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New strategies of *transnational* corporations *in Argentina*

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This article analyses current trends as regards the role of transnational corporations in Argentine industry in the light of the structural changes taking place on the domestic, regional and international fronts, as compared with the conditions prevailing during the application of the import substitution model. Section I describes the new conditions observed at the national and international levels which are forcing all business enterprises to redefine their production, commercial, financial and technological strategies, with the Argentine subsidiaries of transnational corporations playing the leading role in this process. In section II, the essential characteristics of the transnationals' presence in Argentine industry are evaluated, and the differences between current conditions and those that existed during the period of import substitution are identified. Next, on the basis of information obtained from the major transnationals in 1992, section III discusses some of the most striking aspects of the transitions in these corporations' strategies, within the context of the economic changes taking place in Argentina and that country's place in the global economy. Finally, section IV offers some closing comments.

I

Introduction

The Argentine economy has undergone a series of major structural changes in the last two decades. These changes, which have reached to the very roots of the country's production structures, have been particularly intense in the manufacturing sector. Although the country's new industrialization model has yet to be fully defined, it is clear at this stage that it will differ substantially from the import substitution model on which the industrialization process was based from the early 1930s up to the late 1970s (Katz and Kosacoff, 1989; Kosacoff, 1992).

These changes are clearly discernible on three different planes. First, the economy is now much more open in terms of trade and financial operations than it was under the preceding model. Second, the process of regional integration through MERCOSUR (begun in 1986) opens up a vast array of opportunities thanks to the extraordinary market expansion it entails, but it also poses enormous challenges in the form of greater competition. Above and beyond these signals and the difficulties involved in harmonizing policies and eliminating disparities among the member countries, all the relevant economic actors (especially private business) see this process as irreversible. Third, there has been a significant change in the macroeconomic situation, involving a systematic stabilization effort and thorough-going reform of the State (with some of the most salient aspects of this process being the privatization of State-owned enterprises and changes in the regulations applying to economic activities) which are transforming the way the economic system works.

The economy is also undergoing a number of fundamental changes in terms of its external operations. The new conditions that have arisen in the international economy are characterized by the intensification of competition, manifested in increasing globalization of the economy, made viable by the fact that the transnational corporations (TCs) have recently been stepping up their foreign direct investments (FDI) in the light of the advantages they hold in the areas of ownership, internalization and location: a process heavily concentrated in the Triad (United States, the European Community and Japan) (Mortimore, 1992a; Dunning, 1988; UNCTC, 1991).

This new form of globalization is associated with sweeping changes in technology and industrial organization and with the recent specialization of trade: a process marked by an increase in the share of trade accounted for by knowledge-intensive goods (Ostry, 1992; OECD, 1991; Lall, 1992; Gurrieri, 1991).

The structural effects of increased TC activity in this area are of crucial importance in the various stages of competitive development and have prompted a debate regarding the spillover effects of these corporations, which may act as engines of economic growth, and the possibility of formulating competitive strategies in semi-industrialized countries. These new forms of competition entail new forms of investment, including strategic alliances among transnationals, which are being used more and more as a way of responding to the challenges of technological innovation and changes in market orientation associated with regional integration agreements (Ozawa, 1992; UNCTC, 1992; Esser, 1992; Oman, 1984; Mytelka, 1990; Vernon, 1992).

II

Basic features of the transnational corporations' presence in Argentine industry

1. Import substitution

Ever since Argentina embarked upon its industrialization process and became an active participant in the international division of labour, transnational corporations have played an important role. At first, these firms specialized in industrial activities that were needed to permit the exportation of raw materials, but eventually they became part of the whole industrial fabric of the country. Starting in the late 1950s and continuing on during the 1960s, in particular, transnational corporations –with the metal products and machinery and petrochemicals sectors in the lead– played a central role in the intensification of the import substitution process. During this stage the manufacturing sector turned in an excellent performance, and it continued to serve as the engine of the country's economic growth up to the mid-1970s.

The entry of transnational corporations on a large scale and their establishment in fast-growing sectors sharply increased their share in manufacturing output, which swelled from less than one-fifth in 1955 to nearly a third by the early 1970s. These corporations' forms of economic operation were in line with the typical model of a small, protected economy, in which investments are directed almost entirely towards the development of the domestic market. Before they set up operations in the country, this market had been characterized by a considerable amount of surplus demand owing both to difficulties in obtaining imported goods (caused by the external constraints affecting the Argentine economy) and to local constraints that limited progress in forming the more complex sorts of chains or linkages within the industrial structure, which, rather than merely requiring the expansion of operations through the incorporation of additional manpower, called for the use of technological processes and corporate structures that had not yet reached a sufficient level of development in the local economic environment.

Under these circumstances, the process whereby foreign capital moved in to fill the manufacturing sector's "empty boxes" displayed the following characteristics. First, in comparison to their domestic competitors, the transnationals operated larger plants and their labour productivity and wages were higher, as were their import coefficients and ratios of capital inputs per employee. Second, in terms of technology, they based their operations on the use of equipment and production practices previously developed by their parent companies which, although not quite at the cutting edge in the international marketplace, were certainly new within the context of the local market. In many cases, the establishment of these types of corporations in the country led to the appearance of local engineering concerns and enterprises specializing in operational organization and methods whose role was to adapt products and processes to local production conditions. Third, these corporations were primarily financed out of national savings, given the preferential access they enjoyed to lines of credit carrying negative interest rates. Their net foreign-exchange contribution in the medium term proved to be negative, since their outward transfers exceeded their capital inflows.

In these circumstances, the position held by transnational corporations had two very different facets. From the standpoint of the local market, these companies figured among the most important components of the industrial structure and occupied prime spots in the fastest-growing markets. Furthermore, they were notable for having generated a veritable "industrial revolution" by introducing technologies and forms of industrial organization previously unknown in the country. From the international standpoint, however, these subsidiaries were of negligible importance within their own corporate structures (with their share of global sales rarely exceeding 1%) and their technological level was a far cry from that associated with the best international practices.

The typical manufacturing plant of a local TC subsidiary was usually less than one-tenth the size of the plants producing similar goods in developed countries. Moreover, the weakness of the local industrial structure was manifested in a shortage of specialized suppliers and subcontractors. These two factors ruled out economies of scale and specialization. The introduction of more sophisticated technologies into the local market also called for large teams of engineers specializing in the adaptation of production scales and the integration of production activity targeted at a small, heavily protected domestic market. The associated learning process followed an idiosyncratic course which was far removed from the competitive climate found in developed countries and therefore did not provide an opportunity to achieve higher levels of international competitiveness. In other words, even though these firms had to make technology-intensive efforts to adapt their operations to the demands of the local environment, these efforts entailed static and dynamic diseconomies with respect to both production scales and the division of labour.

As a consequence of these conditions, the possibilities offered by the domestic market were gradually exhausted as surplus demand was absorbed. At the same time, the considerable amount of technical progress introduced into the country inevitably opened up opportunities for creating dynamic comparative advantages for operating in international markets, in addition to the fact that the industrial structure itself had reached its upper limit in terms of its capability to generate increases in employment and productivity.

Meanwhile, the more industrialized societies were preparing to make the transition to a new techno-production paradigm whose organizational models for industrial production involved a very different rationale from that of the prevailing mass production models based on Fordism. One of the key factors in making such a change viable was the spectacular pace of development in microelectronics, which made it possible to move from the "electromechanical age" to the "electronic age". In Argentina, however, the local response to the difficulties of restoring dynamic industrial growth was not based on taking greater advantage of the pool of technological resources amassed during the preceding stage in order to surmount those difficulties, but rather on attempts to implement structural reforms associated with a more open economy. The failure of these attempts during the period 1976-1981 ultimately led to a dislocation of the production structure.

Given this situation, it is not surprising that the flow of direct investment began to undergo a notable change as from 1976. New investments in manufacturing virtually disappeared, making it necessary for a number of major firms either to close their doors or to scale down their operations,[1] and a large portion of what new investment there was tended to be directed towards the financial and petroleum sectors. The economic liberalization effort of 1978-1981, the crisis and stagnation of the manufacturing sector, local firms' preferential access to industrial promotion mechanisms in the economy's few buoyant sectors, external debt problems and the overall atmosphere of uncertainty and macroeconomic instability were some of the main reasons for the decline of foreign capital's share in Argentine industry.[2]

Beginning in the mid-1980s, a considerable increase in the flow of investment attested to renewed economic vitality on the domestic front, which in turn led to an increase in the share of foreign capital in the industrial structure. This trend did not spread throughout the country's industrial fabric, however, but was instead concentrated primarily in manufacturing activities associated with the utilization of natural resources (agribusiness, petroleum, petrochemicals, cement, etc.) and in the restructuring of the automotive industry. Meanwhile, the manufacturing plants of TC subsidiaries made major changes that greatly increased their productivity. Some of the steps that made this possible included discontinuing the practice of overstaffing, streamlining production lines and implementing significant organizational changes associated with the de-incorporation of technologies. As these changes were not accompanied by broad-based rehabilitation of already amortized equipment and facilities that fell far short of international standards, however –due in particular to the idiosyncratic scales of production and specialization which such plants had developed in order to serve small, closed domestic markets– by the end of the 1980s it had become clear that, in an economy in the process of transforming itself, particularly with regard to its external linkages, these changes had not been enough.

