

CEPAL

Review

Director
RAUL PREBISCH

Technical Editor
ADOLFO GURRIERI



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA
SANTIAGO, CHILE/DECEMBER 1979

CEPAL Review

Number 9

December 1979

CONTENTS

Latin America on the threshold of the 1980s <i>Enrique V. Iglesias</i>	7
The periphery and the internationalization of the world economy <i>Aníbal Pinto</i>	45
Commercial bank finance from the North and the economic development of the South: congruence and conflict <i>Robert Devlin</i>	69
Exports and industrialization in an orthodox model: Chile, 1973-1978 <i>Ricardo Ffrench-Davis</i>	95
José Medina Echavarría: an intellectual profile <i>Adolfo Gurrieri</i>	115
Notes and Comments: Two statements at La Paz: <i>Raúl Prebisch</i> and <i>Gabriel Valdés</i> Two statements at the ILPES/CEPAL/UNICEF Course on Social Planning: <i>Jorge Méndez</i> and <i>Carlos Martínez Sotomayor</i>	171
Some CEPAL publications	185

The periphery and the internationalization of the world economy

Significance and
consequences

*Aníbal Pinto**

It is an accepted fact that the process of internationalization of the world economy has expanded considerably in the last few decades. The author begins by examining the historical background of this process, and after emphasizing that it is not limited to the economic sphere—since it is also seen in the international dissemination of ideas, institutions and ways of life—he goes on to analyse in particular the economic internationalization recorded since the Second World War. After thus defining his subject, he reviews various expressions of internationalization in trade, capital movements, investments, the activities of transnational enterprises, and so on, with special attention to the way in which this process has influenced the periphery.

Taking this analysis as his basis, he concludes that internationalization has continued to be centered around the developed countries, and that the periphery has only participated in it in a partial and selective manner, thus preventing it from being transformed into the image and likeness of the developed capitalist countries. This has been largely due to the fact that the internationalization process has taken place in an international economic structure in which the centres set their stamp on the system as a whole and impart their own type of dynamism to it. In these circumstances, it is clear that the long-lived system of centre-periphery relations cannot change through the expansion of the present internationalization process and that this can only be achieved by making substantial changes in the manner in which the periphery is incorporated in the world economy.

*Director of the Economic Development Division of CEPAL.

a) *A brief historical sketch*

Among the waves of interest in particular subjects which periodically arise and predominate in the general discussion, few in recent times have been more vigorous and widespread than that regarding the “internationalization” of the world economy.

As usually happens, it was a few traumatic episodes—the world monetary crisis which burst upon us at the beginning of this decade, the parallel rapid increase in the prices of many primary commodities, followed a little later by the radical change in the price of oil, together with the beginning of a phase of “stagflation” in the central countries which has cast its shadow over the entire world scene—which gave rise to general awareness of this harsh underlying reality.

Although this matter clearly goes beyond the scope of the present modest study—as is shown by the mountains of documents written about it—it might be worth identifying and systematizing some of its main aspects in order to understand it better.¹

In order to place this study on a systematic basis, the general features of the phenomenon will be examined and an attempt will be made to bring out their continuity and the elements of change and novelty with regard to tendencies which have old historical roots. The aim is to see if they have modified the basic structure of the centre-periphery system and, in particular, if there has been a change in the links between the two spheres and in this system's representation of the world economy. We will not go into the question of this interdependence in depth, however, except in a few special aspects and in drawing up the final balance. Further on, we shall examine in greater detail the progress of Latin American internationalization since the war, the problems it raises, and the options which are to be glimpsed for the future.

The primary sense of the process under consideration could not be clearer and goes back, as everyone knows, to a past which is now far removed, at least from the viewpoint of present-day society. It corresponds to and

¹It should be noted that a necessarily selective criterion has been adopted with regard to the background information and bibliography used.

is expressed through the gradual and many-faceted process of assembly of the various local, regional, national, continental and other components of the world jigsaw puzzle. Originally set in motion by the great imperial structures of yore and of more recent times, the exploits of sailors, explorers and colonizers, the progress of science and technology and the dissemination of religious and political beliefs, it took an important leap forward with the advent of commercial and industrial capitalism. By way of technology, trade, the profit motive and competition and —when necessary— the undisguised use of force, this historical formation assails either directly, indirectly or surreptitiously all the secluded areas, particular features and enclaves of whatever type, unleashing pressures which tend towards a growing interlinkage and —within certain limits and characteristics to which we shall refer later— homogenization of the various pieces making up international society.

The two great nineteenth century currents of thought in this field, the classical liberal and the Marxist approaches, shared to a considerable extent some basic assumptions regarding these tendencies and consequences, although they differed radically in their critical appraisal of these.²

²Summing up the criterion of the first group, Professor Rosenstein-Rodan noted in an admirably lucid study that:

“The classical doctrine was based on the principle of competition and the mobility of capital. The poor countries had abundant labour but were short of capital. Wages were low, and it was of advantage for capitalists to invest in these countries and take advantage of this fact. International movements of capital would be oriented towards areas where there was abundant cheap labour, and so, in the long run, they would tend to reduce the differences in real wage levels” (“Las razones del atraso económico”, in *Panorama económico* (Santiago, Chile), N.º 94, February 1954).

The founders of Marxism, for their part, in one of the most widely disseminated documents of that ideology, saw the world repercussions of capitalist dynamics in different terms: In exploiting the world market they said, the bourgeoisie has imparted a cosmopolitan nature to the production and consumption of all countries, so that instead of the old system whereby needs were satisfied by the countries' own production, new needs arise which have to be satisfied with products from the remotest regions and climes. In the place of the old isolation and local and national autarky, unlimited traffic and the

To a certain extent, these visions did materialize, but the manifest and significant internationalization which took place was very far from disseminating to all points in the globe the logic and structures of industrial capitalism, and still less did it promote the homogenization of production systems and social conditions. Rosenstein-Rodan summed up the balance sheet of this opening phase of the centre-periphery complex in the following terms:³

“Between 1815 and 1914 we had an exceptional century of peace, which is quite a long time even for classical economists and during which technical and economic progress was stupendous. During this century all the postulates of the classical economists were complied with: minimal government intervention, free trade, high international investment and, what is more, not only the free movement of capital but also great mobility of the labour factor in the form of international migrations. “The first part of the predictions of the classical economists was fulfilled, in that the century did witness a great increase in wealth. The second part proved blatantly unfounded, however, since most of the increase in wealth was enjoyed by only 30% of the world population, with the other two-thirds remaining as poor as before.”⁴

This period, which coincides with the rise and fall of the so-called “Pax Britannica”, ended with the First World War and the Great Depression, which involved —among other things— the paralyzation and subsequent retreat of the tendencies towards integration as well as of those towards fragmentation into different more or less exclusive areas of influence of the great capitalist powers.

b) *The internationalization of the post-war period*

After the prolonged interregnum which began with the First World War, was accentuated with

interdependence of the nations have been introduced (*Communist manifesto*, 1848).

