several

After several decades of substantive progress and change, these centre-periphery relations continued to be valid and to condition the forms of international insertion of the Latin American countries.^{26/} There still exists an export structure which is highly concentrated on raw material at a time when the composition of imports usually contains a high proportion of manufactures, especially in intermediate and capital goods, in what has been called the asymmetry of trade patterns; there are also still gaps in productivity despite the advances made, and this reveals a continued technological subordination; more recently the process of external indebtedness has intensified as a result of the more liberal evolution of the international capital market following the oil crisis.

However, it cannot be ignored that these centre-periphery relations have experienced some transformations which open up new possibilities for a more autonomous development.^{27/} Of course, they are the effects of a sustained industrialization over several decades, whose general tendencies were described above. Among these effects is the rise in the levels of per capita income, which has been substantial in various countries; the diversification of the structures of production and exports, allowing for a greater degree of autonomy with respect to external instability. In some countries such as Argentina, Brazil and Mexico, a systematic effort is being aimed at technological adaptation, in order to reduce the effects of extreme subordination to foreign technologies.^{28/} Significant results have been obtained in the creation of urban employment for a labour force which has grown quickly and has become primarily urban. In brief, as a general rule, there has been an economic, productive and social change in the region which has distanced it, although certainly not completely, from the forms of subordination which characterize the classical scheme of the international division of labour. The focus of this process has been the sustained effort at industrialization.

No less important have been some changes at the international level, such as the diversification of power centres, not only among industrialized countries but also in the periphery, where centres have emerged with a strong capacity to negotiate with the former countries; and transnationalization, referred to at the beginning of this study, which has helped generate new agents and interlocutors. This is a context in which the peripheral countries find a greater number of options for establishing circuits of external relationship and international co-operation, a situation which should be taken advantage of in order to provide new stimuli to the development processes.

In view of these considerations, the objective of industrialization takes on new meaning. Understood in a broad sense, it means intensifying its social projection, so that it effectively results in the incorporation of broad social groups which are still left out of the benefits of development in the collective task of developing to the maximum the productive potentialities which are involved, inter alia, in the working population, in the skills and talents of businessmen, and in the natural resources which certainly abound in the region.

However, this does not mean that the industrial structures must be oriented exclusively towards the satisfying of basic needs, as might be implied by some formulations which emphasize this objective. In fact, the Latin American industrial sector has reached a high enough level of development to generate an adequate supply of goods to meet the needs of the poorest groups. The problem lies not so much in the production capacity as in generating the purchasing power of these groups.

Although that aspect, which is undoubtedly the most relevant one from the point of view of the social projection of development, must not be neglected, attention must be paid to the diversification of the middle groups and the fact that to a

/considerable extent

considerable extent they are concentrated in urban areas, the new challenges presented by the intensification of inter-industrial relations, the expansion of the sector producing capital equipment and the need to make the Latin American presence in the world manufactures market more dynamic. The last aspect is especially important in a situation of indebtedness which makes it essential for external income to grow vigorously.

It is precisely in connection with these aspects that the international development strategy puts emphasis on the need to proceed to more intensive stages of industrialization and technological development, while at the same time attempting to ensure that the benefits of development can be used to incorporate those vast sectors which are still excluded owing to unemployment, underemployment and low income levels.

3. New industrial objectives

(a) Overcoming extreme forms of technological and social heterogeneity

Traditionally it was felt that only intensive industrialization would make it possible to overcome the traditional dualism of those economies with single export. However, the experience of those countries which have taken that route shows that new forms of heterogeneity have emerged, this time within the urban sectors and even within the industrial structures. These forms of heterogeneity include phenomena such as the sharp disparity between big and small businesses or the division of the labour markets between, on the one hand, those strata which, thanks to technological training and apprenticeship, have access to the markets of big businesses and other segments which remain in informal markets and people who work on their own account or who are employed in small firms with very low productivity, immobilized in their low standards of living and spare technological and financial opportunities. Frequently this heterogeneity has been maintained and even strengthened by public policies which, without aiming to do so, in the last analysis benefited the most solvent strata with greater economic capacity. This is the case, for example, of traditional credit policies which made it preferable to allocate resources to those sectors which had access to the financial apparatus or of trade policies which, with the objective of providing incentives for investment, granted tariff or other exemptions to the capital goods imported by the more modern strata.

The result is the new industrial strategies, which are aimed at narrowing those gaps and reducing these forms of heterogeneity, facilitating the incorporation of those sectors which are lagging behind and giving them easier access to the material, financial and technological resources used in production on the basis of which they should be able to raise their levels of productivity and income.

In this respect it is important to draw a distinction: from the point of view of the global development strategy, the role of industry is to provide impetus for the process of modernizing technology and production so that as many people as possible from all the social groups can be incorporated. To these ends it must be socially efficient in that importance must be attached to increased employment and productivity when investments are assessed.

However, the objectives of redistribution as such, which are to avoid certain extreme forms of inequality or the permanency of certain levels of poverty, independently of the production status of the groups concerned, are another thing altogether. Here it is necessary to apply policies and instruments of another kind to surmount such problems using criteria of equity and social betterment which

/emanate from

emanate from the body politic. It would be counterproductive to confuse these different situations and to make industrial and production policies responsible for redistribution per se. Although it is recognized that in practice there are cases where such a distinction is ambiguous (for example when import tariffs are applied in an attempt to avoid the consumption of certain non-essential commodities in order to promote greater equality), it should be recognized as a general criterion.

