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V. THE FUTURE OF THESE RELATIONS. NOTES FOR AN ANALYSIS



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## V. THE FUTURE OF THESE RELATIONS. NOTES FOR AN ANALYSIS

It would go far beyond the purpose of this study to carry out a complete and systematic analysis of the future relations of Latin America with Europe. The aim here is merely to indicate, on the basis of the conclusions which emerge from previous chapters, a few lines of analysis for the study of some of the aspects which are considered particularly vital for the future of these relations. The following comments, therefore, should be taken as a starting point for the discussion and as a working hypothesis for future research.<sup>1/</sup>

Moreover, this study only deals with industry in relation to the international division of labour between Europe and Latin America. It examines the factors which affect trade between them, the evolution of the Latin American productive structure - especially in manufacturing - and direct European private investment in Latin America. It does not deal with other questions such as relations in other fields - commodities, energy, finance, etc.

The following notes refer in particular to relations with the more developed economies of Europe. The references to private investment apply mainly to the European countries with a market economy, although they may be extended, at least in some important aspects, to those with a centrally-planned economy.

What is said here might also be applied, with due modifications, to Latin America's relations with other developed market-economy areas.

Two time horizons have been used:

(a) The long term; e.g., 10 to 20 years.

(b) The transitional period, that is, the short to medium term; e.g., 2 to 5 years.

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<sup>1/</sup> This chapter incorporates, with modifications, ideas presented in a paper prepared at the request of the secretariat by Ben Evers, Gerard de Groot and Willy Wagenmans, "Perspectives of industrial adjustment: the EEC and the developing countries". However, the opinions expressed in the present study are not necessarily those of these authors.

A. The long term

Some points arise from previous chapters which could be highlighted in summary form as a basis for what follows.

(a) Latin America now has a very large domestic market for consumer durables and capital goods of great significance to European exports, and even more for European technology and private investment. This market, based mainly on the middle-income strata, will increase in relative importance as a result of the high growth rate of the Latin American population, the increase in these middle-income strata and the incorporation into the market of sectors which are not yet part of it.

(b) Latin America has a labour force with a relatively high and still rising general level of education. It has broad sectors with industrial skills and experience. A high and increasing proportion of this labour force is urban and must therefore be absorbed into manufacturing industry and the productive services connected with it.

(c) The cost of labour in Latin America is still lower than in developed countries and, although the gap may be expected to lessen, it will continue for some time to be significant.

(d) The region possesses abundant and varied natural resources, including mining resources. The countries are clearly interested in increasing the degree of processing in exports of these goods.

(e) If the aim is to prevent an intensification of the present serious problems of extreme poverty, marginality and unemployment in the labour force and instead to begin solving them in the long term, albeit slowly, a high economic growth rate, of not less than 8%, must be achieved.

(f) This poses delicate problems of external bottlenecks which can only be tackled successfully if exports of commodities maintain constant growth and stable prices, and above all if exports of manufactures to developed countries develop at a high rate. The present asymmetry of Latin American external trade, with exports mainly of commodities and imports of manufactures, is changing and must continue to do so, with an increase both in the proportion of manufactures in exports and also in their technological input, as part of the process of change in Latin America's position in the international economy.

/(g) Latin

(g) Latin American industry has now reached a highly competitive level of development in a variety of goods, including consumer durables and capital goods. If this development is to continue, as it must in order to maintain the rising standard of living of the broad urban strata incorporated in the market, there must also be an increasing proportion of mechanical, chemical and metallurgical goods within exports, in addition to the more traditional manufactures.

(h) The region also possesses a technological capacity which is by no means insignificant, although still insufficient and fragmentary. The strengthening of this capacity will be a very important policy objective in Latin America.

(i) The protection of industry will probably continue to be rationalized and reduced. However, in most of the countries of the region government policy will probably continue to maintain a sufficiently high level of protection and support to national industry in order to carry out their policies for developing new industries, above all those of capital and basic intermediate goods.

(j) The countries of the region will probably continue to give high priority to encouraging modes of operation such as co-production, specialization and, to a lesser degree, subcontracting proper, on the part of foreign private investment and of transnational corporations; they will probably try to substitute these modes to a large extent for the traditional procedures whereby foreign enterprises produced exclusively for the domestic markets. They will favour whenever possible the breakdown of the private investment package by means of a separate negotiation of its components (technology, management capacity, access to international markets and distribution networks). They will probably also prefer association arrangements between foreign enterprises and national public or private capital, as well as arrangements which would enable them to strengthen their national technological capacity and degree of self-determination. Access to domestic or regional markets by foreign enterprises may be made conditioned upon their exporting a part of their production to the rest of the world, and allocating to factories situated in Latin American countries the production of parts of some goods or of certain models of others.

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(k) The supply of high-technology goods will continue to depend to a large degree on imports from developed countries; as the demand for these goods increases very rapidly, imports by Latin America from those countries, including the European countries, will be very dynamic.

(l) The availability of capital in Latin America will of course continue to be low in relation to labour and natural resources, in comparison with developed countries.

#### Four cases of specialization and co-operation

Bearing in mind the points summarized in the previous section, it is possible to identify in a very tentative and preliminary form four cases of manufacturing sectors. The possibilities of specialization by Latin American countries and of setting up activities of these sectors in them, and the modes of co-operation with developed countries like those of Europe, are different in each of these cases.

The grouping of sectors made here and the characteristics assigned to each represent simplifications whose sole purpose is to indicate some of the main factors involved, as well as possible policies of Latin American countries and modes of co-operation in each case. At the same time the possibilities and problems differ from one Latin American country to another. A more specific case-by-case analysis, will be required to reach conclusions with which to decide on the course of action to be followed in each situation.