2. The 1990s

During the 1980s, macroeconomic conditions were the central element in a difficult economic situation that reached its most critical point with the spells of hyperinflation in 1989 and 1990. Three different

[1] A number of the major transnationals pulled out of the country during this period, including General Motors, Citroën, Chrysler, Peugeot, Squibb, Olivetti and others.

[2] According to the 1984 census, foreign firms's share of total output amounted to 26.8% at that time, whereas the figure had been 32% just one decade earlier (Sourrouille, Kosacoff and Lucángeli, 1985; Kosacoff and Azpiazú, 1989; and Azpiazú, 1992).

factors came into play simultaneously during this period and served as the fulcrum for the renewal of foreign capital's presence in the Argentine economy in the 1990s. The first had to do with the dynamics of the solution devised for the external debt problem, in which debt capitalization became the chief financial instrument for new investments and the privatization of State-run enterprises. The second was related to the consolidation of national economic conglomerates which, as agents of industrialization, were organized very differently from the typical family businesses of the import substitution stage, and which are called upon to play a fundamental role in the conclusion of agreements with transnational corporations regarding specific ventures. The third factor was linked to the rapid expansion of the natural-resource frontier in 1970-1990 (natural gas, fisheries, oilseeds, forestry, etc.), which, in contrast to its virtual stagnation during the four preceding decades and in the context of an open economy, led the country back to stronger specialization in natural resource-intensive products.

These changes are now influencing transnational corporations' decisions regarding their involvement in the country. A very mixed bag of behaviours and trends is to be observed at the present time, but the end result is proving to be a more active role for foreign direct investment than in the past two decades. Corporate mergers and international relocations, the acquisition of firms, the closure of some plants, a shift towards assembly and commercial activities and away from industrial ones, and the new relationship that has taken shape between the financial system and the manufacturing sector are just some of the everyday events that are leading the economy in various different directions from which it is as yet difficult to draw a clear general picture. In a context of sweeping economic changes and of the re-establishment of linkages with the global economy as part of an articulated process involving economic liberalization and the consolidation of MERCOSUR, some of the most salient aspects, which will be explored more fully later on in this article, are the spread of forms of globalization involving the manufacturing activities of local affiliates; the importance of debt-equity swaps and privatizations; the adoption of different forms of corporate partnerships; the return to natural resources as a "key" factor; and the new regulatory framework governing foreign capital.

Debt-equity swaps were not only one of the main mechanisms used to resolve the debt problem but also became a prime financial instrument in the transnational corporations' new strategy. In the second half of the 1980s, 82 transnational corporations used various sorts of debt-equity swaps to finance a total of US$660 million in investments (Fuchs, 1990). These investments were concentrated in the manufacturing sector and involved a number of ventures in the food, automobile, petroleum and chemicals industries (see table 1).

TABLE 1

Argentina: Capitalization of external debt by foreign-held companies

Firm	Sector of activity	Operation [a]	Home country	Thousands of dollars
Swift-Armour S.A.	Meat packing	pei/cpd	United States	138 018.7
Transax S.A.	Motor vehicle parts	cpd	United States	56 020.4
La Isaura S.A.	Petroleum	cpd	Spain	50 118.5
Louis Dreyfus y Cía. Ltda. S.A.	Export of grain and oilseeds	cpd	Switzerland	35 030.5
Maltería Pampa S.A.	Malt brewery	cpd	Brazil	33 748.0
Renault Argentina S.A.	Motor vehicles	cpd	France	28 189.6
Cervecería Río Paraná S.A.	Beer	cpd	Belgium	24 425.9
Dow Química Argentina S.A.	Chemicals	cpd	United States	13 027.4
Autolatina Argentina S.A.	Motor vehicles	cpd	United States	12 790.7
Syntex S.A.	Chemicals	pei	United States	11 872.2
Cía. Embotella. Argentina S.A.	Non-alcoholic beverages	pei	United States	11 765.0
GTE Silvania S.A.	Fluorescent tubes and light bulbs	cpd	United States	11 325.3
Pepsi Cola Argent. S.A.	Non-alcoholic beverages	pei	United States	9 800.0
Saab-Scania Argent. S.A.	Motor vehicles	cpd	Sweden	9 661.9
Parafina del Plata S.A.	Lubricants	cpd	Switzerland	9 573.1
Pirelli S.A. Platense	Tyres	pei	Italy	9 571.4
Coca Cola S.A.	Non-alcoholic beverages	cpd	United States	9 383.0
Kodak Argentina S.A.	Photographic equipment	pei/on	United States	9 370.9
Banco Beal S.A.	Banking	pei	Belgium	8 407.8

TABLE 1 *(continued)*

Firm	Sector of activity	Operation[a]	Home country	Thousands of dollars
Abbott Laboratorios S.A.	Pharmaceutical laboratory	pei	United States	7 500.0
Shell S.A.	Petroleum	on	Netherlands	7 499.8
Estab. Mecán. Jeppener S.A.	Metal products and machinery	cpd	Italy	7 196.7
NCR Argentina S.A.	Accounting machines	pei	United States	7 100.0
Lucas Indiel S.A.	Motor vehicle parts	cpd	Great Britain	6 560.1
Suchard Argentina S.A.	Confectionery	pei	Switzerland	6 469.2
H.F. Fuller Arg. S.A.I.C.	Adhesives	cpd	United States	6 422.0
Equitel S.A.	Telecommunications	on	Germany	6 400.0
Compañía Argentina de Té	Tea	cpd	Belgium	6 011.2
Carrefour Argentina S.A.	Supermarkets	pei	France	5 170.8
Productos Roche S.A.	Pharmaceutical laboratory	pei	Switzerland	5 000.0
Hughes Service S.A.	Petroleum-related services	pei	United States	4 594.8
Morgate Arg. S.A.	No information available	pei	...	4 548.7
Laborat. Glaxo Argent. S.A.	Pharmaceutical laboratory	cpd	Great Britain	4 355.1
Ciba Geigy S.A.I.C	Chemicals	on	United States	4 268.3
Frig. Rioplatense S.A.	Meat packing	pei	United States	3 990.0
Cargill S.A.C.I.	Food industry	cpd	United States	3 739.7
Cimet S.A.	Wire, cables, copper	pei	Germany	3 692.6
Asgrow Argentina. S.A.	Hybrid seeds	pei	United States	3 500.0
Química Hoechst S.A.	Chemicals and pharmaceuticals	cpd	Germany	3 260.6
Liquid Carbonic Arg. S.A.	Carbonic gases	cpd	United States	3 166.7
Cía Gillette S.A.	Razor blades	pei	United States	3 143.3
Neumáticos Goodyear S.A.	Tyres	on	United States	3 000.0
Dycasa Arg. S.A.	Civil engineering	on	Spain	3 000.0
Cyanamid Argentina S.A.	Chemicals	pei	United States	2 986.8
Eaton S.A.	Motor vehicle parts	cpd	United States	2 488.9
Stauffer Química S.A.	Chemicals	pei	United States	2 480.6
Aga Argentina	Compressed gases	pei	Sweden	2 076.9
Pioneer Argentina S.A.	No information available	cpd	United States	2 001.8
Foxboro Argentina S.A.	Motor vehicle parts	pei	United States	2 000.0
Siemens S.A.I.C.	Telecommunications	on	Germany	2 000.0
Laborat. Phoenix S.A.	Pharmaceutical laboratory	pei	United States	1 969.4
Perkins Argentina S.A.	Motor vehicle parts	pei	United States	1 928.5
Bausch y Lomb. Argentina S.A.	Optical and scientific items	pei	United States	1 800.0
Hudson, Ciovini y Cía. S..A.	Alcoholic beverages	pei	Canada	1 721.5
Arthur Martin S.A.	Stoves and heaters	pei	Belgium	1 573.9
Pittsburgh S.A.	Imports of chemicals and metal products	pei	United States	1 510.0
Vitrofar S.A.	Glass containers	on	United States	1 500.0
Banco Sudamericana S.A.	Tools	pei	Sweden	1 400.0
Mc Donalds Restaurantes	Food service	pei	United States	1 385.0
Punta del Agua S.A.	No information available	cpd	...	1 357.8
Worthington Argentina S.A.	Hydraulic pumps	pei	United States	1 177.0
Pond's Argentina S.A.	Cosmetics	pei	United States	1 007.0
Elab. Arg. Cereales S.A.	Food products	pei	United States	1 000.0
Semillas Interstate Arg. S.A	Hybrid seeds	pei	United States	1 000.0
S.A. Nestlé	Confectionery	on	Switzerland	900.0
Boerhringer Argentina S.A.	Pharmaceutical laboratory	pei	Germany	842.5
Baker Transworlds S.A.	No information available	pei	United States	800.0
Rovafarm Argentina S.A.	Pharmaceutical laboratory	pei	Switzerland	789.2
Argenmilla S.A.	Farming/livestock	pei	Italy	756.3
Macusa	Tannery	pei	Italy	750.0
Aerosol Filling Argentina S.A.	Chemicals	pei	United States	736.2
Fichet S.A.	No information available	pei	Germany	445.4
Macrosa S.A.	Metal products and machinery	pei	Italy	321.3
Magate Arg. S.A.	No information available	pei	...	290.0
Quim. Arg. Houghton S.A.	Industrial chemicals	pei	United States	250.0
MTM S.A.	Wire netting	pei	Germany	230.7
Laborat. Upjohn S.A.	Pharmaceutical laboratory	pei	United States	220.0
Cía. Sud. Kreglinger S.A.	Wholesaler	pei	Belgium	150.0
Fram Argentina S.A.	Motor vehicle parts	pei	United States	123.0
Black and Decker Arg. S.A.	Tools	pei	United States	120.0

TABLE 1 *(conclusion)*

Firm	Sector of activity	Operation[a]	Home country	Thousands of dollars
Dow Corning S.A.	Lubricants and silicones	pei	United States	49.2
Citicorp Asesora S.A.	Consultants	pei	United States	30.0
Total				**655 838.9**

Source: Compiled by Industrial Development Unit, ECLAC Buenos Aires Office, on the basis of information from the Central Bank of the Argentine Republic.