In summary, it may be said that the effort to reduce structural heterogeneity is made by promoting increased employment in the modern sectors of the economy and by developing new opportunities for access to capital resources, technologies, markets and know-how. The next step is to promote all those activities with some potential in terms of the incorporation of the underprivileged social strata into production, making it easier for them to participate in the accumulation of capital, which calls for some regulation of those non-essential consumer goods which, being clearly alien to the life style of the broad masses, magnify social tensions and waste resources which could be put to better use.

(b) Enhancing the structures of production

Partly because of some bias in protectionist policies but mostly because of technological gaps, the industrial structures of the Latin American countries are characterized by substantial diversification in the range of final consumer goods and a little vertical integration towards the production of intermediate and capital goods. There was a desire to promote real investment, and it was felt that that end was furthered by facilitating the import of inputs and equipment because of the relatively lower price which capital goods commanded. Aside from the fact that the final users were not always benefited (since the concentration of intermediaries and distributors may be such as to enable them to charge monopolistic fees and raise the domestic price), these policies have tended to prevent the manufacture of such goods and to restrict the direct and indirect propulsive effects of their production.

In connection with that question, there has been some discussion of the problem of the size of the markets, which are thought to preclude economies of scale and also of the problem inherent in the high intensity of capital and modern technology which this kind of industry would supposedly require. However, the empirical evidence does not appear to support such assumptions as a rule of thumb since it has been proved that industries manufacturing equipment are sometimes less demanding in terms of scale and are usually not so capital intensive as many industries established in Latin America for the production of goods for consumption or intermediate use.^{29/}

There are a number of reasons why it would be a good idea for there to be more vertical integration in the capital goods industries -the opening up of new opportunities for investment; the possibility of giving impetus to a more consistent technological policy since capital goods are known to be the means by which new technologies are incorporated in the production processes thereby making it easier to develop local technological capacity; the creation of opportunities for exporting capital and engineering goods, taking into account that these categories are the most dynamic in trade in manufactures, a fact which is particularly relevant to the intensification of reciprocal trade among developing countries.

Nevertheless, the move towards the intermediate and capital goods industries calls for a different kind of effort in each country depending on local conditions. In the first place, it is not a matter of producing all kinds of goods simply

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because there is some demand for them. It is essential to strike a balance between the need to expand markets and investment opportunities on the one hand and the need to respect certain criteria of efficiency in production, on the other. Inefficiency always means that resources which might be put to better use are wasted, and this is a particularly serious matter in the case of intermediate and capital goods where the higher costs are passed on to the users who are also producers and will only pass them on again, to the final prices. Thus, a chain of excessively high costs is formed, which is obviously harmful not only to the final consumers but also in terms of the possibilities for improving the international competitiveness of local industry, a basic requirement for increased exports. It should also be noted that with regard to the industries with very poorly structured and monopolistic markets, the practice of setting prices on the basis of the production costs plus a margin of profit, means that in addition to there being more inefficiency in production, the amount of the profit obtained by the monopolies will be greater and the real income of the workers will be sacrificed.

Secondly, it is necessary to incorporate the new restrictions which the oil crisis and the energy problem necessitate. In evaluating the different investment options, account should be taken of energy-saving production techniques, in particular those which save on energy from sources which are expected to be weaker or more costly in the future.

(c) Industrialization and promotion of exports

It is essential that industrial exports show dynamic growth not only because such growth may have an impact on the expansion of the final demand for manufactures but also because of the need to import. The experience of those countries with the longest history of industrial development and also that of the highly developed centres show that rapid industrial development is accompanied by intensive imports of manufactures. This happens because of the need for imports and the fact that the growth of imports of manufactures makes it possible to expand the markets and creates contacts with new technologies which are disseminated even by means of consumer goods. Thus, the new patterns of specialization in international trade occur in intra-sectoral rather than intersectoral terms. This explains the rapid growth of trade in manufactures in recent decades.

However, the enormous difficulties to the attainment of this objective must not be glossed over. They are due first to the recent trends in the international scenario and in particular to the slow economic growth predicted for the advanced countries and the additional restrictions which many of them are placing on imports from developing countries. On the other hand, from the point of view of the developing countries, there is always a risk of intensifying protectionism indiscriminately without paying attention to its negative effects on exports in that an increase in the cost of imported inputs will affect the competitiveness of export activities.

Finally, consideration should be given to the fact that the activity in question is especially propitious for regional complementarity and the harmonization of investments in that it appears inevitable that only a very substantial increase in reciprocal trade in manufactures will make it possible to reach the export goals which are based on the need for more intensive and independent industrialization. All of this must usually be accompanied by efforts and negotiations undertaken to gain access to the big markets of the advanced countries and to the potential offered by the rest of the Third World in an attempt to achieve mutually beneficial trade patterns, has already been pointed out.