#### (a) Mineral-processing and chemical industries

The goods processed by these industries serve as inputs for other manufacturing industries or for construction. They include, for instance, the iron and steel industry, some industries which process non-ferrous metals, the petrochemical industry, the fertilizer industry, etc.

Generally these industries are very capital-intensive, their capital is often immobilized to a considerable extent and they have long lead-times for investment. Usually they have economies of scale, and the minimum size for plants is quite large. Technological renovation is important - through a change in processes, for example, for mineral resources to become economically exploitable which were not so before. In some cases, in one part of an industry rapid technological renovation occurs, whereas in another

/part of



part of the same industry technology changes less rapidly. Thus, the petrochemical agreement of the Andean Group, for example, does not in general include products whose manufacture is subject to an excessively high risk of obsolescence. Labour intensity in relation to capital and product in actual production, i.e., in the plant, is low. These conditions give the industrialized countries advantages in these sectors, through their resource endowment and technological capacity.

On the other hand, mention must be made of the following features which explain the growing importance of these industries in Latin American countries.

(a) Some of these industries generate external economies in the form of forward or backward linkages. Their production stimulates the establishment of other industrial activities to provide them with inputs or capital goods, or to use the goods which they produce to process in their turn other goods; in this way they have positive effects on the industrial structure. The iron and steel industry, the processing of some non-ferrous metals and certain chemical industries lead to the creation of industries which use these goods as inputs.

In a preliminary study of the rayon industry in Argentina there is an analysis of two types of externalities which were presumably generated:

(a) the appearance of suppliers and manufacturers of spare parts and equipment; and (b) technical services for clients.<sup>2/</sup>

The social benefit may be greater than the private and may help to explain the support that the governments usually give to these sectors.

(b) The claim by Latin American governments of sovereignty over some non-renewable resources and their policies to achieve more local processing of the goods exported are designed to obtain a greater share for the country of the price paid by the final user abroad. The frequently oligopolistic character of the foreign markets of these goods and the desire that some of the forward linkages of the processing activities should be situated in the country underlie these policies. Due to increased concern about the

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<sup>2/</sup> IDB/CEPAL research programme on scientific and technological subjects. Working monograph N° 13: "Productivity, technology and local efforts in research and development", March 1978.

availability of some of these non-renewable natural resources, expressed in the Club of Rome Report and intensified by the increase in oil prices, the industrialized countries are very keen to ensure a regular supply of these. This provides the developing producer countries with greater bargaining power to attain their aims.

(c) The domestic market of some Latin American countries or the regional market already account for an important part of the demand for production. In some cases such as steel, production has been traditionally below domestic demand. But even in other cases of industries originally set up for export, the national or regional market is undoubtedly acquiring a growing relative importance with the process of industrialization. This sure domestic market gives the Latin American countries an advantage and strengthens the trend towards setting up industries for export too.

(d) These industries often produce a high degree of pollution, which causes some developed countries to look with approval on the displacement of the growth of these industries to developing countries.<sup>3/</sup>

The balance between these two groups of factors will possibly lead to: the increasing implantation in Latin America of mineral-processing industries to satisfy a greater proportion of domestic demand and to export these commodities with a greater manufacturing value added; the development of basic chemical industries with intra-sectoral specialization, making the export of some goods compatible with the import of others; an increasing degree of participation of national public and private capital in the ownership of these industries; and co-operation between Latin America and enterprises of developed countries, such as the European countries, for the development of these industries, in some of the forms dealt with in chapter III, part C. It would seem that this prospect, viewed mainly from the Latin American standpoint, might in its general features be acceptable to European developed countries. However, there is perhaps little hope that even in the long term these countries would allow the industries in question to be entirely transferred to developing countries.<sup>4/</sup> For strategic,

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<sup>3/</sup> This subject, like those of the size of the domestic market for consumer goods, cost of labour, etc., was dealt with in chapter III, part two.

<sup>4/</sup> Ben Evers, et al., op. cit., pp. 28-30.

political and economic reasons, the developed countries will possibly also try to control a certain proportion of their demand and to diversify their sources of supply, in order to avoid being placed in a vulnerable position by a too heavy and unilateral dependence on certain suppliers. At the same time it must be hoped that the trend will continue towards the development of technologies which save mineral natural resources by means of recycling, the substitution of industrial products, etc. Among the improved processes reference may be made to electro-chemistry, combustion technology, biotechnology, catalysis, etc. In other words, the production of these goods will probably be shared between developing and developed countries, the latter co-operating with the former in the part of production which takes place in them.

A very important example of this type of sector is the iron and steel industry.<sup>5/</sup> Others would be the petrochemical and non-ferrous metals industries. It should be noted that the iron and steel industry is mentioned only by way of example, and not because it is more important than various other industries which would have served equally well as examples here.

During the post-war period there was a very rapid expansion of the iron and steel sector in Europe, which in 1974 reached a level of steel production comparable with that of the United States and the Soviet Union. Technology changed considerably and spread widely; production techniques and the structure of the sector tended to become more homogeneous in European countries. Productivity rose rapidly; the labour force fell from 469,000 in 1963 to 426,000 in 1971, in spite of the rapid increase in production.

The sector is predominantly national in character in Europe. International firms are on the whole exceptional (e.g., the case of ESTEL between Holland and Federal Germany). Domestic markets are relatively closed and function as oligopolies; in Europe 12 companies are responsible for 75% of the production; in Japan 6 companies account for 80% of the production and in the United States 9 companies produce 71%.