³Rosenstein-Rodan, *op. cit.* This analysis forms part of his concept of the so-called “big push”. See in this respect H. Ellis (ed.), *Economic Development for Latin America*, New York, St. Martin's Press, 1961.

⁴It hardly seems necessary to note the similarity

the Great Depression—after the brief recovery during part of the 1920s—and closed with the dawning of peace in 1945, the process of internationalization began again on a more extensive and dynamic level, covering the period up to the mid-1970s, when the traumatic events referred to earlier checked its further progress and gave rise to serious uncertainty as to the nature of its subsequent development.

The resumption of this historical tendency took various paths and operated at all levels.

As in the past, while tending towards the horizontal articulation of the most developed economies it did the same thing in a vertical direction, drawing the periphery into this process, and while nation-States are obviously its main protagonists, there are other actors—such as transnational enterprises—which play roles of growing importance in which they back up and sometimes, as has happened more recently, even surpass or take the place of the first-named actors, all of this in a dynamic and contradictory play of congruences and conflicts.

Furthermore, this historical tendency deploys itself through the most varied channels. Although a sound case can be put forward for claiming that its main fulcrum was formed by the changes in the system of production and the corresponding international linkages, it is also true that there are other important circumstances connected with this, which warrant a quick glance before devoting ourselves to our real field of analysis.

(c) *The political and ideological factor*

One of these circumstances, although not always prized at its true value, is the political dimension and, more specifically, the multiple incidences of the so-called “cold war”.

This phenomenon is, it is true, apparently contradictory. Viewed from the most usual angle, it appears as a factor of division and dispute between basic segments of the world

conglomerate, but at the same time it plays an undoubted role as an agglutinating factor, both of the blocks which are in dispute and within them (for example, the formal and *de facto* integration of Western Europe and the corresponding situation on the Eastern European socialist side),⁵ to say nothing of other repercussions along the same lines such as the grouping of the “non-aligned countries”.

Among the few who have correctly evaluated the significance of this situation and of the possible implications of subsequent *détente* is that great thinker José Medina Echavarría. Therefore, in spite of its length, it is worth reproducing one of the propositions that he set forth in a challenging work published shortly before his lamented death:⁶

“Thus, the way the cold war fitted together is a phenomenon which is easily visible and can be grasped with the greatest clarity. And the same is true both for the main protagonists and for the third parties involved. A situation arose in which, just as in the lasting social stratification of the *Ancien Régime*, everybody was perfectly conscious of the place he should and in fact did occupy. All the forms of internal or external, national and international conduct only exist and can be understood as obvious in the light of the inevitably present antagonism. This is so up to the point that when in certain years some countries define themselves as non-aligned, they do not need to declare the meaning of this nor ask what it means to abandon the ranks. The clear, sharp confrontation between the two superpowers brought with it a similar clarity or absence of doubt in the positions of allies and satellites, although sometimes among the latter there were those who were neither beloved nor sought. For this reason, it is necessary to bear clearly in mind the lineal expression of the profiles of the socio-political structure of the cold war in order to understand immediately the confusion pro-

⁵The Chinese-Soviet conflict represented a substantial inversion of this process, but at the same time it implied the development of other links by China, now with the Western powers and Japan, and perhaps in the future with South-East Asia.

⁶José Medina Echavarría, “Latin America in the possible scenarios of *détente*”, in *CEPAL Review*, N.º 2, second half of 1976, p. 22.

between this reasoning and that set forth by Raúl Prebisch in the *Economic Survey of Latin America, 1949* (United Nations publication, Sales N.º: E.51.II.C.1) regarding the slow and irregular propagation of technical progress from the countries which generate it to the rest of the world.

duced when attempts to eliminate it or diminish it lead to the introduction of shades of colour in the depiction of its features."

Let us repeat in passing —because of the importance which this has for the analysis below— that the phenomenon of the "cold war" is an essential ingredient for the dynamism and the unity of the central economies, since it relegates to a minor position obstacles and disputes which were previously of great importance.⁷

An inevitable concomitant of this political situation has been what might be called "ideological internationalization". Of course, this is not a completely novel phenomenon, and it would be impossible to ignore, for example, the distant reflections of the Enlightenment and of the French and Russian revolutions. Its modern version, however, has acquired such scope and extension—both geographical and social—that it dwarfs everything that went before it. Thus it was that even in the furthest and darkest corners of the earth, with peoples and economies at various pre-feudal stages and structures, the ruling circles and sometimes also the masses began to unite and struggle for categories historically rooted in European society, such as liberal democracy, socialism, or the dictatorship of the proletariat. This subtle but incisive form of imperialism, responsible for so many errors and distortions on the periphery, represents a chapter of the present state of affairs which has been little studied, in spite of its enormous importance.⁸

⁷With reference to this matter, Herbert Marcuse put forward the shrewd and provocative thesis that while it is evident that there are many contradictions between the imperialist powers which it is not necessary to list in detail, it is not likely that these contradictions will give rise to wars between the capitalist countries in the future. This is one of the respects in which coexistence shows how decisively important it is for the stabilization of capitalism. Up to a certain point, it can be maintained without the slightest cynicism that in reality Communism has become the doctor sitting at the bedside of capitalism (although it remains to see exactly in what sense). Without Communism, it would be difficult to explain the economic and political unification of the capitalist world: a unification which more or less seems to be the materialization of the old Marxist spectre of the worldwide cartel. It should be noted, moreover, that this integration of the capitalist world is not something superficial but rests on an extraordinarily real economic base (from *Industrial society and Marxism*).

⁸China's "own way", which claimed to be different

(d) *The transmission of the consumerist way of life*

Another aspect which enters into the present discussion and is familiar to all is the dissemination and copying of the ways of life, the *mores*, of the central societies. More specifically, this means the transfer and absorption of their consumption patterns, which become the supreme objective of those enthralled by their influence. In other words, this concerns the recurring theme of the demonstration effect and the giddy "consumerist" spiral which is its most striking result.

This internationalization of habits and aspirations, as well as constituting another basic ingredient in the overall process, is *relatively* independent, it should be noted, of the production substrate and the levels and changes of the economic structure. Although the motive force and the effective social incidence are naturally different, the winds which carry this phenomenon blow just as strongly in a small Central American country as in Argentina, Algeria, the Philippines or Nigeria, and they even reach the socialist world, although of course only to a limited extent. In short, as we shall see later on, the internationalization of consumption patterns advances much more rapidly than that of modes of production.⁹ As Raúl Prebisch recently noted: "...The periphery is by no means backward in the propagation

from the ways of both the capitalist West and the USSR, actually fell —despite the original contributions of Mao Tse-Tung— within strict Marxist orthodoxy, although the actual socioeconomic practice was more or less heretical in fundamental aspects in comparison with the European socialist or capitalist experiences.