/(d) Correction

(d) Correction of intra-regional heterogeneity

The great variety of national situations in terms of the different degrees of development achieved, the unequal sizes of the markets, the differences in the experiences acquired, etc., make it likely that the intensification of the efforts to bring about industrialization will be reflected in wider gaps within the region. It would seem that the bigger countries with a large variety of national resources would be offered opportunities which are out of the question for the small isolated countries with little diversification, most of which are in a situation of great industrial lag. Then there is the danger of replicating centre-peripheral relations at regional scale in that the success of the national strategies of the great majority of the countries, in particular the medium and small countries, depends to a large extent on their complementarity with the strategies of other countries of the region.

Thus, the various regional co-operation arrangements, ranging from the different approaches to commercial integration to complementarity agreements, technical assistance and even the establishment of Latin American multinational enterprises, are particularly relevant. In this regard, it must be borne in mind that, in particular where the small countries are concerned, simple trade arrangements are not sufficient as the experience of the past two decades at least has shown. Nevertheless, the external sector of such countries would have to play a relatively more important role than in the larger countries since international trade would make a more advanced form of industrial development possible although, of course, the bases of such development would be different and would include a higher degree of specialization.

The tremendous difficulty in achieving the objective of bringing regional interests into closer harmony should not be passed over in silence. In the political realm strong nationalistic feeling still prevail which, together with the sometimes very marked differences in ideology or styles of government, may stand in the way of the complementarity of development strategies. In the same way, the political instability which has characterized some countries more than others blocks the establishment of common long-term strategies.

In the economic sphere problems may arise which are part of a tradition and due to the fact that some narrow protectionist feelings prevail in entrepreneurial sectors. These feelings may work against regional harmonization when it entails the granting of reciprocal concessions. In the same way it is frequently the case that many business groups exhibit a favourable attitude to foreign investment or to the purchase of foreign technology without making an adequate estimate of the real contribution of these factors to long-term development. There is a tendency to see only the short-term financial benefits but not the way in which the economic structure is bound to be affected in the long term.

In addition to a certain amount of intra-regional association, efforts are needed to bring about international co-operation with other regions in the third world and also with the industrially advanced centres. The latter should continue to be a valuable complementary source of resources, technology and markets. However, this complementarity is one of the needs and objectives of the countries of the region themselves, within the framework of strategies drawn independently and sovereignly. In this sense, the harmonization of regional interests should be an important mechanism for strengthening the bargaining power with governments of other regions and with transnational corporations, whose assistance must be recognized as being of very positive value if it is limited to a more equitable distribution of the mutual benefits which may be acquired.

4. Instrumentation of the policies

(a) General considerations

First of all a distinction must be drawn between the different types of policies according to the regional space for which they are designed. Thus, it is possible to speak of local policies, which are designed for specific geographical areas of a country; national policies; policies directed at subregions or at Latin America as a whole and of more inclusive interregional and international policies. Of course the level at which decisions are most frequently taken is the national level since it is there that the State is fully in control and the instruments it can wield are handled most efficiently.

Nevertheless substantial progress has been made in international co-operation and in the reconciliation of different national interests, and this is likely to continue in the future. To what point will the recession scenario of the international economy, which is in a crisis said to be more than a temporary crisis since it threatens to turn into a fairly prolonged process, favour or prejudice the putting into practice of international co-operation mechanisms? In a scenario of extreme disjointedness, bringing such machinery into operation would probably have a negative effect. On the other hand, if the arguments advanced in the international development strategy found greater adherence among the governments, a paradox would occur in that, precisely because of the recessive and critical state of the international economy and the need to double domestic development efforts, the dialogue among the nations would be more than ever necessary at three levels -interregional, intra-regional and between the developing and the industrially advanced countries. This is particularly true with regard to macro-economic questions which are now extremely urgent, as is the financial problem relating to the high levels of the external debt, the high interest rates and the need for long-term refinancing. But it is also true with regard to questions of critical importance with regard to the medium-term productive and industrial potential of the Latin American countries. The most relevant questions in this connection appear to be those which are related to the steps which need to be taken to expand trade in manufactures, to the problems of technological development and increases in productivity, to the role of the transnational corporations and, in general, to the efforts to achieve integration and the harmonization of interests at regional levels. These issues will necessarily continue to be observed and discussed at international level.

The second general consideration concerning the direction to be given to industrial policies is not unrelated to the one discussed above and concerns the relationship between the State and the market. This is an old question which it would seem has never been finally settled and reappears now and again in different settings.

With regard to opposing ideological aspirations, which, in their extreme manifestations call either for the absolute preeminence of the market and a subordinate State or else for total domination by the State, there is practical evidence that there is really no conflict. Far from being at opposite poles the State and the market are complementary terminals which play different roles but which need each other. This has been proven both in the reconstruction of Europe and in the vigorous expansion of the industrial countries in the 1960s. It is even truer in the case of the Latin American countries and of the developing countries in general. The world is far from being the competitive ideal assumed by orthodox economics. The opportunities available to the economic agents are extremely unequal.

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Information and knowledge do not flow rapidly enough, and training is required in matters which must now be learned through practice. The developing countries are characterized by great heterogeneity in their economic and social structures which makes it utopian to think that spontaneous market action will be enough to activate development. All this suggests that the State must be active and initiative, especially when there is question of achieving medium- and long-term objectives and strategies and of combating organized and concentrated powers, whether at national or international level.