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<sup>5/</sup> Ben Evers et al., op. cit., pp. 41 and 42.

In Europe steel production is under the aegis of the European Coal and Steel Community which promotes and rationalizes the common market for iron and steel and can impose sanctions against restrictive practices by cartels and set minimum prices, as it is doing now in consequence of the present recession.

Between 1953 and 1971 international trade in iron and steel grew more rapidly than production: the latter doubled while the former quadrupled; the proportion of international trade over production rose from 7.4% to 13.7%. Parallel to this there was a sharp change in the participation of individual countries in world trade between 1950 and 1971. During this period the market share of traditional exporters (United States, Belgium, France, Italy, Great Britain and the Federal Republic of Germany) dropped from 85% to 46%. In contrast, new exporters developed during the same period: Japan (from 3.4% to 22.2%), the Soviet Union (from 4.1% to 7.9%) and numerous developing countries. The developing countries have increased their presence mainly in recent years: between 1970 and 1974 their share in the total iron and steel imports of the OECD countries increased from 2.8% to 4.1%; between 1965 and 1971 the number of developing countries exporting these products rose from about 26 to 54. It must not be forgotten that the proportion of pig iron is greater in the imports coming from the developing countries than in the total; even though this proportion has diminished, it represented in 1970 9.2% of the total imports of the OECD countries and 58.0% of their purchases from developing countries. In 1974 these percentages were 9.2% and 45.5% respectively.<sup>6/</sup> The chief exporters of more highly processed products among developing countries are: Korea (55% of imports from these countries), Argentina (7.5%), Mexico (7.5%), Taiwan (6.7%) and Brazil (4.0%).

The growing importance of developing countries in the world iron and steel industry is boosted by the growing number of those which wish to export their raw materials in processed form, and by the increasing importance of their markets in this sector in consequence of their own development and industrialization. The international division of labour between developing

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<sup>6/</sup> Source: OECD, "Trade by commodities - Imports", 1970 and 1974.

and developed countries which is being introduced appears to assign to the former the initial, more standardized phases of the process; the developed countries, on their side, tend to specialize in the more advanced phases to which they attach strategic importance, and which have greater technological requirements.

The exports of iron and steel from developing countries to markets of the European Economic Community encounter considerable obstacles of three types: tariff and non-tariff barriers, transport costs, and the oligopolist structure of these markets.

The tariffs of the EEC increase in proportion to the degree of processing: from zero for iron ore they rise to 6.6% for the semi-processed product and to 8.7% for the processed product. The non-tariff barriers include import licenses, quotas, anti-dumping regulations, administrative obstacles and support to the domestic industry (direct payments, investment incentives and tax relief measures). These non-tariff barriers are the result of internal pressures and are often of an ad-hoc nature.

Fluctuations in export prices, insofar as they depend on markets of developed countries, are also greater for the processed products than for iron ore, pellets and cast iron, which are usually subject to long-term contracts. From the policies and measures actually applied it is clear that the European Economic Community considers this sector very important and is not prepared to sacrifice it despite the growing international competition. A policy of restructuring the industry is therefore being followed, complemented by the set of trade policy measures.

The serious internal difficulties of the EEC are manifested in structural excess capacity (only 65% of installed capacity is in use), which is due to the large-scale expansion carried out before the beginning of the recession, the unfavourable evolution of domestic consumption and the deterioration in the Community's external position (export minus imports). The recession has resulted in the loss of many millions of man-hours through workers being laid off and the work-force reduced; the employment outlook is not encouraging.

During 1976 the European Economic Community took measures temporarily to relieve the crisis, using the instruments provided for by the European

Coal and Steel Community. The worsening of the situation led to the extension of these measures into a full-scale crisis programme with objectives up to 1985 and 1990. In the short- and medium-term its aims are as follows:

- (i) To improve the profitability of the industry without expanding productive capacity; the EEC has suggested the application of price regulations for various iron and steel products, has increased the possibilities of financial support with a view to stimulating the shift towards a more modern and rational industry, and has proposed measures to support research with a view to improving productivity;
- (ii) To control the market; to this effect the EEC has introduced an "early warning" system paying special attention to imports and a series of anti-dumping regulations for iron and steel products;
- (iii) To mitigate the consequences for the workers of the re-adjustment process by means of the Social and Regional Fund.

Although the programme for the iron and steel industry is the EEC's broadest programme for manufactures, it contains important shortcomings. It is not binding upon business enterprises and governments and therefore its success depends on their willingness to adopt it. Moreover, a further expansion of demand is urgently required in order to avoid more serious problems for the industry. In these conditions the future of the sector is uncertain.

Under these circumstances the possibilities for developing countries to increase their participation in the Community's iron and steel market are limited, at least until the industry of the Community's own member-countries is in a better condition to compete.

(b) Light industries for the processing of final and semi-final non-durable consumer goods

The second group comprises light industries for the processing of agricultural and chemical products and the production of final non-durable consumer goods based on the former. It includes food and drink industries, together with others which process agricultural raw materials (textiles and clothing, leather and its products including footwear, light chemicals such as paints, articles made of wood, etc.). It includes both the

/production of

production of goods exported in final form, and others which are sold abroad as intermediates with some degree of processing for use as inputs in other industrial processes.

With all reservations due in the case of a simplified generalization of this kind, these industries may be said to have certain features which favour developing countries, such as those of Latin America, in establishing them:

(a) A broad and increasing domestic market; many of these goods are widely consumed by sectors with rather low incomes.

(b) Capital intensity is generally not very high.