[a] pei: capitalization of external debt with exchange-risk insurance.
cpd: capitalization of public external debt.
on: onlending.

Since 1991, debt capitalization has been used in tandem with the privatization of State-run firms and has thus taken on a whole new dimension which has a very strong structural impact. This is one of the pivotal elements in the changes taking place in Argentine society, especially in the areas of telecommunications, petroleum, electric power, transport and roads and, within the manufacturing sector, in the iron and steel, petrochemical and shipbuilding industries (see table 2). Transnationals are deeply involved in this process (over 40% of the total equity of privatized enterprises is held by foreign-owned firms) (see table 3) and have, for the first time ever in Argentina, entered into partnerships with a select core group of national economic conglomerates for the coordination of specific ventures. In these alliances, transnational corporations usually take on the role of "technical operator" while administrative and institutional management duties are performed by the local firms. These consortia also link up with local and foreign banking institutions in order to put together the corresponding financial packages. In addition to North American transnationals, other corporations that maintain a high profile include firms from Spain (in telecommunications, transport, energy, water and natural gas); France (petroleum, energy, water, iron and steel, and telecommunications); Italy (natural gas) and Chile (energy); Japanese firms are conspicuous by their absence. Two distinctive features to be noted here are that, in the great majority of cases, this is the first time these companies have operated in the country, and a number of them are State enterprises.

TABLE 2

Argentina: Participation of foreign firms in privatization operations [a]

(Percentages and millions of dollars)

Sector	Enterprise privatized	Total amount received (Cash + debt paper) [b]	Transnational corporation	Country	%	Local group	%
			Cofivacasa	Spain	6.33	Riva S.A.	3.58
						F. de Vicenzo	3.26
Railways	Ferrocarriles Rosario-Bahía Blanca		Iowa Interstate Railroad	USA	...	Techint	...
	Mitre		Montana Rail Link	USA	...	Aceitera General Deheza	...
			Anacostia Pacific		...		
			RBC		...		
	Remainder of Línea Roca					Loma Negra	65.00
						Petroquímica Comodoro Rivadavia	10.00
						Acindar	10.00
						Decavial	5.00
						Banco Francés	5.00

TABLE 2 *(continuation 1)*

Sector	Enterprise privatized	Total amount received (Cash + debt paper)[b]	Transnational corporation	Country	%	Local group	%
						Asociación de Cooperativas Argentinas	5.00
	Línea General Urquiza		Petersen Thiele		6.25	Perscarmona	71.25
			Railroad Development Corp.	USA		Olmatic	12.50
						Alesia	10.00
Hotels	Hotel Llao-Llao	6.11	Choice Hoterls Int.	USA	10.00	COFICA and Sur Hotel	45.00
			Citicorp	USA	45.00		
Shipyards	Tandanor	59.80	Sud Marine Enterprises	France	5.00	Cía. Arg. de Transportes Marítimos	92.10
			Banco Holandés Unido	Netherlands	2.90		
Iron and steel	Altos Hornos Zapla	18.16	Société Industrielle de Métallurgie Avancée	France	19.33	Pensa	28.30
			Albert Duval	France	13.99	Penfin	5.01
			Citicorp	USA	33.37		
	Somisa	147.26				Propulsora (Techint)	90.00
						Siderca (Techint)	10.00
Petro-chemicals	Petropol	6.92				Indupa	...
	Induclor	27.92				Indupa	...
	Petroquímica Río III	7.30				Bunge y Born	...
	Polisur	22.30				Garovaglio y Zorraquin	...
	Monómeros vinílicos	14.60				Viniclor	...
Petroleum	YPF						
	Tordillo	179.09	Santa Fe Energy	USA	20.00	Techint	47.50
			Energy Development Corporation	USA	12.50	Pérez Companc	20.00
	El Huemul - Koluel	170.48	Total austral	France	10.00		
	Puesto Hernández	286.35	Oxy	USA	40.50	Pérez Companc	57.00
						Others	2.50
	Vizcacheras	167.69	Repsol	Spain	50.00	Astra	50.00
	Santa Cruz I	55.00	Quintana Petroleum	USA	28.56	Soldati	46.44
			Marc Rich	Switzerland	25.00		
	Tierra del Fuego	143.50	Chavuco Resources	Canada	33.34	Bridas	52.37
			Coastal Argentina	USA	14.29		
	Santa Cruz II	141.60				Inter Río Holding Establishment	20.00
						Astra	40.00
						Pérez Companc	40.00
	Palmar Largo	36.00	Norcen Int. Ltd.	Canada	25.50	Macri	29.00
			Dong Won Co. Ltd.	Korea	20.00	Soldati	25.50
	Aguaragüe	143.70	Ampolex	Australia	35.71	Techint	35.72
			Petrobras	Brazil	21.43	Soldati	7.14
	Refinaria Campo Durn	64.10				Isaura	15.01
						Pérez Companc	39.99
						Macri	30.00
						Astra	15.00
	Ebytem S.A.	19.04				Isaura	100.00
	Destilería Dock Sud	11.71				Soldati	100.00
	Planta de Aerosoles	1.62				Superservicios (Beraldi)	100.00

TABLE 2 *(continuation 2)*

Sector	Enterprise privatized	Total amount received (Cash + debt paper)[b]	Transnational corporation	Country	%	Local group	%
	Oleoductos Troncales	77.05				Pérez Companc	33.00
						Bolland	20.00
						Bridas	17.00
						Macri	19.00
						Astra	10.00
						Techint	3.00
	Destilería San Lorenzo	12.21				Pérez Companc	56.49
						Soldati	42.51
Gas	Gas del Estado						
	Transportadora de Gas del Sur	356.20	Enron Pipeline Company	USA	25.00	Pérez Companc	25.00
			Citicorp Equity Investments	USA	25.00	Argentina Private Development	25.00
	Transportadora de Gas del Norte	210.22	Novacorp International	Canada	25.00	Techint	39.00
			Transcogas	Canada	36.00		
	Distribuidora de Gas Metropolitana	300.02	British Gas	U. Kingdom	41.00	Pérez Companc	25.00
						Astra	20.00
						Invertrad (Acindar)	14.00
	Distribuidora de Gas Buenos Aires Norte	155.55	Manra	Spain	21.00	Soldati	28.00
			Gas Natural	Spain	51.00		
	Distribuidora de Gas Pampeana	235.41	Camuzzi Gasometri	Italy	100.00		
	Distribuidora de Gas Litoral	103.60	Tractebel	Belgium	40.00	Garovaglio y Zorraquin	20.00
			Iberdrola	Spain	20.00	Diecisiete de Abril (Bemberg)	20.00
	Distribuidora de Gas Centro	138.00	Società Italiana per il Gas	Italy	25.00	Macri	75.00
	Distribuidora de Gas Cuyana	122.00	Società Italiana per il Gas	Italy	25.00	Macri	75.00
	Distribuidora de Gas Noroeste	72.03				Cartellone	40.00
						Banco Francés	20.00
						Cía de Consumidores de Gas de Santiago	40.00
	Distribuidora de Gas del Sur	148.03	Camuzzi Gasometri	Italy	100.00		
Electric power	SEGBA						
	Central Costanera	90.10	Endesa	Chile	50.01	Pérez Companc	12.50
			Distribuidora Chilectra Metropolitana	Chile	5.00	Inter Río Holding Establishment	12.50
			Enersis	Chile	15.00		
			Costanera Power Electricidad	USA	4.99		
	Central Puerto	92.21	Chilectra Quinta Región	Chile	17.50		
			Distribuidora Eléctrica Quinta Región	Chile	82.50		
	Edenor	427.00	Electricité de France	France	20.00	Astra	40.00
			Endesa	Spain	10.00		
			Emp. Nacional Eléctrica del Ribagorzana	Spain	20.00		