Practically speaking, in the field of industrial development, the growing importance and impact of transnational corporations are becoming increasingly apparent. It does not seem feasible to try to exclude them. They control significant proportions of the world's markets, technologies and financial resources. Their diversification and presence in numerous activities, including the exploitation of natural resources; the production of consumer, intermediate and capital goods; transportation; services; communications, etc., and also their centralization in supra-national decision-taking units is gradually discrediting the traditional assumptions of the theories of international trade and the optimizing theories behind the allocation of resources. In the face of this transnational power, the developing countries have no other choice but to use the bargaining power of the State. That is the way to safeguard long-term national interest without having to sacrifice the potential represented by those entities.

On the other hand, it is also apparent that there are situations in which the markets have a resource allocation function which they perform through decentralized prices. It would be inefficient and unnecessary for the State to try to be active in all aspects of economic and social life. In actual fact, many production activities may be performed by private entrepreneurs using incentive and disincentive schemes established in public policies on the basis of carefully thought-out global or specific objectives and price movements.

(b) Institutionality of industrial policy

As experience and a theory amply show, the general orientation of economic policy and other local factors such as the coverage of the market and the supply of natural resources are of great importance to industrial output. However, industrialization is also presented as an instrument designed to achieve the most important purposes of development and not as an end in itself. From this point of view, industrialization for development is conceived as being a process which must be deliberately promoted and not as something which happens spontaneously with no inducement other than that of being subjected to outside determining factors which could cause the manufacturing sector to vegetate instead of playing the dynamic role which should be assigned to it.

Thus, general economic policy should provide for more instrumentation specifically designed to promote and support industrialization along the lines suggested above and with the equally specific objectives formulated. This obviously requires a certain amount of specialized institutionality which can respond adequately to the political will which in and of itself is of course not enough.

Entities which correspond to that idea have been and still are present in developed countries which achieved very high and advanced degrees of industrialization. They are also present in other countries which are making significant efforts in this respect. In many countries of Latin America in particular, entities of this type have been the vehicle for the most important industrial achievements and industrialization processes.

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Some of the region's experience with this type of entity goes back very far but most of it dates from the 1930s. At present, it may be difficult to find exceptions although of course these entities have frequently been subject to political change which strengthens or weakens them, often as a result of the emphasis which is placed on industrialization as a driving force behind development and the intensity of the industrialization process. It is also true that at this point another feature of the heterogeneity which exists between countries becomes apparent since in some countries the institutional paraphernalia for industrial development is more comprehensive than in others. Generally speaking, in the largest countries the institutional apparatus performs a range of functions which is considerably broader than in the smaller countries. Sometimes integration agreements have taken account of the need to associate countries in various financial, technological or programming aspects of the establishment of industrial promotion entities with a view to resolving both national shortcomings and the problems of harmonization of industrial policy.

This is a matter of considerable importance which should be taken into account in consideration of the future of intra-regional and intra-subregional co-operation and the need for developing or strengthening this kind of entity at national level.

Such entities are used in numerous fields of action, of which even a summary list shows the complexity of industrial policy. In the first place, there are the political bodies -usually executive ministries or departments or subsidiaries of them. There are the industrial planning or programming offices which may be located anywhere in the government; there are entities which perform entrepreneurial functions related to direct investment, which are separate from the public enterprises and are designed or oriented differently depending on the way in which the entrepreneurial structure is viewed or oriented by public, private or foreign agents; there are financial entities; institutions for scientific and technological research; technical assistance bodies and institutions for vocational training, export promotion, etc.

In some Latin American countries, the organizational charts in this connection are fairly comprehensive and complex, but they usually suffer from some defects. Such defects include those related to the hierarchical position of or recognition given to the highest political levels, which may or may not have links with the higher entities or objectives formulated. The inter-agency association needed to ensure well-defined objectives, the resources or skilled manpower available and the political changes which frequently determine whether the entities will be strong or weak but also whether advantage is taken of apprenticeship training and manpower experience or whether they are wasted. In each case, careful examination of these and other aspects of the question may make a decisive contribution to the materialization of political will with regard to industrialization.

(c) Exchange policy

Regardless of whether greater emphasis is put on development from within or development from without, there can be no doubt that trade policies are decisive instruments in the configuration of the industrial structure. Even industrialization strategies followed in domestic markets cannot, in the Latin American situation, escape being heavily influenced by foreign trade for the reasons given above.

There is a large variety of instruments which may be used to change foreign trade, but exchange and tariff policies are the most important.

Of course the exchange policy has an impact which is not confined to the industrial sector alone. Owing to its close relationship with problems of

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stabilization and management of the balance of payments, in some countries which suffer from persistent inflation it is usually determined on the basis of short-term criteria. Very frequently an attempt has been made to break the pattern of spiralling in inflation by freezing the exchange rates, which has resulted in external imbalances sustained by growing indebtedness which sooner or later makes devaluation inevitable, with the usual consequences.

From the point of view of the industrial strategies, the instability which follows devaluation is not desirable. It hinders the projection of medium- and long-term trends needed for industrial investment; moreover, in the long run it has not been proved that attempts to stabilize prices by fixing exchange rates for prolonged periods of time have been more successful than those policies wherein it is recognized that the inflationary imbalances are not caused by increases in the exchange rate. In fact the opposite usually happens. Exchange policies with programmed adjustments based on the inflationary trends and the maintenance of an adequate real exchange rate are those which yield the most satisfactory results in terms of the objectives of stabilization and the goals of industrial development and export promotion. Actually, when the government manages to convince the economic agents that the price of the currency will retain a stable real value over the long term, the incentive for or possibility of obtaining gains on short-term speculation disappear. Also those who programme the government's long-term investments are given new incentive.