(c) They require a medium or high proportion of labour which, above all need not be highly skilled. There are, however, important differences in this respect, and also in respect of point (b) above, even among industries which form part of similar manufacturing groups. For example, the fibre and yarn industries are generally more capital-intensive and less labour-intensive than the clothing industry, whereas the latter is well-known for the high content of low-skilled labour which it requires in its productive process.

(d) Technological renovation is not very rapid.

Nevertheless, several developed countries, including European ones, maintain a large share and an active interest in the development of these sectors of manufactures in the following ways.

Firstly, they have a high degree of control over the distribution and marketing of some of these items, as in the case of certain food industries, such as dairy products, oils, etc. Advertising is an important tool to influence public taste and thus to maintain a degree of control over distribution.

Secondly, even though technological change is not important some developed countries do in fact exercise leadership and a degree of control over some of these activities, either because they have the advantage in design, which is important for textiles or high-quality footwear, or because they introduce innovations in the presentation of the product or control

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patents, as in the case of food industries such as dairy products, chocolates, etc. The needs of urban life often reveal the advantages of new presentations of foodstuffs, such as packaging, etc.

In brief, the Latin American countries possess important advantages for the development of these sectors. It may be assumed that they will have a growing share in the supply of the growing world demand, including that of developed countries. Of course one cannot expect a complete displacement of these industries from North to South nor a total loss of participation and interest in them on the part of the developed countries; these countries will possibly try to avoid an excessive dependence on other countries for the satisfaction of their own demand and will continue to exert influence through advantages of design, presentation, management of distribution procedures and swaying public taste by means of advertising. The importance which these factors may have will also depend on the effort made by the developing countries to achieve a leading role. It must also be remembered that we are referring here to the long term; in the short and medium terms the growing protectionist trends, which will be discussed below, will play an important part.

In other words, in the long term, within a production scheme shared by developed and developing countries, the Latin American countries ought to increase their share of total production, collaborating in some cases with enterprises of the developed countries.

The prospect for the future may be projected on two time horizons: firstly, the long term, during which the factors examined below will have an important though not absolute influence on the specialization and participation of Latin American countries in the development of each type of sector; and secondly, the short or medium term, during which the rigidities caused by the already existing capacity and the current problems of unemployment, the balance of payments, recession and inflation will play a major role and will limit or hamper an advance towards the long-term goals.



(c) Metal-working industries

The third case comprises metal-working industries producing durable consumer goods and capital goods which do not need highly sophisticated technology and which are often mass produced. An important aspect of these industries is that they generally involve the assembly of parts produced by sub-sectors which differ considerably among themselves in respect of labour and capital intensity, technological requirements, etc. In the interests of simplicity two classes of sub-sectors or processes within each industry may be identified.

One group of sub-sectors or processes contains: medium or high capital intensity; relatively low labour intensity; high technological requirements. All these features often appear together, but even when this is not so, there are always at least exacting technological requirements stemming from the fact that the industry as a whole involves a considerable degree of technological renovation and therefore its competitive development demands considerable resources devoted to research.

A second group of sub-sectors or processes, in contrast to the former, is relatively low in capital intensity, high in labour intensity and with a technology which, although perhaps modern, is within the reach of developing countries.

A clear example of this type of industry is the motor-vehicle sector. The production of the sector is organized on the basis of assembly plants and a considerable number of factories producing individual parts.

The constant introduction of new models, imposed by competition, and consequently of parts, calls for a high degree of technological capacity; capital intensity is also high in some of the processes for the production of certain parts; in other words, the industry includes sub-sectors or processes of the first type. On the other hand, the production of other parts or other processes belong to the second sub-group; they call for little capital intensity, a lower capacity for technological innovation, and only medium or low skills in their labour force.<sup>7/</sup>

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<sup>7/</sup> This semi-skilled or low-skilled labour force however, must usually have a general education above a certain level. For example, in an assembly line each worker must carry out simple but varied and numerous operations, so that his general education cannot be very low. General education is also usually related to responsibility and work habits needed in industry.

The economies of scale are very different from one sub-sector to another: some can produce competitively on a relatively small scale; others, in contrast, have strong economies of scale and therefore require plants of considerable size.

The transnational corporations are generally the owners of trademarks and patents and are able to carry out the necessary technological research. The sub-sectors and processes of the second type can take place in separate plants which may even belong to national companies of developing countries, associated or not with the transnational enterprises.

For these reasons, co-production and sub-contracting play a very important part in the organization of this sector in most countries of the world where it exists, including those of Latin America. This leads to an important international trade in the sector's products; parts are interchanged between plants in different countries. It also generates in each country a strong domestic trade in parts, of considerable volume in relation to the production of the sector.

In addition to the motor-vehicle sector there are several other industries with similar characteristics, such as electronics, consumer durables, mass-produced capital goods (multiple-use machine tools, tractors, boilers, ship-building, etc.). These sectors are also traditionally organized on the basis of various plants specializing in the production of different parts, together with assembly plants; the tendency to subdivide the industry into separate plants varies from one country to another and has tended to increase in recent years. For example, Japan has made great use of specialization among several plants within a single sector; this has led to very close co-operation between large plants and firms and other medium-sized and small ones producing parts; the former generally handle the technological side and are responsible for components and processes with a high capital intensity and powerful economies of scale; the medium and small firms specialize in products which are more labour-intensive and less capital-intensive and receive from the large firms the technical and financial assistance needed for them to produce components which meet the cost and quality requirements imposed by the competitiveness of the industry as a whole.