TABLE 2 *(continuation 3)*

Sector	Enterprise privatized	Total amount received (Cash + debt paper)[b]	Transnational corporation	Country	%	Local group	%
	Edesur	511.01	Société d'Aménagement Urbain et Rural	France	10.00		
			PSI Energy Inc.	USA	10.00	Pérez Companc	40.50
			Enersis	Chile	19.50		
			Endesa de Chile	Chile	10.00		
			Distribuidora Chilectra Metropolitana	Chile	20.00		
	Central Alto Valle	22.10	Dominion Energy Inc.	USA	60.00	Coop. Prov. de Serv. Públicos (Neuquén)	40.00
	Central Güemes	86.20	Duke Güemes	USA	25.00	Soldati	25.00
			TEW Americas Development	USA	15.00		
			Iberdrola	Spain	20.00		
			The Argentina Investment Co.	Cayman Islands	15.00		
	Pedro de Mendoza	8.55				Acindar	74.97
						Massuh	25.03
	Dock Sud	25.00				Polledo	100.00
	Edelap	139.00	Houston Power Corporation	USA	51.00	Techint	49.00
	Sorrento	8.79				Malvicino	17.97
						Iate	17.97
						Elepring	3.98
						Argon	60.07
Water	Obras Sanitarias		Lyonnaise des Eaux-Dumez	France	33.30	Soldati	20.70
			Compagnie Générale des Eaux	France	...	Meller	10.80
			Anglian Water	U. Kingdom	4.50	Banco Galicia	8.10
			Aguas de Barcelona	Spain	12.60		
Telecommunications	Entel Telefónica de Argentina	749.01	Holding B.V. (Telefónica)	Spain	10.00	Techint	8.31
			Banco Central de España	Spain	7.04	Soldati	5.00
			Banco Hispanoamericano	Spain	5.00	Pérez Companc	14.56
			Republic New York	USA	1.50		
			Manufacturers Hanover	USA	4.30		
			Bank of New York	USA	4.16		
			Southel Equity Corporation	USA	4.00		
			Citicorp Venture Capital	USA	20.00		
			Bank of Zurich	Switzerland	4.16		
			Centro Banco de Panamá	Panama	1.40		
			Vanegas	Panama	1.25		
			Banco Atlántico	Panama	0.75		
			Bank of Nova Scotia	Canada	0.10		
			Arab Banking Co.	Saudi Arabia	4.31		
			Bank of Tokio	Japan	4.16		
	Telecom	677.01	Cable et Radio	France	32.50	Pérez Companc	25.00

TABLE 2 *(conclusion)*

Sector	Enterprise privatized	Total amount received (Cash + debt paper)[b]	Transnational corporation	Country	%	Local group	%
			J.P. Morgan	USA	10.00		
			Stet			Italia	32.50
Air transport	Aerolíneas Argentinas	742.99	Iberia	Spain	47.50	Amadeo Riva	10.26
			Bco. Hispanoamericano	Spain	11.88	Devi S.A.	3.58
			Banesto	Spain	11.88	Medefin	1.73

Source: Prepared by the authors on the basis of information from the press and the Ministry of the Economy.
[a] Up to February 1993.
[b] Debt paper calculated at its market value.

As regards the *regulatory environment for foreign capital*, in a departure from the highly restrictive legislative treatment of foreign capital seen during the import substitution stage, the philosophy underlying the laws now in force is one of liberalization and encouragement of foreign investors. The laws on foreign investment currently in effect are set forth in Act 21382 (of 1976, amended in 1980) as amended by Act 23697 (the Economic Emergency Act of 1989) and Regulatory Decree 1225/89. The original Foreign Investment Act (21382) represented a substantial move towards liberalization of the entry of foreign direct investment and of the activities of transnationals within the country. The repeal of all prohibitions regarding sectors of destination, the establishment of equal rights and obligations for transnational and national investors and the elimination of all forms of differential treatment (access to domestic credit, use of promotional arrangements, etc.), the possibility of investing in used (existing) capital goods and capitalizing intangible assets, the ability to remit profits and repatriate capital without hindrance, and the definition of relations between parent companies and their local subsidiaries as being between "independent entities" are some of the more notable features of this legislation, which marks a complete change from the regulatory and restrictive approach associated with earlier legal provisions. In rescinding the requirement that prior government approval be obtained for certain kinds of investments (in the areas of defence, national security, public utilities, energy, radio-telecommunications, etc.), Act 23697 and Decree 1225/89 establish full equality in terms of the rights of transnational and national corporations. Reaffirming this attitude towards foreign investors, Decree 2428/91 was signed in November 1991, making Argentina the first Latin American country to accede to the Articles of Agreement of the World Bank Multilateral Investment Guarantee Agency and thus doing away with any possibility whatsoever of restricting the operations of foreign firms in the country.

TABLE 3

Argentina: Privatizations, by origin of purchasing firm and sector of activity
(December 1992)

Purchasing firm/sector	Total equity[a] Millions of US$	%
1. Argentine firms	4 607.0	27.9
2. Foreign firms	6 821.2	41.3
3. Argentine Government	5 104.5	30.9
Total	**16 532.7**	**100.0**
a. Telephone services	3 919.9	23.7
b. Airlines	874.1	5.3
c. Railroads		
d. Electricity	3 458.1	20.9
e. Ports	6.0	0.0
f. Roads		
g. Television and radio	13.9	0.1
h. Petroleum	3 500.1	21.2
i. Natural gas	4 065.9	24.6
j. Sanitation works		
k. Industry		
– Petrochemicals	260.9	1.6
– Shipyards	59.8	0.4
– Steel	199.4	1.2
l. Government-owned real estate	107.0	0.6
m. Other	67.6	0.4

Source: Argentina, 1993, tables 8 and 9.
[a] Total financial worth, computed as if 100% of the holding had been transferred.

III

New strategies of industrial transnationals in Argentina

In this section we will describe the main features of the new pattern of TC linkages with Argentine industry in the 1990s. This outline is based on information gathered in a survey of 61 of the main subsidiaries of industrial transnationals in Argentina.[3, 4] The common thread running through this characterization is provided by the strategies which local TC subsidiaries are using to establish a new type of position within the local economy. Three types of firms have been identified on the basis of their strategies, out of the array of transnational corporations operating in the manufacturing sector.

□ Companies whose manufacturing activities are based on the production of natural-resource-intensive goods and which have gained a competitive edge on the basis of these products that allows them to compete at the international level.

□ Companies which have used the industrial experience gained during the import substitution stage to win a place for themselves in the globalization schemes being pursued by their corporations; such companies specialize in a few items or components for export and satisfy domestic demand with wholly imported products or products having a large import content.

□ Companies that have fallen back on a scheme in which assembly activities and importation take on increasing importance in comparison to local production as part of their stategy for winning the domestic market.

These three types of strategies trace a profile which, although it has not yet taken on its final form, differs substantially from that of these same firms during the import substitution stage and has important implications for manufacturing, foreign trade, technological innovation and other aspects of the development model now taking shape in the country.

1. A stronger position in external markets

One conspicuous aspect of the renewed vitality being exhibited by industrial transnationals is the growth of their exports. During the import substitution stage, since the main objective of the transnational corporations' presence in the manufacturing sector was to supply the domestic market, exports were confined to enterprises whose activities were related to the exploitation of natural resources.[5] Under present conditions, however, although the domestic market continues to be a priority target, exports have become an important element for all the transnational corporations that continue to engage in manufacturing activities in the country. Although data on the percentage of total exports accounted for by these firms are not available, there are some indicators which provide an idea of the important role played by exports in these firms' new strategy for positioning themselves in the local market.

[3] A survey concerning the strategies of foreign-owned firms for dealing with structural changes, globalization and regional integration was carried out as a joint effort by Project ARG. 91/019 on economic integration (UNDP/Economic Research Department, Secretariat for Economic Programming, Ministry of Economic Affairs and Public Works and Utilities) and the project on the role of industry and international trade in the transformation of the Argentine economic system, funded by the Volkswagen Foundation and headquartered at the ECLAC office in Buenos Aires.

[4] The 61 firms covered by the survey account for 23% of total invoicing by the 200 largest industrial enterprises in the country and for nearly 60% of total sales by the 100 largest subsidiaries of industrial transnationals. In terms of foreign trade, they account for 8% of total exports, 12% of exports of manufactures and 13% of total imports by Argentina in 1991 (Bezchinsky and Kosacoff, 1993).

[5] In the mid-1970s this orientation began to change substantially. With the support of their local performance and a generous system of promotional support mechanisms, exports of manufactures –primarily to other Latin American countries– began to increase considerably. The interruption of the local conditions conducive to this trend and the failure to make a transition to new forms of competition soon undermined this export performance, however. On this subject see, for example, Bisang and Kosacoff (1993).

According to data obtained from the survey cited earlier, external sales rose by over 100% between 1981 and 1992, with particularly rapid growth during the five-year period 1986-1991, when they climbed at a cumulative annual rate of 15.8%. Although the exhaustion of the possibilities offered by the import substitution option created conditions that prompted all the transnationals operating in the country to seek, albeit to differing degrees, an export outlet for their goods, the various firms' reasons for doing so and the characteristics of their newly expanded position in external markets differ depending on the nature of their retooling strategies. Whereas external markets are the main destination for the goods produced by firms involved in globalization schemes, the behaviour of firms dealing in natural-resource-related areas depends, to a large extent, upon prices and conditions in the international market. Finally, for firms that continue to operate on an import-substitution basis, the trend in external sales is associated primarily with the domestic economic cycle rather than with any new strategy for local market positioning. In other words, the reactivation and contraction of the domestic market will have a much greater effect on the exports of this latter group of firms than on those of natural-resource-intensive firms and a much smaller impact on those of globalized enterprises. Table 4 presents survey data that illustrate these differences.