The freezing of exchange rates in the presence of sharp differences between domestic and foreign interest rates makes financial intermediation based on external indebtedness a lucrative business with rates of return with which industrial projects cannot compete. Sometimes much of that indebtedness was related, directly or indirectly, to the consumption of luxury articles and speculation in real estate to the detriment of savings for real investment. Of course, this phenomenon of indiscriminate external indebtedness has also affected other countries less orthodox in the way in which they manage their monetary and exchange policy, with similar results insofar as the worsening of the external imbalance is concerned.

There is a close relationship between exchange policies and financial policies advocating openness to the exterior. A more abundant flow of external credits, which could in theory be very attractive, has expensive monetary effects domestically which usually destabilize the monetary programmes. Therefore a compensatory mechanism which appeals to those who give high priority to price stabilization and the money supply is that of freezing the exchange rate or slowing its growth; this stimulates more rapid growth of imports and avoids the monetization of credits. However, this is a short-term approach and is harmful for long-term industrial efforts. A policy in keeping with these efforts requires stability in the real, not the nominal, exchange rate and a policy of external indebtedness based on long-term investment and the need to generate a flow of foreign exchange for repaying the debts.

(d) The tariffs and subsidies policy

Although orthodox theory holds that there are very few reasons which justify the use of tariffs and restrictions on imports, in practice this instrument is universally used, including in the advanced industrial centres. This is justified by the existence of market distortions and defects which keep the production costs from adequately reflecting the true social costs of the resources. Tariffs are an instrument for neutralizing those distortions. In addition, it is recognized that there is a need to protect some incipient activities for which a period of

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technological apprenticeship is required during which it may not be possible to compete on equal terms with imported goods. Moreover, there are activities which help to generate external activities and to disseminate technical progress to other related activities (benefits which are not adequately reflected in the market prices). Finally, it should not be forgotten that there is a kind of "global inefficiency" of the peripheral economies in comparison with the central economies, which is due to shortfalls in or the absence of a number of factors outside of the enterprises, such as material infrastructure for communications, transport, repair and maintenance services, continuity of supplies, etc., all of which help to raise production costs and deteriorate industrial competitiveness. In summary, tariffs are a tool for modifying the price system to bring it more closely into line with the structure of incentives, on the basis of long-term development goals.

Of course, there is some danger of inefficiency associated with the indiscriminate use of the tariffs policy. In particular, criticism has been elicited in Latin America over the presence of redundant or excessive tariffs which in protecting some activities over and above what is necessary, strengthen monopolistic tendencies. Also, the application of tariffs over an indefinite period of time does not encourage the use of better technologies or promote productivity. Therefore, the determination of the tariff policy and the absolute levels and distribution of exchange rates is not a trivial problem. It calls for a cost-benefit analysis, which must be reviewed periodically in order to keep step with the various industries and stages of development.

Of course, the tariffs policy has certain indirect effects on the economy and on the distribution of income and tax earnings. However, one of its most problematic aspects is its impact on exports. The argument traditionally adduced in this regard is that tariffs protect activities in competition with imports (when the value added is effectively protected, which is not necessarily always the case) but usually leave industrial exports unprotected. This is due to the relative rise in imported inputs by comparison with exports of inputs. One way of counteracting this effect is to apply tariff exemptions to such imports when they are intended for export activities. However, this may have the opposite effect from the one intended in that this kind of exemption discourages the production of such goods. Thus, we speak of a "distorting compensation".^{30/}

Other options include the application of direct and indirect subsidies to export trade conducted to compensate for certain cost distortions. However, their use is not free of problems either. For one thing, because they give rise to fiscal expenditure or sacrifice they are open to financial criticism and are more vulnerable to political instability. On the other hand, there are international restrictions on the use of such subsidies and even when these restrictions are not applied, there is always the possibility that aggrieved importing countries will have recourse to anti-dumping mechanisms. Nevertheless, in whatever circumstances it may find itself, Latin America should make an effort to defend its right to promote exports of manufactures in policies similar to those in which incipient industries are supported.

More generally speaking, it must be borne in mind that the final purpose of commercial policies, including those relating to exchange rates, tariffs and subsidies, is the balanced development of activities related to production and foreign trade. It means rejecting extreme measures, such as the search for self-sufficiency or the concentration of efforts on increased exports at whatever cost. It is reasonable to think that in certain situations the social costs of increasing industrial exports are excessively high by comparison with those entailed by

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producing more for the domestic market. Therefore the promotion of exports cannot be considered independently of the strategy of production for the local market.

Aside from tariffs and subsidies, there is a vast range of quantitative and qualitative instruments which tend to modify commercial incentives and disincentives. Many of these are being utilized by the advanced industrial centres as a way of discouraging imports of manufactures without altering the tariffs decided upon in international negotiations. These instruments include the international agreements aimed at restricting the amounts traded or even diplomatic pressure in favour of agreements to restrict exports voluntarily.