/The transnational

The transnational corporations which generally control the production and technology of each sector are beginning to seek to shift the more labour-intensive part into countries where labour costs are lower; this involves not only labour with low specific skills but also more highly trained manpower which nevertheless remains less expensive. An hour's work by a skilled labourer or engineer in a developing country like those of Latin America is cheaper than that of a worker or engineer with similar qualifications and experience in a developed country. This trend towards the displacement of sub-sectors into developing countries has been gaining in importance and will probably be intensified in the long term, particularly as a result of the growing competition by the Japanese and European firms with those of the United States, which dominated the markets and the sectors up to a few years ago. In the short and medium term the developed countries may put up some resistance.

The motor-vehicle industry, as discussed in the study mentioned earlier,<sup>8/</sup> is a good illustration of this type of sector.

In the four countries belonging to the European Economic Community (the Federal Republic of Germany, France, Great Britain and Italy) the motor-vehicle industry is very important. In 1973, in relation to total industrial production, it generated between 5.2 and 6.9% of the value added and employed 5.5% of the labour force. Its weight in the external trade of these countries was even greater, as it represented between 8 and 14% of their total exports.

This motor-vehicle sector has undergone a marked process of decentralization. Until the end of the 1950s the industry was concentrated in a few large centres, such as Dagenham, Paris-Billancourt, Wolfsburg, Torino, etc. During the 1960s there was an internal decentralization towards other regions within the same European countries, prompted on the one hand by increased labour conflicts and the rise in wages, and on the other by the policies of the governments of these countries which encouraged decentralization.

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<sup>8/</sup> Ben Evers, et al., op. cit., pp. 36-39.

At present a process of international decentralization is taking place which has followed, in some cases, and in others run parallel to, that carried out within the same countries. This transnationalization is reflected in the rapid increase in the number of assembly lines. In 1974 there were 550 lines in 81 countries, of which 80 (15%) had been established in the last two years. Of this total, 350 lines (60%) were for European, 98 (18%) for Japanese and 85 (15%) for United States vehicles.

There are two main factors behind this international decentralization. The first relates to labour. The motor-vehicle industry is relatively labour-intensive. The special skills required are low in important parts of the productive process, although a suitable level of general education is required. The conditions of work in various parts of the process are by no means attractive because of standardization and automation. For these reasons, in the abovementioned European countries the industry attracted migrant workers from countries or regions with a lower income level, while labour conflicts continued to increase. This led to the beginning of a process of displacement of production into countries where labour was abundant and cheap.

The second reason relates to the market. In order to improve their access to markets the firms have had to carry out a mutual interpenetration of the markets of industrialized countries (e.g., Volkswagen in the United States) and to establish assembly plants in developing countries, above all in those which maintained a high level of protection and were going ahead with dynamic industrialization processes, as was true of many Latin American countries. In the case of the developing countries, in addition to the processes aimed at producing for the domestic or regional market, there is a perceptible trend towards displacing part of the productive processes to these countries with lower labour costs with a view to producing for the international markets. This trend is prompted by the increasing competition of Japan, in addition to the excess of installed capacity for production in the European industry and to the slow growth of demand in Europe. The import restrictions which the European countries might apply would not be very effective in the medium or long term, since

/the Japanese

the Japanese firms could retaliate by establishing production lines inside the European Economic Community.

Some producers have now decided to displace labour-intensive parts of the productive processes into countries with cheaper labour for subsequent export to other markets. By way of illustration, the FIAT plants in Spain (SEAT) export to other developed countries; the Ford Fiesta model for the European Market is produced in Spain; the Volkswagen plants in Brazil and Mexico are also oriented towards export; the co-operation of firms with European countries which are members of CMEA (FIAT in Poland and the Soviet Union, Renault in Rumania) has led to exports from those countries, above all to other European countries.

With regard to assembly plants, as already stated elsewhere, production might be expected to be increasingly displaced to developing countries with lower wages, while new models and the smaller production series of expensive models in some makes with a lower price-elasticity of demand continue to be produced in developed countries where wages are higher. In addition to the allocation to developing countries of a large share of the international market for certain models, which was discussed in chapter III in connexion with specialization, the production of parts is also being divided up. The original situation in which the production of components was carried out near to the assembly plants has gradually yielded to the policy by the transnational enterprises of trying to multiply the sources of supply in order to avoid the risks of depending on a single source for the supply of vital parts, and in order to promote more competition among suppliers.

These trends towards decentralization inevitably have had political implications, in view of the great importance of the motor-vehicle sector for manufacturing, the industrial structure, employment and the international trade of the European countries. A reduction of 100,000 jobs in the European motor-vehicle industry is expected in the forthcoming decade. International competition is intense. Prospects are uncertain, not to say unfavourable. The European Economic Community encourages co-operation between firms on the European level, which reduces the ability

of national governments to influence the development of their own industries; the influence of the trade unions in each country may also be affected.

With regard to the Latin American attitude in this respect, in addition to what was said in the third section of chapter III, reference should be made to the motor-vehicle agreement recently approved by the Andean Group, which establishes that each country should produce a part of the components required for the vehicle in which it is going to specialize and may import the rest from abroad, always provided that this import is offset by an equivalent value of exports of the components it produces. This compensated interchange constitutes a duty imposed on the final assembly plants which will undoubtedly be under the control of some of the great transnational motor-vehicle enterprises. Permission to import part of the vehicle makes it possible to avoid an increase in cost or an excessive drop in quality by compelling the enterprises to produce in the member countries components which these are not in a position to process competitively either now or within a reasonable time; to produce these components would force them to fix protection for the final article at a higher level than the maximum which the country or the sub-region is prepared to allow. The obligation to offset these imports with exports is a further example of terms imposed on transnational companies and enables the countries on the one hand to defend the balance of payments, and on the other to ensure the beginning of the regular export of parts of motors or vehicles. In Latin America it has generally been the case that, for an initial period, a condition of entry of a transnational company into the production market has been to include an increasing proportion of national (or regional or sub-regional) components in the production of the article in question. Only in a second stage (very recently introduced) have export obligations been introduced into the terms of entry or permanency in the national or sub-regional market. In the first stage there is a desire to prevent the industry from consisting of a mere assembly of parts manufactured abroad. The production of components provides a major part of the favourable technological impact that the motor-vehicle industry produces on the economy as a whole. Consequently it is made a condition of participation in the sub-regional market that the vehicles should contain increasing proportions of components produced by the Group.