The new circumstances of China's external links and internal "modernization" have naturally considerably modified this picture.

See in this respect the reflections of Celso Furtado in *Creatividade e Dependência*, Rio de Janeiro, Editorial Paz e Terra, 1978.

⁹This is not the place to go into the implications and problems of this dissociation, which in any case has been dealt with on a number of occasions in CEPAL studies. In these, emphasis has been placed on the great contradiction underlying the attempt to reproduce the consumption structure characteristic of the central economies in countries whose low average level of income (and productivity) is only a small fraction of that which is usual in the former. Herein lies one of the main causes of the tendencies towards concentration of income and the inevitable passing over of the basic needs of the majority.

and irradiation of the more and more technically more advanced patterns of consumption. Consumption —the consumer society— is therefore being rapidly internationalized, whereas in contrast formidable obstacles are encountered by the internationalization of production from the standpoint of foreign trade.”¹⁰

Paraphrasing a well-known statement, it could be said that something similar is happening at the international level to what is taking place in national circles, in the sense that the leading society —not the leading class any longer— sanctifies and imposes its values and habits beyond its own frontiers, with greater or lesser force depending on the permeability of the local situations.

This is not a new question, either. In Latin America, for example, this topic has been frequently discussed ever since last century, leading to the coining of the well-known saying that “we are civilized for consuming but primitive for producing”.¹¹ Its present proportions and significance, however, show a qualitative change with regard to the situation which used to exist.

A significant factor in this, of course, has been the formidable progress of the means of communication and the part played by the transnational enterprises. No further comment is called for on this, as it is already sufficiently well known, but there are some other factors, such as the change in the origin of the centres of irradiation and the nature and social destination of a considerable part of the types of consumption disseminated, which have received less attention.

Until probably about the time of the First World War, it was Great Britain and France which set the patterns of selective consumption transmitted to the moneyed classes on the periphery, but filtration of these patterns to the small middle classes and the great masses was minimal or non-existent.¹² The emergence of

the United States as the leading power radically changed this picture,¹³ and the “elite” types of consumption were forced into the background by the consumption of goods of generalized and massive use, this being made possible by the high level of average income, its more equitable distribution (more equitable, that is to say, compared with the more highly stratified European societies of the pre-war era), the size of the market and its vigorous rate of expansion.

The nature and smaller unit values of a large part of these goods are associated with the growing social diversification observed in the peripheral economies, whose growth rates were increased and changed by the increase in primary exports and complementary activities, the expansion of the State machinery, and subsequently the advance of industrialization.

While the higher-income groups continue to be the main recipients of this irradiation of consumerism —and generally the only ones as far as the goods of higher unit value are concerned— the new circumstances described mean a considerable expansion of the social field involved.¹⁴

Thus, the internationalization of consumption patterns is founded upon and expands from the basis of a myriad of common goods which are repeated in different degrees even in the furthest-flung corners of the world and are promoted primarily by the great United States sales machine, increasingly accompanied by similar machines of other countries.¹⁵

tion were a number of well-known goods ranging from Limoges or Rosenthal china, Baccarat glassware or Sheffield cutlery to English textiles, Italian silks and Havana cigars.

¹³See in this respect D. Felix, “Changing consumer preference in economic growth”, St. Louis, Washington University, 1978.

¹⁴See C. Filgueira, *Consumo y estilos de desarrollo*, CEPAL, DS/Preliminary Version/190 (mimeo), March 1979.

¹⁵These goods include such items as blue jeans, Coca-Cola and razor blades; common household appliances, chewing gum and deodorants; ice cream, cigarettes, transistor radios and T-shirts. In addition, within the more restricted circle referred to earlier, there are such products as motor cars, television sets, etc.: i.e., the costly durables which are mainly responsible for the contradiction referred to earlier in this study. Finally, in the “cultural” sphere, the main harbingers of this trend have been such items as comics, jazz, the cinema and the best-seller industry.

¹⁰Dr. Raúl Prebisch, “Socioeconomic structure and crisis of peripheral capitalism”, *CEPAL Review*, N.º 6, second half of 1978, p. 183.

¹¹These words were said by Enrique Molina, the late rector and founder of the University of Concepción in Chile, but the same idea is repeated in many countries.

¹²The leading products in this “elite” type of consump-

Although these are the most visible and ubiquitous manifestations of this phenomenon, care should be taken to avoid a pejorative unilateral appraisal of the nature of the phenomena, as sometimes happens in certain circles. Internationalization also makes it possible to share in the scientific, technological and cultural riches of the more advanced countries. The positive nature of these impulses towards homogenization is to be seen at the most varied levels, from the heights of pure science to the progress in everyday technical and productive activities, to say nothing of the fundamental contribution to the preservation of life and health. The humble aspirin, penicillin or anti-polio vaccine are vivid illustrations of the historic revolution which has taken place in this field.¹⁶

We must now end this brief digression on some of the less widely covered aspects of this question in order to analyse the outstanding economic effects of this phenomenon and its general significance for the centre-periphery system.

(e) *The economic dimensions:
international trade*

The course of world trade and its performance *vis-à-vis* national products, on the one hand, and the evolution of investments and loans on the other, are usually considered as the most significant phenomena regarding the topic under examination, without prejudice to the also important role of migrations and of the incorporation of the labour force into the world system, which we referred to earlier and to which we will return at a later point.

¹⁶Radical thinkers of the past, unlike certain present-day critics, had a very clear picture of the contradictory incidences of internationalization as effected under the aegis of industrial capitalism. Among many other references, we may recall a well-known reflection of Leon Trotsky in his *History of the Russian Revolution*: "The privilege of long-standing backwardness —and this privilege does exist— permits and even forces the adoption of any advance which is available ... without going through any of the intervening stages. Thus, savages changed their bows and arrows for rifles, without following the long path which existed between these arms in the past". Although the image used is not perhaps the most felicitous one for evoking the comprehensive nature of this phenomenon, it does suggest its main features.

From these two main angles, it is easy to see how the tendencies towards internationalization were intensified in the period after the Second World War.

With regard to the first element, let us look at some interesting details from various points of view.

Taking a global view, table 1 shows that world exports grew more rapidly than the sum of the domestic products and industrial activity between 1950 and 1970. South America is a conspicuous exception to this, since in its case the first of these factors shows a smaller expansion than the other two. It would therefore appear that in this period it represented the most typical case of "inward-oriented development". It may be noted that even in the Soviet Union, where exports were mostly directed to its own sphere of influence, they exceeded the performance of the other items, while in the case of Asia exports at least exceed the increase in the domestic product.