2. Increased import levels and a change in the import product mix

The import substitution model, which was the model in use during the time of Argentina's industrialization, was centered around the establishment of final goods industries (mainly consumer goods, plus some intermediate inputs), but the country continued to depend on the importation of large quantities of inputs and capital goods. The new conditions associated with the opening up of the economy make it necessary for the transnational corporations operating in the country to rethink their strategies for supplying the local market; both the importation of final goods previously produced in the country and the incorporation of more imported components into production functions, which were previously not feasible because of trade barriers and local content regulations, are now possibilities to which all the transnational corporations are devoting some consideration.

The above-mentioned survey also furnishes some information about how imports are changing. The first noteworthy factor is the transnationals' share of total imports: in 1992, the 61 firms in the survey purchased a total of US$1 857 000 000 worth of imports, equivalent to 13% of the value of Argentina's total imports for that year. An analysis of these imports by product category also yields some interesting results (see table 5). First, the small percentage of capital goods among these imports is significant in that it is symptomatic of a shortage of new investments. One reasonable explanation for this phenomenon is that many of the investments made in Argentina by transnationals in recent years have taken the form of the acquisition of existing companies or facilities. In addition, many firms are still in the midst of a transition which has thus far caused them to concentrate their efforts on organizational changes or specific improvements not involving any large-scale overhaul of their existing physical facilities.

TABLE 4
Argentina: Export trends, by type of corporate strategy, 1981-1992

Strategy	Cumulative annual growth rates (%)		
	1981-1986	1986-1991	1991-1992
Substitution	5.8	22.5	-1.6
Natural resources	-1.8	13.3	-1.7
Globalization	3.6	16.7	5.2
Total	**-1.2**	**15.8**	**-0.9**

Source: Compiled on the basis of data from a survey conducted jointly by Project ARG 91/019 on economic integration (UNDP/ Ministry of Economic Affairs and Public Works and Utilities, Secretariat for Economic Programming) and the project on the role of industry and international trade in the transformation of the Argentine economic system, funded by the Volkswagen Foundation and headquartered at the ECLAC Buenos Aires Office.

TABLE 5
Argentina: Import product mix, 1991 and 1992

Type of product	Percentage of total	
	1991	1992
Inputs	47.7	53.5
Capital goods	11.2	2.8
Final goods for sale	38.4	38.2
Total	**100.0**	**100.0**

Source: Same as table 4.

Second, the importance of the role played by imports of final goods for subsequent sale (which represented nearly 40% of total imports in both 1991 and 1992) points up one of the characteristics of the transnationals' new position within Argentine industry, in which the marketing of products imported from other units of the corresponding corporations is equally as important as the local production of manufactures, and in some cases more so. It could be argued that the scale on which final goods are being imported for subsequent sale is a transitory phenomenon due to these firms' inability to produce enough locally to cover the increased domestic demand occasioned by the reactivation of the domestic market. According to this line of reasoning, the trade liberalization programme made it possible for these corporations to deal with this situation by resorting to imports as the most readily available and economical source of supply, but in fact the phenomenon would seem to be due to a trend of a more structural nature. This change arises out of full utilization of the commercial, distribution and financing networks, after-sale service capabilities, brand recognition and other elements which these firms took pains to establish in Argentina over a period of several decades, and thanks to which it is easier for them to market imported final goods. In addition, the percentage of imported inputs is significant (their total value jumped by 40% between 1991 and 1992), since it reflects such goods' expanding role in the production functions of these enterprises. Thus, the tendency is towards a decline in local value added as the manufacturing processes being used are increasingly coming to be based on the assembly of imported parts.

The types of goods being imported also vary depending on the strategy of each corporation. The level of imported inputs used by natural-resource-based enterprises and firms pursuing globalization schemes is particularly high whereas, for companies that remain involved in import substitution, the weight of such imports is virtually equal to that of imports of final goods for subsequent sale. Even in the case of "globalized" firms, although 1992 imports of both inputs and final goods were markedly higher than those of 1991, the increase in the former was larger. These data are indicative of the differing rationales guiding the operations of the various types of companies (see table 6).

3. The importance of intra-firm trade

Large-scale international trade flows within transnational corporations have been one of the hallmarks of the trade matrix. By the same token, one of the main features of the current globalization process is the increasing degree of complementarity between foreign direct investment and trade, particularly intra-firm trade. Whereas, during the preceding stage of TC expansion at the world level, these corporations started up operations in the various countries as an alternative to importation, since they offered another way of supplying those markets (which meant that they were producing the same goods in different locations), transnationals are now seeking to organize their global production structures more efficiently by having their various affiliates specialize in different components of their internationalized output. The generation of large trade flows among their various

TABLE 6

Argentina: Import product mix, by type of corporate strategy, 1991 and 1992
(Thousands of dollars and percentages of total)

Strategy	Inputs (%)		Capital goods (%)		Final goods for sale		Total (thousands of US$)	
	1991	1992	1991	1992	1991	1992	1991	1992
Substitution	49.3	48.4	5.4	5.1	45.3	46.5	481 295.6	639 057.2
Natural resources	68.8	60.5	5.3	5.9	25.8	33.6	169 033.0	194 251.0
Globalization	42.9	60.1	18.6	1.3	39.0	38.6	524 797.5	1 024 442.0
Total	**49.0**	**56.6**	**11.5**	**3.0**	**39.5**	**40.4**	**1 175 126.1**	**1 857 750.2**

Source: Same as table 4.

affiliates is a direct consequence of this new form of organization. Although the figures that would be needed to gauge the scale of this phenomenon with any degree of certainty are not available, many authors regard it as one of the main aspects of the globalization process, in particular because of its implications in terms of the different States' policy implementation capabilities, especially in the less developed countries (Dunning, 1992; Mortimore, 1992; Ostry, 1992; Vernon, 1992).

The survey data confirm the existence of intra-firm trade, which is a factor of extraordinary importance in the case of Argentina. In fact, nearly 60% of these corporations' exports and almost 80% of their imports are actually intra-firm transactions. This indicator is extremely significant within the context of the major changes being made by transnationals in their strategies for making the transition from a heavily protected economy to an open one. Internationalized production and the new forms of globalization demand uniform quality standards for products and components and therefore entail a change in the production function and the import product mix of these corporations. Whereas before they assembled the final product using parts produced in the country or parts of differing qualities imported from a variety of sources, now these companies need to be sure that the components they import will meet the quality standards of internationalized production, and they do this primarily by using intra-firm supplies of such parts and components. Table 7 illustrates the increase in intra-firm trade in 1992 over 1991. The figures given in this table also show that, despite their increased involvement in external markets, these firms suffer from a large trade deficit and that intra-firm trade is a decisive factor in this regard. Although the retooling of TC affiliates has not yet been completed, and their ultimate configuration will largely depend on how the regional integration process proceeds, it seems clear that the resulting trade pattern is highly deficit-prone. Although we may expect an increase in exports of goods produced by natural-resource-based enterprises and parts manufactured by firms working within their parent corporations' globalization schemes, it is also quite likely that imports may increase further as globalization processes move forward and as many manufacturing concerns are converted into assembly plants and trade representatives of their parent companies. A change in this trend would involve large-scale retooling and export specialization initiatives which would necessarily have to be coupled with major investments in new industrial facilities.

Intra-firm trade also takes place on a large scale among corporate affiliates within the framework of MERCOSUR (see table 8). What is particularly remarkable about this trade flow is that it is even greater than intra-firm trade with the rest of the world; this suggests that, because of the difference between the levels of development of the region and the central countries, firms must resort more often to the corporate network within MERCOSUR in order to obtain goods that meet the technical and quality standards demanded of internationalized production.

TABLE 7

Argentina: Foreign trade, by type of transaction, 1991 and 1992
(Thousands of dollars and percentages)

	Intra-firm		Extra-firm		Total	
	1991	1992	1991	1992	1991	1992
Exports	495 142.7	560 108.0	463 495.0	391 174.0	958 637.7	951 282.0
%	51.7	58.9	48.3	41.1	100.0	100.0
Imports	822 926.7	1 455 884.8	352 199.4	401 865.4	1 175 126.1	1 857 750.2
%	70.0	78.4	30.0	21.6	100.0	100.0
Trade balance	-327 784.0	-895 776.8	111 295.6	-10 691.4	-216 488.4	-906 468.2

Source: Same as table 4.

The corporate trade matrix varies depending on the relevant firm's market positioning strategy. First of all, intra-firm trade takes on much greater importance for globalized corporations than it does for the other two categories of companies. Thus, whereas the destination of globalized firms' exports is almost always within the same corporation, in the other two cases the value of market transactions slightly exceeds that of intra-firm. Second, the exports (both intra-firm and outside sales) of firms in the other two categories declined in 1992, but intra-firm sales by globalized companies rose even though their sales to outside markets were down (see table 9). In the case of imports, intra-firm transactions are of great importance for companies that continue to use the import substitution model and are even more so for globalized enterprises. For natural-resource-based companies, imports from the parent corporation account for only slightly more than 50% of the total.