*/An interesting*

An interesting case in which production is generally not carried on in series of great length, except for certain parts, is that of machine tools for a single speciality. These are tools which are adapted to the specific need of a particular industry or process, such as specialized or high-precision lathes or milling machines; they are quite different from those of more general application which are used for repairs or in industries and processes which do not require very specialized machinery. In this case, the machine cannot be mass produced. It has to be "made to measure" after a careful study of the process of industry in which it is to be employed. This requires highly qualified and technically specialized manpower, although not necessarily much infrastructure in the way of basic and applied research. It might be said that it is rather a case of craftsmanship with a high technical content requiring the participation of specialized engineers. Some Latin American countries have now had considerable experience in producing this type of article, and they also have the advantage of the relatively lower cost of their trained manpower in comparison with developed countries. Similar examples can also be found in other capital goods, particularly if one assumes a concentrated research effort which, in both scope and quality, lies within the reach of Latin American countries.

In brief, most of the Latin American countries, with due regard for the differences between them, have the interest and facilities to play an active part in the development of these sectors. They already produce many of these goods to supply their own markets and in many cases have already begun to export significant amounts. They have relatively lower costs for unskilled and even skilled labour. They wish to diversify their exports by incorporating these goods with a relatively high income-elasticity of demand and a dynamic international market in comparison with commodities and the non-durable consumer goods produced by traditional industries.

In addition to the advantage of available labour the Latin American countries have the important advantage of the bargaining power provided by their own broad and increasing domestic market. In recent years several governments have established conditions for permitting the entry of transnationals to produce for their domestic market.

(d) High technology goods

The fourth case consists of sectors producing specialized capital goods involving high technology. This group includes, among others, producers of equipment which determines the productive technology of other goods.

The research carried out by these sectors is the factor which enables innovations to be introduced, which in turn make it possible to achieve greater cost and quality efficiency in the goods produced with these types of equipment. The research required is in turn complex and expensive and is generally beyond the reach of developing countries. The production of these goods does not necessarily imply a relatively high capital content, but it does demand very high levels of investment and technology costs. The manpower required is to a large extent of a very high technological standard.

The industrialized countries will probably tend to shift resources into these industries so that they may exploit their advantage in the scientific and technical field, benefit from the high income-elasticity of demand for these goods, attain higher margins of profit in virtue of their technological superiority, and be able to pay their work force increasing wages in proportion to the higher qualifications required.

In the case of Latin American countries, for a certain number of years technological inferiority will not allow them to undertake the competitive production of some of the more complex of these goods; they will need to import them in order to produce in their turn, with up-to-date technologies, the goods produced with this equipment.

In qualification of the foregoing paragraph, and with reference to exceptions which may be important, it may be hoped that some Latin American countries, particularly the more advanced, will undertake some processes or parts of the production of these goods: concentrating on them may lead to possibilities of competitive production both for the national and regional market and for export. The operation of plants in Latin American countries over a long period of years is gradually generating a technical experience which facilitates a deeper knowledge of the processes, the introduction of minor innovations in the plants, and the provision of useful support in the

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installation of new ones. For example, in some cases where a furnace, a distillery or a petrochemical factory has to be installed, some Latin American countries have the capacity of build the plant, but not to design certain parts of it, and this has to be obtained from abroad. The engineering concern which provides the design needs to operate with a capacity for research and with an operational scope which in some cases is beyond the reach of these countries. It is possible to envisage a form of co-operation between Latin American countries and enterprises of developed countries in which the former contribute the construction and the latter the design and certain technologically complex parts.

B. Conflict between long- and short-term objectives?

The preceding section presented a long-term view of the type of specialization which Latin America might pursue, and the co-operation with European countries which might be sought in different sectors. This section will contain a brief analysis of some problems which arise in the short and medium term in the advance towards these objectives.

In the case of the developed countries there appears to be a measure of conflict between, on the one hand, long-term objectives and the policies appropriate for pursuing them and, on the other, short- and medium-term objectives and policies. First, a summary will be given of the policies for industrial reconstruction which are being followed by some of the principal European countries with market economies. Next, reference will be made to some of the major problems at present affecting the developed economies, with their restrictive effect on reconstruction, and to the protectionist policies of these developed countries. Finally, a proposal will be made for the reconciliation of long- and short-term objectives for the revival of the world economy.

/1. Policies

1. Policies for the restructuring of industry in the developed countries

Following the interpretation given in the study mentioned earlier <sup>9/</sup> concerning current policies to restructure industry in the industrialized countries of Europe, it might be said that they aim to bring about transformations in the manufacturing sector through three types of mutually complementary policies.