Table 1

INDEXES OF EXPANSION OF THE
WORLD ECONOMY, 1970
(1950 = 100)

	Gross		
	domestic product	Industrial product	Exports
<i>World</i>	270	280	385
North America	210	250	295
Europe	260	310	470
Soviet Union	435	700	740
South America	250	300	195
Asia	325	820	440
Africa	—	—	305

Source: CEPAL, *Economic Survey of Latin America, 1971* (United Nations publication, Sales N.º: E.73.II.G.1).

From another point of view, table 2, which covers periods coinciding with the intensification of this kind of behaviour (1965-1970 and 1970-1973), reveals that the rate of expansion of exports as a whole with respect to the components in question was considerably higher than that of production as a whole. The

gap is smaller in the group of developing countries (although it does increase somewhat in 1970-1977), the situation being most marked in the case of Latin America, which registers the relatively lowest rates of increase of exports.

sectors considered (agriculture, mining and manufacturing) show the same tendency, but manufacturing is far ahead in the growth of exports, for between 1960 and 1977 these grew by 326% with respect to the base year, whereas agricultural exports only grew by 81%.

Table 2

WORLD GROWTH AND TRADE, BY
MAIN ECONOMIC GROUPINGS
(Annual growth rates, at constant prices)

	1965-1970	1970-1973
1. <i>World as a whole</i>		
Product	5.4	6.0
Exports	9.1	9.4
2. <i>Developed market economies</i>		
Product	4.6	5.1
Exports	9.5	9.5
3. <i>United States</i>		
Product	3.1	4.8
Exports	6.5	10.3
4. <i>European Economic Community</i>		
Product	4.8	4.2
Exports	11.2	10.0
5. <i>Japan</i>		
Product	11.5	8.9
Exports	14.9	10.5
6. <i>Developing countries</i>		
Product	5.9	6.3
Exports	6.8	8.9
7. <i>Latin America</i>		
Product	5.9	6.7
Exports	4.5	6.3

Source: United Nations, *World Economic Survey, 1977* (United Nations publication, Sales N.º: E.78.II.G.1) and *United Nations Statistical Yearbook, 1976* (United Nations publication, Sales N.º: E/F.77.XVII.1).

(f) *Industrialization and the centralization of flows*

Similar tendencies are observed when the problem is considered from a sectoral viewpoint, but this has the advantage of bringing in a qualitative aspect of the overall evolution which is of prime importance for the analysis. As will be noted from table 3, the three main

Table 3

WORLD PRODUCTION AND EXPORTS,
BY SECTORS, 1960-1977

	Annual growth rate	Variation 1960-1977
<i>Agriculture and stock-raising</i>		
Production	2.5	51
Exports	3.6	81
<i>Mining^a</i>		
Production	4.3	103
Exports	5.0	129
<i>Manufacturing</i>		
Production	6.0	170
Exports	8.9	326

Source: FIDE, Buenos Aires, *Coyuntura y Desarrollo*, N.º 5, January 1979, on the basis of data from GATT.

^aIncluding fuels and non-ferrous metals.

If we take a broader time horizon, this tendency appears even more clearly (see table 4). In the course of the long and irregular cycle between 1900 and 1950, world manufacturing production expanded at an average rate of 2.8% per year, whereas external trade only increased by 1.7% per year. Between 1950 and 1975, in contrast, manufacturing grew by 6.1% and external trade by 8.8% per year; over the same period, industrial exports rose from 43.2% to 64.4% of total trade, and if fuels, whose share increased notably after 1973 are excluded, the increase is from 48.5% in 1950 to 76% in 1975.¹⁷

¹⁷CEPAL, *Analysis and prospects of Latin American industrial development*, ST/CEPAL/Conf. 69/L.2, 8 August 1979.

Table 4
 WORLD GROWTH OF INDUSTRY AND
 TRADE IN MANUFACTURES
 (Percentage growth rates)

	1900-1950	1950-1975
Production of manufactures	2.8	6.1
Trade in manufactures	1.7	8.8

Source: CEPAL, *Análisis y estructuras del desarrollo industrial latinoamericano*, op. cit.

The preferential action of internationalization through manufacturing has an obvious and well-known result: the growing role of the industrialized economies in world trade and the increasing importance of the links within that group of countries.

We thus arrive at a clear expression of the aspect which is perhaps fundamental in the change of structure between the two scenarios under consideration: that before the great depression (or before the First World War, if preferred) and that subsequent to 1945.

In dealing with this question, Aldo Ferrer notes that the growing integration of international trade, the movement of capitals and emigration were expressed through three main channels: the exchange of primary commodities for manufactures between the centre and the periphery; the trade in primary commodities between the industrialized economies, and the trade in manufactures between the same countries.¹⁸

In the first period, extending up to the First World War, the first two channels predominated to an overwhelming extent, the main position, particularly in the field of tropical and mineral products, being occupied by the centre-periphery flows.¹⁹ In the stage after the

Second World War, however, it was the third form of expansion which predominated.

In other words, internationalization through external trade leads to *industrialization* on the one hand and *centralization* on the other.

Some illustrative details were already given regarding the first of these.

With regard to the second of these phenomena, it should be borne in mind that at the beginning of the 1970s (1970-1972) trade between the central economies represented 77% of the total (this figure went down slightly in subsequent years). At the same time, they received around 73% of the exports from the periphery and 24% of those from the centrally planned economies, the latter figure rising to 29% in the years 1976-1977.²⁰

Table 5, for its part, shows the changes in the shares of the main groups of countries in world trade between 1950 and 1975, the most notable features being the increase in the share of the central economies from 62 to 66% and the drop in the share of the non-oil-exporting peripheral countries from 24 to 10%. This table also reveals the change among the central countries to the detriment of the United States and to the advantage of the European Economic Community and Japan, although this is doubtless influenced by conditions in the base year, when the post-war reconstruction process was hardly beginning.

This confirms what was already pointed out regarding the centripetal tendency of world trade and the loss of relative significance of the periphery during the period under consideration.

At the same time, however, it is essential to make a distinction between this structural variation and the appreciable and generalized growth of trade already referred to. Even in the case of the underprivileged periphery, the

¹⁸Aldo Ferrer, "América Latina y los países capitalistas desarrollados: una perspectiva del modelo centro-periferia", in *El Trimestre Económico* (Mexico City), N.º 169, 1975.

¹⁹As A. Ferrer says in the study referred to above: "In the seventy or eighty years before the Second World War, two-thirds of world exports were made up of foodstuffs and

raw materials. The period of fastest expansion was between 1870 and 1913 ... when ... around 70% of European imports were made up of primary commodities and nearly two-thirds of the total imports of the United States—despite its formidable endowment with natural resources and capacity for commodity production—consisted of foodstuffs and raw materials".

²⁰CEPAL, *Economic Survey of Latin America, 1977* (E/CEPAL/1050/Rev. 1), Santiago, Chile, 1978.