With regard to this point, it must be borne in mind that exports of manufactures to the industrialized centres are obstructed by the tariffs structures and non-tariff protectionist measures used to defend their traditional industries. Actually, although the United States, the European Economic Community and Japan have reduced the average weighted rate of their nominal tariffs since the Tokyo Round, they maintain a scale of tariffs which is applied to a number of products of importance to Latin American exporters of manufactures. In the case of processed foods, textiles and textile articles and, in general, goods produced by labour-intensive industries of concern to Latin America, this scale actually affords much more protection than the nominal tariff levels. Moreover, the establishment of a large variety of non-tariff barriers which have a strong protective effect has had as great or more of an impact as the application of tariffs to imports. Many of these measures have been regulated by codes or agreements of conduct whereas others, such as quantitative restrictions and compensatory rights, have remained outside the GATT negotiations and legislation.^{31/}

An important objective of Latin American policy should of course be the removal of such barriers. Similarly, at the level of their domestic policies, the countries can use some administrative procedures to stimulate or discourage imports or exports (licences or advance registration, determination of values used in measurement, negotiated access to preferential credit, quality controls, regulations governing the protection and security of persons, cultural or environmental wealth, etc.).

Because of their potential, policies relating to the purchase of intermediate and capital goods, military and other equipment by the State and public enterprises deserve special attention. In certain cases the volume of such purchases may be substantial and programming them over the medium-term may provide a powerful incentive on the domestic demand side for the promotion of those national industrial activities which are in competition with foreign suppliers.

(e) International negotiations

The position outlined above -giving a new dimension to the role of the domestic market while at the same time attaching greater importance to regional integration- is not incompatible with ambitions for an international role which will ensure that exports of manufactures to the industrialized centres are sufficiently dynamic. However, as has been pointed out, access to the markets of those countries is hampered by a growing protectionism due to situational and structural reasons. The structural reasons have to do with the relative lag in some branches of their productive sectors which, although they are of only marginal importance to the economies, are able to bring their political and social bargaining power to bear on competition from exports from the periphery.

In addition, while the industrialized countries use all their bargaining power to balance their trade flow among themselves, the combined participation of

/the countries

the countries of Latin America is hardly significantly enough to reduce the structural imbalances which have traditionally existed in their trade relations with the centre. Thus, it is clear that there is a need to continue the efforts to put together a common platform of action proposals, both to cope with the increasing protectionism from the centres and to reduce the chronic structural imbalance which exists with respect to them.

Another important factor is the increasing significance of transnational corporations in world trade in manufactures. This has a sharply limiting effect on conventional trade policies which operate through the markets and the price system, in that these corporations and their branches take their economic and technical decisions with an eye to maximizing their profits at world level, which does not necessarily always coincide with local interests. Thus, it is vital to develop enough bargaining power to ensure that the transnational corporations invest and operate in a manner which serves those interests over the long term.

In this connection, within the United Nations an effort has been made to establish a code of conduct for transnational corporations, some of whose main concerns should be noted briefly. With regard to trade, an effort is being made to eliminate restrictive practices and also practices related to the arbitrary setting of transfer costs, in particular between head offices and branches or between branches located in different countries. As for technology, it is felt that the host countries should have quicker access to captive technologies, and it is being recommended that the scientific and technological capacity of the developing countries be used, particularly in connection with the promotion of research activities in which full use is made of local manpower. In the same way, an effort is being made to see that transnational corporations provide information concerning their products (in particular where the preservation of the health and security of the population is concerned and in matters related to the quality of the environment), structure, operations and policies.

Since the transnational corporations control much of the market in manufactures, it is vital to formulate concrete criteria so that the negotiations with those corporations will result in making the exports of Latin American manufactures more dynamic with the highest possible value added locally. This can be achieved, for example, in the case of corporations which have a large share in the international markets for certain industrial commodities and are willing to open those markets to products manufactured regionally.

With respect to access to technology, a global policy whose central objective is the achievement of greater independence and capacity in respect of choice is of course necessary. It is neither feasible nor desirable to postulate technological self-sufficiency since the Latin American countries can benefit greatly from the available store of technology. There is, however, a great deal of latitude for moving ahead towards more independence with regard to long-term development objectives. It is indispensable to create a Latin American capacity for selecting and adopting technologies. However, the truth is that the supply of technologies is still controlled to a very large extent by transnational corporations from a few developed centres. These corporations have practices which do not contribute to the development of more independent capacity, such as the sale of turnkey plants of licences with restrictions which make it necessary to purchase equipment and inputs.

(f) Technological policy

In a very broad sense, technological policy acquires overwhelming importance, especially when viewed from the point of view of the need to overcome the asymmetry of the commercial patterns which now prevail. This is because the structural gap related to the lag in the production of intermediate and capital goods is to a large extent due to the technological gap between the developing countries and the advanced centres. So long as this commercial structure is maintained, the impediments to more dynamic industrialization will persist.

For one thing, the acceleration of industrial growth causes a rapid expansion of imports of manufactures because of the high elasticity of the demand for these goods by comparison with the needs for inputs which are generated. So long as exports of primary commodities do not expand as rapidly, there will inevitably be a structural tendency towards external imbalance. Moreover, the high imported content of the indirect demand, which originates in industrial growth, tends to cause the multiplier effects to be filtered out to the exterior, having a debilitating effect on the growth of the local markets. Thus, there is a close link between the loss of industrial dynamism and the asymmetry which is still to be found in the structure of trade. However, at bottom, the elimination of this asymmetry calls for basic changes in the level of productivity and for a radical reorientation of the trade flows.