Firstly, there are the policies designed to place the existing industries in those countries in a competitive situation vis-à-vis similar ones in other developed and developing countries. These policies apply in particular to sectors such as textiles, footwear and other leather industries, paper, automobiles, ship-building, iron and steel. They are intended to modernize obsolete machinery, rationalize the productive processes, and in general bring these industries up to date. They cannot, of course, completely overcome the potential disadvantages of these countries in these sectors, which stem from more permanent factors, such as the high cost of labour, environmental problems, etc.

Secondly, insofar as these policies are unable to eliminate the competitive disadvantages of these countries in the sectors in question, the developed countries of Europe can seek association with developing countries in order to share in the production of these industries in the latter countries. In this case, the European countries are in a position to contribute elements such as technology, access to the markets and capital. The developing countries can contribute labour, natural resources, an industrial environment and their own markets, in addition to the technical capacity which they already possess, as mentioned in chapter I. This production would be destined not only to cover the demand of the countries where it is actually carried out, but also in part for export to the rest of the world, including the developed European countries themselves.

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<sup>9/</sup> Ben Evers et al., op. cit., pp. 47 et seq. The study refers to the member countries of the European Economic Community; here their theory is extended to other developed European countries which are members of the OECD.

/Thirdly, there

Thirdly, there are policies for the development of industrial sectors with advanced technology, by giving them greater priority than hitherto in the sectoral composition of the industrial structure and in the allocation of productive resources. These sectors include, inter alia, computing and data-processing equipment, aircraft construction, telecommunications, nuclear technology, etc. The development of these sectors generally requires government support and in some cases also co-operation between European countries, as has occurred in some sectors in recent years. Government support can be provided in the form of measures to stimulate research and development, financial help and investment orientation, sales promotion, etc.

The transforming of the manufacturing structure by progressively diminishing the role of the more labour-intensive industries with less intense technological change, and granting increased priority to industries with more rapid technological change, more capital content and a highly qualified work-force, is one process by which the developed countries can sustain their wage increases and the general development of their economies. This measure is encouraged by some transnational enterprises as a result of the growing competition among them and among developed countries to win markets, which induces them to shift parts of the industrial productive processes into countries which possess certain cheaper elements of production. In chapter III some facts were given on the different progress made by transnationals of Europe, the United States and Japan to win export and investment markets.

In general the industries being restructured cater for demands which have been declining in developed countries as markets have gradually become saturated. In contrast, the demand for their products is still buoyant in Latin American countries, since the needs of the social strata already incorporated into the market have not yet been satisfied and there is a further great potential demand in the marginal strata. The dynamism of these manufactures is gradually being displaced from North to South. If there were also a shift to developing countries of part of the productive activity of these sectors (non-durable and durable goods, and some capital and intermediate goods), and a closer co-operation between these countries

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and the developed countries were achieved, the developed countries would still have dynamic prospects, while the developing countries, on their side, by obtaining part of the market of the developed countries, would receive a great boost to their production and exports and would increase their imports, both in these sectors and in others with advanced technology from the developed countries.

## 2. Short- and medium-term policies of the developed countries

In the short and medium term, the application of these restructuring policies may produce maladjustments such as those which usually accompany transformations in the production structure. In this case in particular there are certain circumstances which must also be taken into account. In the first place, it is not a question of change in isolated sectors with little influence on the great macroeconomic variables; several very important sectors may be affected, with a great impact on the economy as a whole. In the second place, these changes are taking place at a time when there are also serious problems to be faced in the world economy.

It is common knowledge, of course, that in the developed economies two problems arise, or are latent, simultaneously: the problem of recession, with a fall in the economic growth rate and consequent unemployment, and the problem of inflation. The growth rates predicted for the medium term in the economies of the OECD are lower than those sustained over long periods in the past. Open unemployment has reached high proportions in many of these countries, and although it has been reduced it is still a major problem; in some cases a further rise in unemployment has been avoided by a reduction in the proportion of foreign labour employed. The solutions are all the more difficult in that the measures for combating the recession may stimulate inflation, and those intended to limit the rise in prices may have a negative effect on the growth rate and on the recovery of economic activity.

Although the present problem undoubtedly has a short-term component, it is not purely a short-term phenomena. The present period is one of transition in the world economy, in developed and developing countries

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alike. Some of the factors which gave dynamism to their economies after the war are wearing out. To obtain new dynamic factors, transformations are required which involve time and important decisions. There is an overlapping of short- and long-term factors, and the solutions also need to combine the two time horizons; the problems cannot be eliminated in the short period.

In addition to these changes, there is the transformation taking place in the international monetary and financial system.

It must also be remembered that a change is taking place in the relative position of the developed countries among themselves. Not only is the bipolar world gradually giving place to a multipolar world, as seen in the increase in competition mentioned earlier, but there is also an intensification of the differences in dynamism among the various economies of the OECD, which help to explain the differences already existing among these countries in respect of the priority which they currently assign to long- and short-term considerations.

The measures adopted by developed countries, both European and others, to combat inflation and defend their balance of payments, have a negative effect on their policies to restructure their industry and their imports from Latin American and other developing countries. In the initial stage following the increase in oil prices, the surplus of the OPEC countries had its counterpart in a balance-of-payments deficit both in the developed and the developing countries. Gradually, however, the former succeeded in levelling off their balance of payments and the deficit is now confined to the developing countries. It should be borne in mind that this surplus of some of the OPEC countries will be substantial and prolonged, a factor which must be added to the number of transformations in the world economy mentioned above.

Hitherto, by means of their deficits, the developing countries have helped to activate the economies of the developed countries. In the future, their rate of development, the performance of their exports and consequently of their imports, the deficit in their balance of payments and their external debt, are not aspects which should be considered of interest only to the

/developing countries

developing countries themselves; their problems are created by factors of the world economy as a whole; their solutions will also have important implications for the performance of this same world economy.