Table 5
SHARES OF MAIN ECONOMIC AREAS
IN WORLD TRADE

	Exports FOB	
	Percentage share in total	
	1950	1975
A. Developed market economy countries		
United States	60.2	66.3
Canada	16.6	12.2
European Economic Community (EEC) (9 countries)	4.7	3.7
European Free Trade Association (EFTA) (8 countries)	26.5	33.9
Japan	5.6	6.1
Others	1.3	6.4
B. Centrally planned economies	5.6	3.8
Eastern Europe	8.1	9.8
Asia	6.8	9.0
C. Developing countries	1.3	0.8
Oil-exporting countries	31.7	23.9
Non-oil-exporting countries	7.3	13.4
Africa	24.4	10.5
Latin America	4.0	1.8
Asia	10.4	3.9
Middle East	9.1	4.3
	0.8	0.4

Source: CEPAL, *The economic and social development and external economic relations of Latin America* (E/CEPAL/1061), vol. II, 1979.

drop in its total share did not prevent the annual growth rate of its exports from amounting to 7.6% (6.8% for Latin America) in the period 1950-1975. This growth rate may be compared with that recorded by commodity exports in one of the most vigorous phases of past growth (1871-1913), when they expanded at the rate of 3.5% per year.²¹

Strictly speaking, then, that fundamental readjustment represents the relative relegation of a large part of the periphery to a second place, rather than its exclusion from the great wave of internationalization through external trade.²²

²¹A. Ferrer, *op. cit.*

²²This appraisal would appear not to be valid, however, for the countries which the World Bank has classified

Obviously, the big exception to these changes appears after 1973, with the substantial rise in oil prices (see table 5), which will be discussed later on.

Another noteworthy element of undoubted importance is the growing share of industrial exports by the periphery, which to some extent reduce its relative losses.²³

Between 1960 and 1975, at constant prices, these exports grew at 12.3% per year, which was twice as much as the total exports of those countries and also compares favourably with the growth rate of world trade in that period, which was 7% per year.²⁴ In the case of Latin America, this meant that the share of manufactured goods rose from 13% of its exports to 23% between 1970 and 1975, and this tendency was maintained subsequently, despite the deterioration in the international situation.²⁵

It is worth recalling, however, that this performance has been limited to a small number of countries on the periphery: a feature which is also to be noted in Latin America, although to a smaller extent.

Without anticipating the recapitulation which will be made later on in this study, it may be stated that the details given regarding international trade not only bring out its significant role in the development of internationalization but also highlight certain changes and tendencies which show the different implications it has for the centres and the periphery.

as those of lowest income, among which are a number of countries with very large populations, such as India (620 million), Indonesia (80 million), Bangladesh (80 million), and Pakistan (71 million). Their exports increased by 3.6% per year between 1960 and 1970, but went down by 0.4% between 1970 and 1976. See *World Development Indicators*, Washington, The World Bank, 1978.

²³Professor A. Lewis's optimistic judgement on this matter is of interest. In the *Evolution of the International Economic Order* (The Eliot Janeway Lectures, Princeton, N. J., Princeton University, 1971), he notes that as far back as 1975 manufactures made up 33% of the exports of the developing countries (excluding the oil-exporting countries), and if the present tendency continues, by 1985 they will represent more than half. In his view, the division of the world into developing countries which export agricultural products and import manufactures and developed countries which do the opposite is on the point of ending.

²⁴See "The changing composition of developing country exports" by H. B. Chenery and D. B. Keesing, in *World Development Report, 1973*.

²⁵CEPAL, *Economic Survey of Latin America, 1977*, *op. cit.*

g) *The role of movements of capital*

It seems superfluous to recall the correlation—not necessarily symmetrical—between trade flows and capital flows, which, as we already noted, constitute the economic fulcrums of the internationalization process.

As regards the second of these, we shall limit ourselves to the analysis of direct investments and their fundamental agents, the transnational enterprises. We shall therefore leave aside everything connected with financial flows, the size and composition of which have undergone great changes during this decade. Quite apart from the fact that many valuable studies have been made on this subject,²⁶ it

has been assumed here that the combination of direct investment and transnational enterprises (which of course has projections on to the financial level) has more significance from a structuralist point of view.²⁷

From the comparative viewpoint of the continuity and contrasts between the experience of the past and that subsequent to the Second World War, the interesting points in this connexion are those connected with the growth rates and forms of capital movements, the spatial distribution of the resources and their sources, and their sectoral destination, all of which are essential considerations for appraising their incidence on the general question under consideration.

Table 6

**WORLD CUMULATIVE DIRECT INVESTMENT IN THE DEVELOPED COUNTRIES
AND IN THE VARIOUS DEVELOPING REGIONS**

	Millions of dollars at end of year		Percentage breakdown		Annual percentage growth rates
	1967	1975	1967	1975	1967-1975
<i>World investment</i>	105 300	258 900	100.0	100.0	11.9
Investment by United States	56 600	124 200	53.8	48.0	10.3
<i>Investment in the developed countries</i>	70 172	186 500	66.6	72.0	13.0
<i>Investment in the developing countries</i>	35 128	72 400	33.4	28.0	9.5
In Europe ^b	2 000	6 400	1.9	2.5	15.6
In Africa	6 600	11 100	6.3	4.3	6.7
In Asia	5 000	17 300	4.7	6.7	16.8
In the Middle East	3 100	...	2.9
In Latin America (23 countries plus other territories)	18 400	37 600	17.5	14.5	9.3
In Latin America (19 countries)	15 250	27 750	14.5	10.7	7.8
Brazil	3 728	9 100	3.5	3.5	11.8
Mexico	1 787	4 800	1.7	1.9	13.1

Source: CEPAL/CTC, *Documento de Trabajo* N.º 12, September 1978.

^aNot including the Middle East.

^bIncluding Austria, Cyprus, Finland, Gibraltar, Greece, Greenland, Iceland, Ireland, Malta, Spain, Turkey and Yugoslavia.

²⁶See, for example, C. Massad, "The revolt of the bankers in the international economy: a world without a monetary system", *CEPAL Review*, N.º 2, second half of 1976; R. Devlin, "External finance and commercial banks", *CEPAL Review*, N.º 5, first half of 1978 and "Commercial bank finance from the North and the economic development of the South: congruence and conflict", which appears in the present issue of *CEPAL Review*.

²⁷It should, however, be noted that the changes in the composition of the loans—highlighted in the studies referred to— involving an increase in the share of private lenders and borrowers at the expense of the share accounted for by loans made by governments or international agencies to other governments or public sectors also constitute a significant structural modification, although of more uncertain durability.

As regards growth rates, there is no information which permits a proper comparison of the experience of the two periods, although there are significant data on their vigour in the first of these periods.²⁸ We shall have to content ourselves, then, with the information collected for a relatively recent period, which is presented in table 6 and figure 1. What immediately stands out is the overall growth rate of almost 12% per year, which is more than that cited above for the world product and exports (see table 2).