We have already spoken of the need to expand the value of reciprocal trade in industrial goods in Latin America significantly. This is one of the conditions for the achievement of the objectives which have been described. Another of these conditions is the adoption of a far-reaching strategy which will set in motion a process wherein the present technological gaps, which are not only very large but are continuing to grow, can be gradually closed.

Technological development means that resources must be allocated for research closely related to the goals of industrial development, but it also affects the patterns of consumption and the life styles which can be touched by it.

There is a need for a brief examination of some matters which come to mind in connection with the adoption of technological development policies. This problem has a few aspects which are not always duly recognized.

The Vienna Plan of Action formulated during the United Nations Conference on Science and Technology for Development (Vienna, August 1979) and its subsequent Plan of Operations established the strengthening of the scientific and technological capacity of the developing countries and the restructuring of the present system of international scientific and technological relations as main objectives of the international community.

With regard to the latter, there can be no doubt that the adequate selection and acquisition of foreign technology is of enormous importance for the region. In this connection, it is enough to recall that nearly 95% of the world expenditure on research and development occurs in a few advanced industrial centres. It would be a mistake not to recognize this as a fact and to try to do without this flow of innovation. However, in the present phase there is already a need to examine and set policies in connection with such questions as appropriate technology; the prices paid for acquired technology; the impact of technology on patterns of consumption and styles of development and the restrictions frequently provided for in purchase contracts with dealers in technology, which usually refer to, inter alia, the obligatory acquisition of equipment and machinery, technical services, intermediate goods and other items of a similar nature customarily provided by the sellers themselves or their subsidiaries.

The international technology markets are structured very poorly; thus, the service purchased does not have a comprehensive price but rather there is a margin within which a not inconsiderable proportion are the result of oligopolistic prices set by the sellers. Thus, the prices actually paid depend to a considerable degree on the bargaining power of the contracting parties, an arrangement which of course in the majority of cases tends to favour the sellers or in other words the transnational corporations.

With respect to this phase of the problem, the main aim of the policies should be to improve the supply and demand conditions of technology.^{32/} On the supply side there is a need to explore optional markets, both among the transnational corporations themselves and in institutional centres, at the governmental, private or university level, taking advantage of the proliferation of industrial poles in the international scenario of recent decades. The more options there are in the supply market, the greater will be the possibilities for more independent negotiation. In this connection, attention should be drawn to the possibilities offered by the small and medium-sized enterprises of the developed countries since some of their characteristics make many of them especially suitable for the transfer of technology to production units in the developing world. Similarly, the exchange of experience and technological innovation among developing countries and among the enterprises which they themselves support (a subject on which valuable experience has already been acquired in Latin America) may also yield big benefits.

However, there can be no doubt that the biggest responsibility in the definition of a policy for the selection and acquisition of technology is to strengthen the bargaining capacity of the peripheral countries as the origin of the demand. In this connection it is indispensable to organize an institutional framework made up of the State, the universities, those local private enterprises with enough incentive to participate in such an effort and regional co-operation and development bodies. Basically it is a matter of achieving a two-fold objective -an endogeneous capacity for knowing, selecting and discriminating between the different technological options available and a capacity for co-ordinating purchases of technologies through public or regional bodies.

The development of an organized capacity for technological know-how is fundamental for discriminating effectively in purchasing. In the last analysis, it is impossible to negotiate the transfer of knowledge and information without this minimum capacity for knowing what is available. At this point a vicious circle is set up which must be broken. In this connection the possibility of establishing multinational Latin American corporations made up of mixed, public and private bodies, which would help to acquire experience in other strategical areas, might be of interest.

The foregoing does not imply the postponement of, much less a failure to recognize, what is considered to be an essential component of technological policy, i.e., the strengthening of the endogenous capacity of the countries of the region either to generate scientific and technological know-how for application to their own development or to adapt or improve technology from the industrial countries. All this relates to the creativity which must necessarily be applied to industrial development within the framework of the peculiar characteristics and circumstances of the region and the countries in it.

In this respect, there is empirical evidence that the biggest countries in the region are making a significant effort in terms of resources allocated to technological research and development.^{33/} It has been discovered that these efforts are only partially aimed at reducing production costs, which is the most common

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reason for making innovations. Other relevant goals are the expansion and improvement of the installed capacity by designing plants which break bottlenecks; the introduction of improvements in the quality or design of products or their adoption to specific conditions; the use of raw materials and other local products; the adaptation of scales, etc. Experience shows that many of these efforts are frequently made by the very corporations which import foreign technology and decide on the advisability of introducing changes using their own technical equipment. In this respect, attention should also be drawn to the activities of the technological research centres and institutes in the region.

This information shows that local technological activity, rather than replacing the importation of technology, often serves as a link between local and foreign technology, i.e., the purchase of foreign technology opens the way to or creates a potential demand for local technological activity to be used in adapting the foreign technology to local conditions. The actual response depends of course on the availability of local technological capacity, which in turn requires the availability of qualified manpower, the institutions needed to set up the technical equipment, financial resources which can be allocated to develop the efforts required, and, finally, the granting of priority to this objective in industrial and development policies.