TABLE 8

Argentina: Structure of trade, by geographic origin/destination and by type of transaction, 1991 and 1992

Variable	Origin/destination and type of transaction		Percentages of total and thousands of US$	
			1991	1992
Exports (%)	To MERCOSUR	Intra-firm	15.0	20.8
		Extra-firm	11.0	8.4
	To rest of world	Intra-firm	36.7	38.0
		Extra-firm	37.3	32.7
Total (thousands of US$)			958 637.7	951 282.0
Imports (%)	From MERCOSUR	Intra-firm	24.1	33.4
		Extra-firm	4.1	4.9
	From rest of world	Intra-firm	45.9	45.0
		Extra-firm	25.9	16.7
Total (thousands of US$)			1 175 126.1	1 857 750.2
Trade balance (thousands of US$)	With MERCOSUR	Intra-firm	-139 645.9	-421 336.4
		Extra-firm	57 462.3	-11 141.8
	With rest of world	Intra-firm	-188 138.1	-474 440.4
		Extra-firm	53 833.3	450.4
Total (thousands of US$)			-216 488.4	-906 468.2

Source: Same as table 4.

TABLE 9

Argentina: Exports of transnational corporations, by type of transaction and corporate strategy, 1991 and 1992
(Thousands of dollars and percentages of total)

Strategy	Total (thousands of US%)		Intra-firm (%)		To rest of world (%)	
	1991	1992	1991	1992	1991	1992
Substitution	178 333.5	160 786.0	37.4	41.5	62.6	58.5
Natural resources	478 175.0	402 121.0	33.6	31.7	66.4	68.3
Globalization	302 129.2	388 375.0	88.6	94.2	11.4	5.8
Total	**958 637.7**	**951 282.0**	**51.7**	**58.9**	**48.4**	**41.1**

Source: Same as table 4.

In the final analysis, these enterprises' pattern of foreign trade is a reflection of the new type of position they occupy within the local economy. The large proportion of intra-firm transactions represents a striking departure from the past, since even though a majority of these companies' imports have surely been intra-firm purchases all along, the current levels of such imports are much higher, and the import product mix (a large amount of final goods for subsequent sale and very few capital goods) is very different from what it used to be. In the case of exports, not only are current levels much higher than they were during the import substitution stage, but a large portion of these sales are channeled through the corporate network as well, whereas in the past this was done only in the case of some exports of agricultural or agroindustrial products with a low level of processing or in specific, isolated instances. [6]

4. The importance of MERCOSUR

As the economy has become more open, thereby eliminating almost all incentives for local TC affiliates to produce for the domestic market, the formation of MERCOSUR has become a prime focus of attention for companies looking for ways to continue their industrial activities within the local setting. This process entails the creation of a large common market for which the transnational corporations are in a very good position to act as suppliers, since most of them have affiliates occupying leading positions in the two main markets involved (Brazil and Argentina). Most of the transnationals are taking steps to streamline their activities in these two countries and to make them complementary, while those having an affiliate in only one of these two markets are attempting to conclude complementarity agreements regarding production and marketing activities with other firms in the same position.

Data from the above-mentioned survey refute some widely-held beliefs about the difference in size between the Argentine and Brazilian markets and between the scales of production in various industrial sectors within the two countries. In fact, in 24 of the 48 lines of production for which information is available on both countries, the Argentine industries operate at a scale equivalent to over 50% of that of the Brazilian industries. [7]

[6] One case in point is IBM, which launched one of the first efforts to incorporate Argentine affiliates into internationalized production processes (see, for example, Vispo and Kosacoff, 1991).

Most of these lines concern metal products and machinery or automotive products, while items having to do with the exploitation of natural resources are concentrated in the 21 product lines that have no counterpart in Brazil (see table 10).

This is a highly significant fact when the time comes for a corporation to take decisions regarding complementarity of activities within the framework of MERCOSUR. Thus far, no transnational corporation is known to have decided to withdraw permanently from manufacturing activities in the country, and this is surely due to the fact that the local affiliates have facilities of by no means negligible importance in terms of production scale (especially at the regional level), have gained industrial experience, and possess a number of other assets [8] that can be used to maintain their presence in the zonal market. This same circumstance certainly plays a role in decisions as to whether or not to bring local affiliates into the corporation's globalization scheme, taking into consideration the demands associated with internationalized production in terms of technology, production scale and quality.

The importance of MERCOSUR for these firms is also reflected in this zone's share in their foreign trade. In 1991, the zonal market accounted for almost 30% of corporate exports and imports, while in 1992 these percentages were around 30% and 40%, respectively (see table 11). The trend in coming years will no doubt be towards an expansion of these shares, given the fact that this expanded market occupies a central place in the strategies of virtually all the transnational corporations.

TABLE 10

Argentina: Distribution of lines of production, by scale relative to Brazilian affiliate and corporate strategy

(Number of lines)

Strategy	0-15%	15-25%	25-50%	50-100%	+100%	Total
Substitution	1	6	8	10	5	30
Natural resources	2	1	4	4	1	12
Globalization	-	2	-	2	2	6
Total	**3**	**9**	**12**	**16**	**8**	**48**

Source: Same as table 4.

[7] Of these 24, three operate on a scale equal to that of their Brazilian counterparts and 8 Argentine firms operate on a larger scale.

[8] Such assets include, *inter alia*, skilled manpower and, in some cases, access to raw materials on preferential terms.

TABLE 11

Argentina: Foreign trade, by geographic origin/destination
(Thousands of dollars)

	MERCOSUR		Rest of world		Total	
	1991	1992	1991	1992	1991	1992
Exports	249 156.5	278 159.0	709 481.2	673 123.0	958 637.7	951 282.0
%	26.0	29.2	74.0	70.8	100.0	100.0
Imports	331 340.1	710 637.2	843 786.0	1 147 113.0	1 175 126.1	1 857 750.2
%	28.2	38.3	71.8	61.8	100.0	100.0
Trade balance	-82 183.6	-432 478.2	-134 304.8	-473 990.0	-216 488.4	-906 468.2

Source: Same as table 4.

The importance of MERCOSUR also varies depending on the corporate strategy being used, while the situations with regard to exports and imports differ as well. Exports within MERCOSUR are particularly important to companies that continue to base their operations on import substitution, for which nearly 60% of all exports (although the amounts involved here are fairly small) are directed to this zonal market (see table 12). Another notable feature of this group of firms is that their sales to customers in that market with which they have no organizational link outweigh intra-firm sales to it by a small margin. The situation for globalized firms is quite different, since MERCOSUR is a relatively less important export destination (although the actual amounts involved are much greater) and intra-firm exports account for over 90% of the total (see table 13). For natural-resource-based firms, MERCOSUR plays a very marginal role. Globalized enterprises' access to international markets is facilitated by the fact that they are working near the international technical frontier, while natural-resource-based firms' access to those markets is founded upon their comparative advantages in local primary production.

In the case of imports, the zonal market is of great importance for globalized companies, which make nearly 50% of their external purchases within that zone. For import-substituting firms, it plays a much less significant (and markedly intra-firm) role, while for natural-resource-based enterprises (as in the case of exports) the zonal market is of minor importance.

TABLE 12

Argentina: Importance of MERCOSUR in trade patterns of transnational corporations, by corporate strategy, 1992
(Percentages of corresponding total)

Strategy	Exports	Imports
Substitution	54.7	26.6
Natural resources	7.8	21.5
Globalization	40.9	48.7
Total	**29.2**	**38.3**

Source: Same as table 4.

TABLE 13

Argentina: Scale of intra-firm trade by transnationals (total and within MERCOSUR), by corporate strategy, 1992
(Percentages of corresponding total)

Strategy	Exports		Imports	
	To MERCOSUR	Total	From MERCOSUR	Total
Substitution	47.5	41.5	76.9	74.7
Natural resources	36.7	31.7	68.9	53.8
Globalization	91.3	94.2	92.2	85.3
Total	**71.3**	**58.9**	**87.2**	**78.4**

Source: Same as table 4.

5. Production and technology

The establishment of transnational corporations in Argentina during the import substitution stage took on certain specific characteristics owing to the fact that, because they were dealing with a small, heavily protected local market, they had to adapt their plants to much smaller production scales than those for which they had been designed in the transnationals' home countries and had to operate on the basis of a much higher degree of integration than before. The technological behaviour of these firms was based on the introduction of products and processes previously developed in more advanced societies, which had to be adapted to the prevailing local conditions. This required a major effort in the areas of engineering and research and development (R & D) on the part of these corporations; the manner in which they undertook this effort, however, followed a localistic course that clearly departed from the best international practices.

In view of the new scenario confronting transnational corporations in Argentina, in which the demands associated with the formation of linkages with the global economy are mounting (to say nothing of the competitive pressure involved in being a part of the global corporate network), a number of them have decided to start bringing in products and processes that are much closer to the international technological frontier.[9] This is giving rise to a paradoxical situation in that, although under these new conditions business enterprises will use production technologies that will approach the best international practices more closely, the level of their local engineering and R & D requirements will be much lower because these technologies –owing to their greater flexibility and the new dimension in which they place the question of production scales, as well as the possibility of incorporating a greater import content– can be applied at the local level without any major modifications. Furthermore, the future manufacturing profile of TC affiliates does not justify huge R & D expenditures at the local level since they will be engaged, first of all, in the manufacture of products or parts using state-of-the-art technology on a production scale similar to that used at the international level; secondly, in the processing of natural resources, for which state-of-the-art technology developed outside the country will also be available; and, lastly, in manufacturing processes involving a great deal of assembly work and a low level of local integration.