The rate of growth is strongest in the central countries, particularly in Europe, and in Asia (almost 17% per year), due to the well-

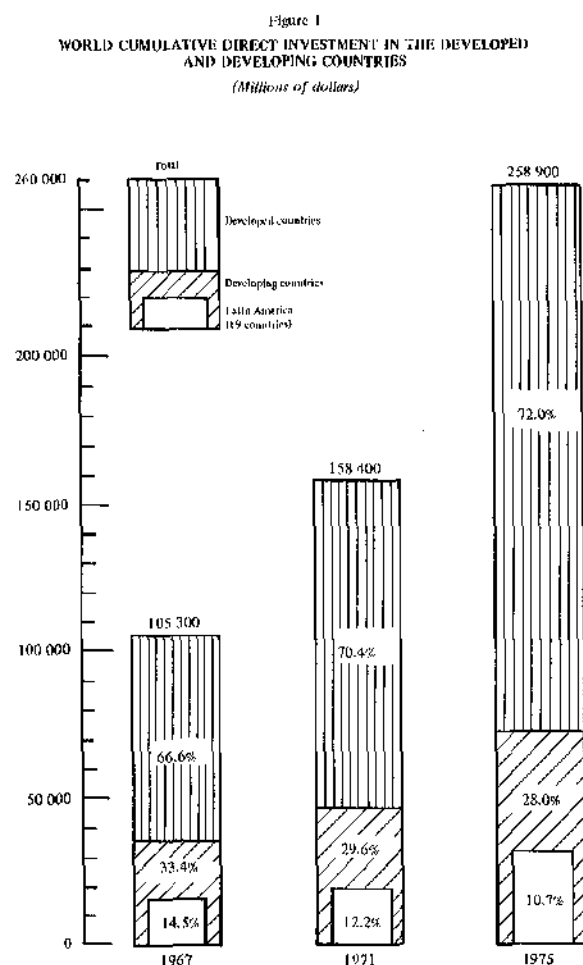
known weight of the small group of industrial exporting economies. In contrast, the rate for Latin America is slower, although it rises somewhat in the case of Brazil and Mexico.²⁹

As regards the spatial distribution of the export of capital and the sources from which it came, the situation in the nineteenth century was very clear. Despite the considerable representation of centre-periphery trade, the truth is that during this period the predominant movements of capital were the horizontal circulation within Europe and to the United States and Canada and the vertical circulation to the British colonies. Argentina was the most conspicuous exception to this, for well-known reasons.³⁰ If this country is excluded, about two-thirds of the total investment around 1913 was concentrated in the first group.³¹ This fact, and the scanty mobility of the peripheral labour force to the centres, were the main reasons for the frustration of the classical optimism about the dynamizing and homogenizing effects which would be caused by the expansion of industrial capitalism to the exterior.

Developments after the war confirmed this tendency and structure: the rapid growth of the total accumulated direct investment was concentrated mainly in the developed economies, whose share rose from 66.6% in the first year mentioned to 72% in the second (see table 6).

It is also interesting to examine the unfolding of this inclination from other viewpoints.

As regards the origin of the flow, the supremacy of the British source of supply in the



²⁸See the important study prepared by CEPAL in 1965, *External financing in Latin America*, E/CN.12/649/Rev. 1; Sales N.º: E.65.11.C.4.

²⁹It should be borne in mind that a considerable part of the accumulated value is accounted for by the reinvestment of profits made in the same country. A study on the situation regarding United States investments showed that such reinvestment of profits represented a little over 50% of the cumulative total between 1966 and 1976. See US Department of Commerce, *Survey of Current Business*, Washington, August 1977.

³⁰A. Ferrer, in *La economía argentina* (Mexico City, Fondo de Cultura Económica, 1963), notes: "From the second half of the nineteenth century onwards, Argentina received a substantial proportion of the flow of capital ... to the developing areas ... the capital invested in this country rose from practically nothing in 1860 to 2.5 billion dollars at today's prices (1962) in 1904 and nearly 10.5 billion dollars in 1913.

³¹A. Lewis, *op. cit.*

first historical scenario was subsequently replaced by another and perhaps even more overwhelming one, that of the United States, until well into the post-war era. Subsequently, however, the full recovery of Europe and Japan undermined this dominance, as is shown by the reduction of the United States share during the most recent phase from 53.8% in 1967 to 48% in 1975.³²

It is also interesting to take into account the distribution of investments in the periphery (see table 6). In the light of its share of world population (a little over 10%, compared with 31% for Asia (excluding Japan and Israel) and a little over 12% for Africa (excluding South Africa), the large share of Latin America is quite striking. At the same time, however, quite apart from the considerable decline during the period under examination, it is essential to take into account the countries in which these investments are made. Thus, Brazil and Mexico, which accounted for about a third of the total in 1967, came to account for half by 1976.

As in world trade, the sectoral structure of investments inclines towards the industrial field, in contrast with the past, when it was preferentially oriented towards mining and basic services. This is due to the influence both of the dynamics of the sector and the post-war tendencies which favoured the nationalization of the previously dominant areas. The variations are appreciable even if we only take the relatively brief period between 1967 and 1975, during which—as regards the capital accumulated by the United States—industry's share in Latin America rose from 33% to 49%, while the share of the petroleum and mining sectors dropped from 41% to 19%.³³ Partial

³²One of the most significant elements in this development is the growth of foreign investment in the United States. From an average of some 923 million dollars in 1967-1969, this rose to almost 4 billion dollars per year in 1973-1975, according to information from the United Nations Centre on Transnational Corporations, *TNCs in world development: a re-examination* (United Nations publication, Sales N.º: E.78.II.A.5), 20 March 1978. Regarding the decline of the United States dominance, see *inter alia* L. G. Franko, "Multinationals: the end of US dominance" in *Harvard Business Review*, Boston, Massachusetts, November-December 1978.

³³See CEPAL, *Economic Survey of Latin America, 1977*, *op. cit.* The other sector where there was rapid expansion in the recent past was that of finance, the share

data give grounds for assuming that this tendency is even more pronounced in the case of European capital.³⁴

h) *The weight of the transnational enterprises*

It is generally agreed that an overwhelming proportion of direct investment is made by the transnational enterprises: consequently, there is no need to repeat or enlarge on here what has already been observed from examination of the tendencies and structures of investments. We shall therefore concentrate on discussing some qualitative elements which may help to identify the present character of the phenomenon, compared with similar situations in the past,³⁵ the aim being to make a better appraisal of the role of these enterprises in the internationalization process since the end of the war.

The magnitude of this phenomenon must be underlined from the very start. According to a well-known United Nations study, around 1971 a relatively limited number of parent corporations (7,276) and their subsidiaries (27,300) generated about one-fifth of the total value added in the world gross product, not counting the centrally planned economies.³⁶

Comparable data regarding Latin America are not available, but perhaps the most important consideration is that involving a well documented fact: that the transnational corporations play the leading and sometimes exclusive role in some key sectors of production—precisely those of greatest dynamism and highest technological level—just as occurred in the past with the primary commodity exporting complex.