For these reasons it is a matter for concern that in the policies of developed countries short-term considerations may take precedence over long-term ones. An indication of this possibility is the substantial increase which may be observed in the protectionist policies of these countries. Indeed, one important expression of the concern over the problems just described is the growing protectionism in trade, to which reference was made in chapter II.

As pointed out in a recent article in The Economist,<sup>10/</sup> pressure groups in the industrial countries are becoming increasingly preoccupied by the prospect of "other Japans" flooding their markets and extinguishing whole industries (although) the threat is exaggerated (and) there are benefits to both rich and poor from increasing trade in manufactures. The article classifies eleven countries, including two Latin American ones (Brazil and Mexico) as "Nics" (newly industrializing countries) and describes growing protectionism in the industrialized world against them as follows: the Nics, as well as Japan, are coming into the front line of protectionist fire in America and western Europe. The backlash in particularly "sensitive" areas (e.g., textiles) is worrying enough - especially when the barriers thrown up are unpoliced (because "voluntary") and impossible to hurdle (because quantitative). More ominous still are the hints that the rich might disallow the basic development strategy that has produced those troublesome exports, in part because of Japan's mercantilist behaviour in piling up a seemingly permanent trade surplus. The article goes on to say that the products in which the Nics have so far scored their biggest gains are precisely those which the older industrial economies ought gradually to be abandoning in favour of more sophisticated products needing the skill, research and development and capital that are scarce in industrializing developing countries.

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<sup>10/</sup> The Economist, June 10, 1978, pp. 84-85.

Three main groups may be distinguished as influencing the governments of industrialized countries to step up trade protectionism. They are (a) the industrialists who see a possible threat to their own firms, (b) the labour unions, which are concerned about the threat to employment, and (c) minority groups and regions whose interests may be at stake in the case of particular industries.

It has been observed that there is growing opposition from the European trade unions to the way in which the new international division of labour is taking shape. This inference is based on certain ICFTU declarations, this organization being rather representative due to the dominance of European unions, (AFLO-CIO left the organization in 1969).<sup>11/</sup>

Neo-protectionism is aimed particularly at the semi-industrialized countries, including several Latin American ones, and the industries most affected by this resurgence are precisely those that are of great importance to Latin America. Here there is a clear example, moreover, of attempts to solve short- and medium-term employment and balance-of-payments problems which interfere with efforts to achieve longer-term objectives of economic restructuring.

### 3. Reconciliation of long- and short-term objectives

It therefore seems undeniable that some conflict exists between the long- and short-term aims of the developed countries. On the one hand, they must transform their economies, by shifting their attention and economic resources from traditional sectors into other more dynamic ones, in order to create the conditions for a new stage of vigorous development. On the other hand, these same transformations may aggravate short-term unemployment and balance-of-payments problems. If these short-term considerations prevail, the advance towards the necessary transformation will be hampered and the period of uncertainty, difficulty and low growth rates will inevitably be prolonged.

In practice it can be assumed that the policy of the developed European countries will combine both elements in the next few years. This will

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<sup>11/</sup> Ben Evers, etc., op. cit., pp. 72-82.

/probably mean

probably mean that the rate of restructuring industry will be slowed down and its form modified.

In the abovementioned study 12/ a summarized account is given of the policies of industrial restructuring of various developed European countries; the conclusion which emerges from this account is that the policies applied by the various countries give a different priority to considerations of long-term restructuring compared with the short term. Moreover, just as the strength and characteristics of the economies of these countries differ, so there is a difference in the importance given by their governments to social and political considerations closely linked to the problems of the present situation.

How to combine both time horizons and achieve a gradual advance which would not create unmanageable disturbances in the short term, but which would at the same time ensure steady progress in the right direction, is a problem of economic policy which interests both groups of countries. For the developed countries the growth of the developing economies, especially those which have achieved semi-industrialization like many Latin American countries, promises to be the "engine of growth" which is so much needed. For the developing countries the subject is even more vital: on the achievement of adequate international co-operation to complement their domestic effort depends their possibility of tackling with some hope of success the grave problems of mass unemployment and poverty and their economic, social and political consequences.

Finally, from the Latin American standpoint, it is essential that the international co-operation policies in different fields (trade, private investment, finance and technology) should be viewed not only separately but as a whole. Partial considerations and separate negotiations in different specialized fields may be necessary from the practical point of view, but if the relation between these different fields is not at the same time taken into account, there can be no true interpretation of the nature of the problems nor an adequate approach to their solutions. Here are two examples.

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12/ Ben Evers, etc., op. cit., pp. 72-82.



In the first place, a greater access to the markets of developed countries for the manufactures of the region, and in consequence a more rapid growth rate for their total exports, relieves the need for external financing and reduces the effect of debt servicing on the balance of payments and on the capacity to import.

In the second place, in discussions on the restrictions which some developed European countries place on imports of Latin American goods, sufficient importance is not attached to the fact that Latin America constitutes at the present time, and will even more in the future, one of the most important areas for private European investment in the world. The investment possibilities in this region strengthen the international corporations and their capacity to sustain on an adequate scale the heavy costs of research and development involved in achieving technological innovations, which in their turn generate the competitive capacity of the European countries throughout the world. Reference has already been made to the great bargaining power which Latin America possesses in virtue of its broad domestic market. This bargaining power is important in relation both to private investment and to trade, finance and technology. To relate this interest in the Latin American market on the part of European investment with the treatment of Latin American exports in the European markets, is a matter of great importance to Latin America.