The survey cited earlier also collected data on the R & D expenditures of 39 firms; these expenditures totalled US$32.6 million in 1991, which was a mere 0.1% of what the corresponding corporations spent on R & D during that year. This indicator tells us something about the essential features of the transnationals' technological/industrial position in Argentina. Local affiliates' share in R & D expenditure is negligible and is proportionately much smaller than their already slim share in the corresponding corporations' total sales. In other words, local affiliates have access to the knowledge generated in the laboratories of developed societies but themselves play no active part in the generation of any major innovations. Their efforts are focused entirely on the adaptation of those innovations, and even that process is becoming less necessary in the new international economic environment. This fact is illustrated by the low levels of R & D expenditure as a percentage of the local affiliates' total sales, which are far lower than the average values recorded within the corresponding corporations. In point of fact, these 39 local subsidiaries spent just 1% of the total value of their sales on R & D in 1991. In the most extreme cases, nine of these firms reported that they had made no R & D expenditures whatsoever; 24 firms spent less than 2%, while only six firms allocated more than 2% of the value of their total sales to R & D expenditures (see table 14).

TABLE 14
Argentina: Distribution of firms, by allocations for research and development as a percentage of sales, 1991

Percentage of sales	Number of firms
No R & D expenditure	9
0-1	12
1-2	12
+2	6
Total	**39**

Source: Same as table 4.

6. A marginal position within parent corporations

One point that has been brought out repeatedly in studies on transnational corporations in Argentine industry is the fact that, even though TC subsidiaries figure among the leading firms in their fields of activity at the local level, they are of negligible importance as a component of their parent corporations (Sourrouille, Gatto and Kosacoff, 1984).

This is still the situation today as regards the level of local affiliates' invoicing as a percentage of their parent corporation's total sales. In the survey mentioned earlier, 45 of the 61 firms furnished information regarding the corresponding corpora-

[9] Although not all transnationals in Argentina have yet taken this decision, it seems to constitute a tendency that will eventually be embraced by all the firms that continue to engage in some sort of manufacturing activity at the local level.

tions' invoicing in 1991. These 45 firms had total sales in Argentina of US$7 118 000 000 during that year (equal to nearly 90% of the sales made by all the companies in the sample), but this amounted to just 0.8% of the corresponding corporations' total sales (nearly US$848 billion) for the same year. This initial indicator confirms the conclusion that, in aggregate terms, local affiliates' importance as a part of the corresponding corporate networks remains marginal.

In fact, 28 of these companies accounted for less than 1% of their parent corporations' total invoicing. In these cases, no characteristic traits relating to the level of local invoicing or their positioning strategy have been identified. Only 17 companies' local invoicing totals exceeded 1% of total corporate sales, and even in those cases the figures ranged from just 1.3% to 3.2%.[10] As for employment, only six firms accounted for over 5% of their parent corporations' total employment levels, but (with just one exception) these firms do not occupy a significant position in the local market either.

A comparison of local affiliates' production scales with those of their parent corporations also yields some noteworthy results. If we consider the affiliate with the largest scale of production in each case, we find we have information on 59 lines of production in 28 firms. Eight of these lines are produced only in Argentina, and the products involved either are agricultural derivatives or are produced by companies whose local operations are unrelated to the parent corporation's main line of business. Of the 51 remaining product lines that are produced both in Argentina and by other affiliates of the same corporation, the majority are using production scales from 5% to 20% of the size of the corresponding corporation's largest scale of production; in this case no correlation was found between differences in scale and the type of local corporate strategy being used (see table 15).

TABLE 15

Argentina: Distribution of lines of production, by relative scale within parent corporation and corporate strategy

(Number of lines)

Strategy	0-5%	5-10%	10-20%	20-50%	+50%	Total
Substitution	6	7	11	4	2	30
Natural resources	1	4	2	...	3	10
Globalization	...	5	2	3	1	11
Total	**7**	**16**	**15**	**7**	**6**	**51**

Source: Same as table 4.

7. Alliances and ownership

The recent literature on the new-found dynamism of transnational corporations in the international arena refers to strategic alliances as one of the most notable new developments of the late 1980s and early 1990s. In recent years transnational corporations have formed a large number of alliances with other transnationals in the spheres of production, marketing and even (and most importantly) in areas playing a key role in determining their own ability to compete, such as R & D projects. Some of the causes cited (Mytelka, 1990; OECD, 1991) to account for this phenomenon –which would have been unthinkable when the Fordist-style system of organizing production was in its heyday– are the need to find a way to deal with rising R & D and investment costs, uncertainty about the future, and the complexity of melding together different technologies.[11]

At all events, transnational corporations are no longer seen as organizations whose importance lies in their ownership and control of large quantities of assets in different locations, but instead as the "central nervous system" of a vast international network of production, technological, marketing, financial and other capabilities over which the corporation does not necessarily wield control as a majority shareholder but which does bolster the corporation's competitive position in a "systemic" manner (Dunning, 1992).

The formation of these global networks has been heavily concentrated in what has come to be known as the Triad (the United States, the European Community and Japan) (UNCTC, 1991). The only developing countries to have participated in this process to any significant extent are a few South-East Asian nations, while the rest have done so in no more than a marginal capacity in very isolated cases.

[10] There was a single case of a company in the food industry whose local invoice totals represented 47% of its parent corporation's total. However, this was because the branch of activity in which this firm was engaged at the local level represented a marginal portion of the parent company's total operations, and the figure given for the corporation's total sales actually corresponded to the invoicing for that activity. In another three cases –with invoicing of from 1% to 3.2%– the situation was similar.

[11] Microelectronics, telecommunications, biotechnology, new materials, etc.

In Argentina, a large number of partnerships between transnationals and local companies have been formed in recent years. This is certainly a novel phenomenon within the local environment –where transnationals' stock holdings have always given them absolute control over their local affiliates– but these partnerships are quite different from the strategic alliances entered into within the Triad. First, their prime objective is to run a specific business which, in most cases, plays only a marginal role within the parent corporation as a whole; second, almost all of these partnerships have been formed in connection with the privatization of public utilities; third, the few such partnerships found in the manufacturing sector are established through the creation of new companies. Thus, according to the survey data, 49 of the 58 firms that responded to the relevant question are more than 90% foreign-owned (39 of them are 100% foreign-owned), and only three of the other nine are less than 50% foreign-owned.

8. The dynamism of transnational corporations in the local market

During the 1970s and almost the whole of the 1980s, foreign investment in Argentina exhibited a very different dynamic from that seen during the height of the import substitution scheme. [12] Since the early 1970s, when it began to become apparent that the import-substitution industrialization (ISI) model had run its course, the inflow of foreign investment slowed; this trend was not even partially reversed until a liberalization policy was implemented in 1976-1983, and even then investment flows displayed a number of characteristics that distinguished them from earlier flows. For one thing, this time the main recipients were the financial and petroleum sectors; for another, the increased inflow of foreign capital during this period was coupled with the departure from the country of some of the main industrial transnationals. [13]

The slowdown in foreign investment has only been fully reversed in the past few years, with the implementation of a series of structural reforms that are leading the country in the direction of an open economy with much less State involvement and a much higher degree of integration into world markets. In addition to the large flow of foreign investment brought into the country by the privatization of State-run enterprises, there is also a flow of new investment in manufacturing.

One of the most notable facets of the new dynamic of industrial transnationals is an increase in their sales beginning in the mid-1980s, which, within the context of Argentina's stagnant manufacturing sector, enabled them to regain the market positions they had lost in the 1970s, although the increase was not spread evenly among all such firms (see table 16). This uneven distribution serves to highlight the buoyancy of firms basing their operations on globalization schemes, which began to reach a particularly notable level in the mid-1980s, when the cumulative annual growth rate topped 11%; as a result, this category of firms, which accounted for 20% of total sales in 1981, had expanded its share to 40% by 1992. Natural-resource-based enterprises also increased their sales sharply, although in 1992 (when there was an upswing in the domestic market) they registered a growth rate of only 1%. Firms that continue to base their operations on import substitution had slower (yet still considerable) growth rates compared with the rest of the manufacturing sector in 1986-1991, although these rates declined very slightly in 1992.

TABLE 16
Argentina: Company sales, by corporate strategy, 1981-1992

Strategy	Cumulative annual growth rates (%)		
	1981-1986	1986-1991	1991-1992
Substitution	0.5	5.0	4.4
Natural resources	-1.6	9.1	1.0
Globalization	2.6	11.7	11.6
Total	**-0.8**	**8.5**	**5.6**

Source: Same as table 4.

[12] During the second phase of the import-substitution industrialization (ISI) process, in particular, the manufacturing sector was the engine of growth for the economy. In the inter-censal period 1963-1973, the manufacturing sector expanded at an annual rate of 8%, and this growth was clearly driven forward by transnationals' subsidiaries, whose share of manufacturing output rose from 15% in 1958 to 30% in 1973.

[13] According to national economic census data, the transnationals' share of manufacturing output was 30.4% in 1973 but had slipped to 26.8% by 1984.