There is considerable documentation re-

of which rose from 14% to 20% of the total, for well-known reasons.

³⁴In the case of West Germany, for example, it would appear that 77% of the total investment are in the industrial sector, according to the United Nations study *Multinational corporations in world development* (Sales N.º: E.73.II.A.11), 1973.

³⁵With regard to the existence of such situations, Professor A. Lewis comments—rather ironically—that the recent discovery of their existence by political theorists leaves the historian a little perplexed (A. Lewis, *op. cit.*).

³⁶United Nations, *Multinational corporations...*, *op. cit.*

garding this matter which makes it unnecessary to go into it here in detail. It does seem useful, however, to go into a little more detail about some common features and also some notable differences in the particular situations of the Latin American countries. In order to do this, we have taken data regarding the industrial sector in Brazil, Colombia and Mexico.³⁷

In all these countries, from an early stage, foreign participation has been relatively highest (between 50 and 100%) in the chemical, basic metals and metal manufactures and machinery industries, with the proportions varying according to the specific lines in each sub sector. While the smaller degree of diversification and development of Colombian manufacturing may explain some of the contrasts noted, it is nonetheless true that these are very marked compared with the situations in Brazil and Mexico. As regards the metal manufactures and machinery group, for example, foreign control in various main items in the second country was complete until at least 1970 (the last year of the study quoted), but it was more varied and relatively smaller in Brazil. The motor industry may be taken as an illustration: even when the terminal plants are foreign owned, domestic motor-component firms account for about one-third of the total sales in this branch.³⁸

Obviously —and beyond any value judgement— the situation sketched above implies decisive influence on the growth rates and orientation of the production systems and on one of the crucial links of the external relations of the countries, precisely where this is most important.

It is difficult to say categorically whether this new form of internationalization implies more or less dependence on the exterior than that which characterized the primary commodity exporting growth. This is not the place to go

³⁷Regarding Brazil, see the data collected by the CEPAL/CTC Unit; regarding Colombia, see Michael Mortimore, CEPAL/CTC Unit, *Foreign participation in Colombian development: the role of TNCs*, 1979, and regarding Mexico, see C. Bazdresch Parada, "La política actual hacia la inversión extranjera directa", *Comercio Exterior*, Mexico City, November 1972.

³⁸Dercio G. Muñoz, "Capitais estrangeiros — a espera de pragmatismo", in *Revista de Anpec*, N.º 2, 1978.

into the terms of the controversy over this matter, but what does seem to be beyond doubt is that the phenomenon involved is much more complex and comprehensive than the previous type of linkage.³⁹

i) *The 'motivations' of the transnational corporations*

What are the forces or motivations which impelled this process?

If we look back over the way the problem was expressed in the previous system of trade, it seems obvious that the central impulse came from the need to promote exports of primary commodities so as to ensure supplies of food and raw materials at relatively low prices (which, among other things reduced the cost of the labour force), while at the same time opening up other profitable horizons for the export of capital.

In the post-war phase, these incentives continued to be present, but other conditioning factors also entered into the matter. One of them arises from technological development and the tendencies towards the concentration of enterprises, which created the possibility and necessity of going beyond national boundaries.

With regard to the first and most decisive element, it seems unnecessary to stress the influence of progress made in the fields of com-

³⁹Without this constituting an answer to this query, it seems useful to recall that in various recent CEPAL studies prominence has been given to the bigger capacity of the region to defend itself against the cycle of the central economies, which can be explained in the final analysis by the greater diversification of production of many of the economies of the region. When referring to this topic in his statement at the eighteenth session of CEPAL, the Executive Secretary of the Commission emphasized the following relevant aspects: the greater structural solidity of the economies of the region, due basically to the diversification of their production apparatus thanks to industrialization; the more diversified structure of exports and, in particular, the increase in exports of manufactures; the domestic potential for producing intermediate and capital goods, which could previously only be obtained through imports; the greater access to international financing (above all of a private nature), even at times of serious balance-of-payments disequilibrium in some countries, and the limited but significant changes in agriculture and particularly in a modernized sector with quite a high growth rate.

munications and transport, cybernetics, and business management, to which was added the "capacity and ... technical skill to 'fragmentize' the productive processes, even in relatively more complex activities, separating the segments of higher labour density from those which, although characterized by high capital density, can be carried out by unskilled or semi-skilled workers".⁴⁰

To these familiar reasons are added some others from other sources which complement them and accentuate problems connected with "capitalist accumulation", especially the unsatisfactory tendencies of profit rates in the centres (although this question only became of importance in the present decade), the pressure of the organized working class of the central countries themselves to share in the advances in productivity, and also the alternative and compensatory attraction of the low wages paid in the periphery.

Without denying the degree of validity of this second group of explanations, it seems clear that it comes from the same stock as the classical assumptions on this matter which we referred to earlier through a quotation from Professor Rosenstein-Rodan. As regards specifically the attraction exerted by the lower wages paid on the periphery, it is necessary to recall once again the well-proven fact that the bulk of the investments of the central countries has been concentrated in their own sphere—i.e., precisely where substantially higher wages predominate—and that even in the periphery itself they tend to recruit workers at wages which are usually higher than the average, although obviously they are far below those prevailing in the industrialized economies.⁴¹

A sounder approach, therefore, is to take into account the generic reasoning over the

possibilities of profit—visible or hidden profit on inter-enterprise transfers, payments for technology rights, and other well-known tricks—which acquires even greater significance if we consider the global or supranational strategies and the logic behind the oligopolistic competition between the big corporations. In other words, what interests them is not so much the profitability of each investment in particular as the global effect over the whole of their profits and the situation as regards competition with similar firms in the same field.

j) *The export of capital and the production cycle*

The elements of continuity and change in the presence of the transnational enterprises and their investments give rise to other queries which lead us to ask, as was done in a study already referred to: what is really *new*, if there is indeed anything new, in the recent trends?⁴²

In this sense, for some analysts the former phase was characterized by the export of capital from the central economies, while the phase which began after the Second World War was distinguished by the "internationalization of the production cycle"⁴³ or, to put it another way, by "the incorporation of the labour forces of many countries into an integrated and corporate world production structure"⁴⁴ in which the transnational enterprises play a decisive role.

Without denying the substantial change which took place between the two periods as regards the composition of the flows of capital, this did not prevent the fact that in the first stage, and even long before, as in the revealing case of the sugar plantations of the West Indies and Brazil, the other phenomenon mentioned above also took place. Particularly from the end of the nineteenth century onwards, there was a considerable increase in the centre-periphery links based on the trading of raw

⁴⁰P. Vuskovic, "América Latina ante nuevos términos de la división internacional del trabajo", in the review *Economía de América Latina*, CIDE, Mexico City, March 1979.