This is a field which is bursting with possibilities in terms of regional co-operation and complementarity since it has not been the object of much exploration and only a few countries have made systematic efforts in connection with it, and those efforts are still scattered or still at an incipient stage. In this respect, consideration should be given to the fact that such initiatives have frequently resulted in exports of manufactures as well as of adapted plants and equipment, technical assistance services and even direct intra-regional investments by the enterprises which have made such efforts. It should be emphasized, however, that, in accordance with the objectives of regional co-operation, the activities in question should be performed in such a way as to keep centre-periphery relationships based on subordination from developing within the region between the industrially more backward countries and countries which are ahead of them in the industrialization process.

Notes

- 1/ Angus Maddison, "Economic policy and performance in Europe 1913-1970", in Carlo M. Cipolla (ed.), The Fontana Economic History of Europe, vol. 5, Glasgow, Fontana Books, 1978, p. 444.
- 2/ Ibid., p. 479.
- 3/ Ibid.
- 4/ ECLA, Analysis and prospects of Latin American industrial development (ST/CEPAL/CONF.69/L.2), Santiago, Chile, 1979.
- 5/ Ibid.
- 6/ Fernando Fajnzylber, "Industrialización, bienes de capital y empleo en las economías avanzadas", in Comercio Exterior, Mexico City, vol. 30, No. 8, August 1980.
- 7/ Alfredo Eric Calcagno, Informe sobre las inversiones directas extranjeras en América Latina (Cuadernos de la CEPAL series, No. 33), Santiago, Chile, 1980.
- 8/ ECLA, Analysis and prospects..., op.cit.
- 9/ Ibid. Revised and updated.
- 10/ ECLA, Crecimiento económico e industrial del mundo y regiones desde 1950 hasta 1977 (E/CEPAL/L.231). Revised and updated.
- 11/ ECLA, Analysis and prospects..., op.cit.
- 12/ Ibid.
- 13/ The case of Africa, and partly that of Asia, corresponds to incipient export industries, or rather, some very simple semimanufactures, whose high relative importance is measured against a very small manufacturing sector. In Asia, moreover, the calculation is very much influenced by the countries of the Southeast.
- 14/ ECLA, Analysis and prospects..., op.cit.
- 15/ Ibid.
- 16/ ECLA, Analysis and prospects..., op.cit., and ECLA, América Latina y el Caribe: exportaciones de manufacturas por países y según su origen industrial desde 1961 hasta 1978 (E/CEPAL/L.235), Santiago, Chile, 1980.
- 17/ Ibid.
- 18/ PREALC, El subempleo en América Latina, evolución histórica y requerimientos futuros (PREALC/198). The lack of precision is due to the different criteria used to define underemployment.
- 19/ Norberto A. García, Industria manufacturera y empleo: América Latina 1950-1980 (PREALC, Trabajo ocasional/49).
- 20/ PREALC, El subempleo en América Latina..., op.cit.
- 21/ Norberto E. García, op.cit.
- 22/ The new industrial development strategy (1980s) was considered by the governments of Latin America and the Caribbean at the nineteenth session of ECLA (Montevideo, Uruguay, 4-16 May 1981). The respective industrial aspects at the regional level were presented in an ad hoc document: ECLA, Latin America: industrial policy in the context of the New International Development Strategy (E/CEPAL/G.1161). Santiago, Chile, February 1981.
- 23/ Fernando Fajnzylber, "Some reflections on southeast Asian export industrialization", CEPAL Review, No. 15, December 1981.
- 24/ Alejandro Foxley, "Experimentos neoliberales en América Latina", in Colección Estudios CIEPLAN, No. 7, March 1982.
- 25/ ECLA, Latin America: industrial policy..., op.cit.
- 26/ Enrique V. Iglesias, "Development and equity. The challenge of the 1980s", CEPAL Review, No. 15, December 1981.

27/ Ibid.

28/ Jorge Katz, "Cambio tecnológico y desarrollo en América Latina", IDB/ECLA Programme, in Ricardo Ffrench-Davis and Ernesto Tironi (eds.), Hacia un nuevo orden económico internacional. Temas prioritarios para América Latina, Fondo de Cultura Económica-CIEPLAN, Mexico City, 1981.

29/ Fernando Fajnzylber, "Industrialización, bienes de capital y empleo en las economías avanzadas", Comercio exterior, vol. 30, No. 8 Mexico City, August 1980.

30/ Ricardo Ffrench-Davis, "Políticas de comercio externo, industrialización y desarrollo", in Ricardo Ffrench-Davis and Ernesto Tironi (comps.), Hacia un nuevo orden económico internacional: Temas prioritarios para América Latina, op.cit.

31/ ECLA, Las relaciones económicas externas de América Latina en los años ochenta, Estudios e Informes Series, No. 7, Santiago, Chile, September 1981.

32/ Jorge Katz, "Cambio tecnológico y desarrollo en América Latina", op.cit.

33/ Ibid. The significance of this effort must be seen in terms of the rest of the region; but in relation with other geographical areas, Latin America is still far behind with regard to the priority assigned to the allocation of resources for technological research.