IV
Conclusions

In this article we have analysed a series of events that attest to the recent dynamism displayed by transnational corporations and the new types of roles they are performing within the Argentine economy, which differ markedly from the roles they played during the import substitution stage.

There have been three important developments with regard to the pattern of foreign trade. First, export levels are rising, but import levels have been much higher as well, and a consequent increase in intra-industrial trade has been observed. Although the opening of the economy has forced business firms to re-think their local positioning strategies, as a result of which they have streamlined and specialized their operations, it has also acted as an incentive for them to base that specialization on a greater imported content than during the import substitution stage as well as on a stronger export orientation. Under these new conditions, the most advantages accrue to firms operating in natural-resource-related sectors, by virtue of the country's wealth of natural resources, and to companies taking part in globalization processes, since their production efforts are the ones most strongly oriented towards international markets. Second, intra-firm trade has become a highly significant factor: a finding which serves to corroborate the existence of a trend identified by recent studies on investment and trade at the international level. In fact, 60% of these corporations' exports and 80% of their imports are intra-firm transactions. Third, MERCOSUR plays an important role in these firms' trade patterns, which attests to the progress made in furthering their integration and complementarity with affiliates in other countries of the area. In all, 30% of exports and 40% of imports take place within this zonal market. The level of intra-firm trade is especially high in the case of imports and is higher within MERCOSUR than with the rest of the world. This situation is accounted for by the fact that internationalized production must meet technical and quality standards that can only be assured by the corporation in question, especially among the MERCOSUR countries.

Concerning the international position of local TC affiliates, the available data support the conclusion that even though these firms are the largest in the local market, they continue –as has been the case ever since they made their appearance in the country– to be of marginal importance within their parent corporations; this is illustrated by the fact that the average sales of the firms surveyed represent less than 1% of their parent corporations' sales. A similar asymmetry exists in terms of the technological level of these firms' local facilities, inasmuch as, even though they are the largest and most efficient plants in the local market, they fall far short of the size and technological sophistication of industrial plants in the developed countries. Ironically, although some firms have recently restructured their facilities in the country and have thus moved closer to the technological leading edge in the international marketplace (especially in product technologies), they are using technologies developed in the central countries, which they then apply directly in their local production processes, thereby saving themselves the major engineering effort demanded by the technologies used during the import substitution stage. This accounts for the low level of these firms' R & D expenditures, which amount to around 1% of their sales and just 0.1% of their parent corporations' R & D expenses.

Transnationals can be placed in one of four categories according to the strategy they use to adapt their local business structures to new domestic and international conditions:

□ *Firms that move into services sectors* in partnership with local economic groups as part of a *privatization* process. Generally speaking, the main feature of these partnerships is that the foreign companies take on the role of "technical operators" and the local groups take charge of the administrative and institutional management of the venture, while both local and foreign banks put together the necessary financial package. In this type of operation, debt-equity swaps are a pivotal factor, since they have been the preferred source of financing for such investments. In such cases, the transnationals' chief reason for participating in these operations is that the businesses in question offer a high rate of return which is guaranteed by the high level of their prices and charges and their monopolistic position within the local market in specialized non-tradeables. An additional element in this overall picture is that this market has made a very late start in providing efficient, comprehensive services, and such situations are characterized by the existence of repressed demand. A clear sign of TC interest in this process is the fact that (with the exception of the recent sale of Yacimientos Petrolíferos Fiscales (YPF)), somewhat more than 40% of the stock in the country's privatized firms is held by foreign companies.

In addition to the macroeconomic effects of these privatization operations on fiscal accounts and income distribution (Guerchunoff and Cánovas, 1992), their impact on industrial competitiveness may be assessed by looking at the positive spillovers they generate. This involves measuring the improvement in resource allocation as well as the quality and price of services, on the one hand, and, on the other, their effectiveness in fostering the establishment of specialized suppliers and subcontractors which will then embark upon a competitive path that will make them viable as both local and international suppliers.

□ *Companies engaged in activities involving utilization of the advantages offered by the country's endowment of natural resources.* Following more than four decades of stagnation (1930-1970), Argentina's natural resource frontier has expanded rapidly during the past 20 years, spurred on by changes in agriculture (particularly the production of soybeans), the discovery of large natural gas fields and new petroleum deposits, the development of forestry resources in response to tax exemptions, fishery development, and the prospects for increased mining activity, which is as yet just beginning. Thanks to these new opportunities –whose linkages with production activities involving a higher level of added value entail the formation of production networks encompassing manufacturing activities, marketing, transport and other services– increased growth and larger flows of new investments are being observed, especially in agribusiness, petrochemicals and the paper industry. The basis for these investments is the exploitation of the country's natural advantages for the dual purpose of supplying an expanded market (MERCOSUR or Latin America as a whole) and exporting to world markets. An excellent example of this is found in the active presence (in the form, in some cases, of newly founded companies) of virtually all of the world's major transnational food producers, which has created a favourable environment for investment and purchasing –processes that are still in an incipient stage in many cases– on the part of the leading domestic firms.

□ *"Globalizing" firms.* It is here that we see the clearest changes in the industrial rationale of firms operating in the country, through the spread of TC globalization strategies in which local affiliates play an industrial role. Although the main reason for the presence of these firms in the country continues to be to serve the local market (which is now also the regional market), the strategy of today is quite different from the strategy used to supply the protected domestic market of the past. Now, the goods being sold on the local market are either wholly imported or contain an increasingly large percentage of imported components that have then been assembled in the country. Manufacturing is shifting towards a restricted range of goods or components for export, often through intra-firm channels. This specialization process is associated with the use of technologies approaching the international cutting edge and facilities that have only been constructed in the last few years. The pioneering steps taken by Saab Scania in the late 1970s in relation to its truck factory, with complementary activities being undertaken by its Brazilian affiliate; the reorganization of IBM's local facilities in the early 1980s for the production and export of printers and ribbons (Vispo and Kosacoff, 1991); and the retooling of the automotive industry, especially during the late 1980s, in order to permit it to specialize in certain categories of automobile parts for export, with an accompanying steep rise in the share of imports in its production function (Kosacoff, Todesca and Vispo, 1991) are some clear examples of the incipient spread of integrated business strategies as part of the globalization process. This different form of integration into the international economy is reflected in a movement (within the framework of ongoing negotiations with the economic authorities) towards a trade balance strongly influenced by intra-industry trade and an intensification of external trade.

□ *The remaining transnationals, which have apparently not yet defined their strategy and continue to function on an import substitution basis.* Although the new conditions associated with today's more open economy have done away with the incentives for local production which these firms once had, none of them has, as far as is known, decided to leave the country permanently. Some appear to be seeking a suitable globalization scheme to apply in those cases where their production activities could be made more specialized; others are changing into representatives which market imported products for their parent companies. All of them are moving towards a new production function involving a larger imported content in local manufactures, complemented by increased activity in the marketing of imported final goods. The founding of MERCOSUR is clearly an incentive for these companies to remain "on the lookout" as they try to find some sort of retooling or reconversion scheme that will permit them to make use of the industrial facilities they already have (in many cases, in more than one country) while moving towards greater specialization and complementarity, or to utilize the marketing channels they set up during the import substitution stage in order to supply this expanded market with imports.

Judging from this characterization, the TC restructuring process seems to fit in with a new pattern of specialization in Argentine industry. Under current conditions in today's more open economy, the only industrial sector to retain significant competitive advantages is natural-resource processing, especially the agricultural/food and the petroleum/natural gas industries. There is little doubt but that the former sector's growth potential for the coming years is enormous, although it remains an open question as to whether this sector will move towards processes involving more added value that will yield high-quality products for both the local market and export or whether it will fall back on a simple scheme of exporting raw materials or products involving very little processing. The policies implemented at the regional level to encourage food production, along with suitable quality standards and control mechanisms, will surely play a crucial role in determining the future course of this sector, taking into account the attractiveness of MERCOSUR for both local and transnational corporations. This is the field in which progress towards differentiation and greater locally added value can generate the greatest spillovers for the rest of the economy, particularly as regards employment and the absorption of technical progress. Much the same can be said of the petroleum and natural gas, paper and fishery industries, but in these cases future trends will depend upon the nature of international business cycles.

For industrial sectors whose activities are not based on the processing of natural resources, and especially in the case of the metal products and machinery industry, the outlook is more uncertain. Globalization schemes, which require that the domestic market reach a "critical mass" in order to move these strategies forward, appear to be yielding substantial results in the production of superior goods, in terms of both technology and quality, at international scales. In addition, this type of scheme will introduce new organizational practices and new standards of efficiency into the industrial structure which have not yet come into widespread use. These practices are as yet confined to a few activities (as in the case of IBM and the conversion of the automotive industry based on its specialization in production of a limited number of types of parts), however, and thus far there are no signs that they are spreading widely to other economic activities.

In sum, a new environment is taking shape as the Argentine economy makes the transition to a new model of integration into the world economy and, in consequence, as transnational corporations make the transition to a new type of position in the local economy. The local context is entirely different from what it was during the import substitution stage, for reasons deriving from local, regional and international conditions. The corporate acquisitions, partnerships and mergers in which the transnationals are taking an active part are one of the manifestations of this transition as these firms seek to adapt to the new operational conditions prevailing in the Argentine economy.

(Original: Spanish)

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