⁴¹From the point of view of Marxist categories, it could be said that the extraction of the relative surplus value (conditioned by the differential growth rates of productivity and wages) has been more attractive than the extraction of the absolute surplus value (created by the intensification of the efforts of workers and/or the compression of wages).

⁴²P. Vuskovic, *op. cit.*

⁴³C. Palloix, "Impérialisme et mode d'accumulation international du capital", *Revue Tiers Monde*, Paris, January-March 1974. Quoted by Pedro Vuskovic, *op. cit.*

⁴⁴S. Hymer, "The internationalization of capital", *Journal of Economic Issues*, Lincoln, Nebraska, March 1972.

materials and food for manufactures, thus internationalizing the global production cycle through the reciprocal significance of the flows of goods and capital involved. Obviously, the centre laid down the forms and rates of the links, but the mainly endogenous nature of their functioning was not in contradiction to the minor but still strategic role of the peripheral universe which was incorporated in this relationship and whose growth was subordinated to its rate and forms.

Moreover, this evolution, as a logical corollary of the direct or indirect promotion and control of production units by the guiding economies, also meant the forced or spontaneous mobilization and recruitment of an enormous reserve of labour. As is well known, two enormous international migration movements were set afoot: the approximately 50 million people who left Europe had as their counterpart a similar number of people who left the periphery for the tropical plantations, the mines or the construction projects. Added to the migrants were many more millions of people who were incorporated into the primary commodity export activities in their own lands. These amounts seem to be considerably greater than those now estimated with regard to the foreign operations of the transnational enterprises.⁴⁵

While the thesis thus unravelled may give rise to valid objections, it is nonetheless true that it does point to a clear and main fact: the greater complexity of the pattern of international relations (intra-centre and centre-periphery) established by the present agents in the articulation process. The socialization of economic activities (and not only of these activities) shows a great advance under the simultaneously paradoxical and contradictory aegis of the transnational corporations, which are *private* but in whose activities para-State and government bodies also play a part.

k) *The internalization of investments*

In seeking the novel features of the new situation it may be useful to recall the well known

⁴⁵S. Hymer, *op. cit.*, calculated that the foreign employees of the 500 biggest United States firms amount

image of Hans Singer who, referring to foreign investment in the primary commodity exporting field, maintained that it was umbilically rooted in the central country which gave rise to it, whereas its link with the peripheral country was a factor more of geographic than economic significance.⁴⁶

This picture underwent a profound change in the period after 1945. As foreign investment abandoned or was displaced from the field of commodity exports and began to be concentrated in industry and other activities, an "internalization" process took place to a degree which was more or less significant but in any case undoubtedly greater than in the past. The basic reason for this fact, as we know very well, is that the enterprises came to depend on the domestic market for their profitability and expansion, although they continued to be subordinated to the exterior through various channels (imports of inputs and capital, technological subjection, finance, etc.). On the other hand, depending on the host countries' bargaining power, this was accompanied by an expansion of the manoeuvring capacity of national policies and even the emergence of new forms of linkage with the transnational enterprises.⁴⁷

This "internalization" has many important consequences. One of them is the bigger irradiation of its effects over the societies which act as hosts to such enterprises, extending from the intensification and extension of the demonstration effect, with the consequent reproduction of the consumption patterns of the transmitting centres, to social and political impacts. It has been convincingly argued that all this has increased the co-optation capacity of the foreign presence, which covers the political, business and wage-earning classes, to

to between 13 and 14 million persons, while C. Vaitsos, *op. cit.*, estimates the number of persons employed by the transnational enterprises in industries in the developing countries at between 2.5 and 4 million.

⁴⁶Hans Singer, "The distribution of gains between investing and borrowing countries", in *American Economic Review, Papers and Proceedings*, Nashville, Tennessee, Vol. II, N.º 2, May 1950.

⁴⁷See in this respect CEPAL, *The economic and social development and external economic relations of Latin America* (E/CEPAL/1024), Vol. II, 1979. Prominent among these new forms are: co-production and specialization

say nothing of that part of the population which is incorporated (or hopes to be incorporated) in the market for consumer goods which are characteristic of the process. Paradoxically, in consequence, this "internalization" becomes a force which activates the tendencies towards internationalization already referred to.

Without prejudice to the foregoing, it is clear that these impulses run counter to other very powerful impulses in the opposite direction: i.e., towards the absolute or relative (but in any case conflictive) exclusion of a considerable part of the population of the periphery, with the proportions varying according to the particular situations of the countries, as many studies have convincingly demonstrated.⁴⁸

There is no room here to go into greater detail on this topic of such outstanding importance, but we cannot proceed without stopping to speak about a manifestation which is new in this matter and which is of particular significance for the central discussion.

Going to the root of the matter, we must recall the undoubted export-orientation of the former system of investment, which had as its counterpart—and made possible—the flow in the reverse direction represented by imports and service payments on foreign capital.

The new circumstances, and particularly the "internalization" mentioned, radically changed this circuit. With the international enterprises transformed into the main actors in the so-called second phase of substitution industrialization (which only really flourished it may be noted in passing, in the larger countries of Latin America), the trend towards imports replaced the former export trend.

Some selective data make it possible to illustrate this phenomenon: although they refer to changes which took place after 1950 they nevertheless bear witness to the change which

took place in the period within the general framework of inward-oriented development.

Thus, for example, if we compare the growth rates of the domestic product and of the imports of Latin America in the period 1950-1960 with those for 1965-1974 (see table 7), we see that in the second period there was a substantial rise in the growth rate of imports, while there was only a relatively modest increase in the product. The same evolution is repeated with greater force in the large countries in which the second stage of substitution was concentrated, since in these countries the growth rate of purchases abroad increased four-fold.

Table 7

GROWTH RATES OF THE LATIN AMERICAN DOMESTIC PRODUCTS AND IMPORTS

	Latin America as a whole		Large countries of Latin America	
	1950-1960	1965-1974	1950-1960	1965-1974
Domestic product	5.2	6.7	5.4	7.5
Imports	3.5	9.4	2.8	12.2
Exports	4.0	4.6	3.1	6.2

Source: CEPAL, *Long-term trends and prospects of the development of Latin America* (E/CEPAL/1076), document presented at the eighteenth session of CEPAL in La Paz, Bolivia, 1979.

Of course these disparities are not due exclusively to the phenomenon under consideration. They are also influenced by the expansion in world trade and the relative improvement of the terms of trade noted in the second period (1965-1974). At the same time, however, it should be noted that the average growth rates of the region's exports are similar in both periods, although they increase appreciably for the bigger countries, largely because of the performance of Brazil. External indebtedness consequently assumes outstanding importance in explaining the difference in the growth rates of the two flows.

agreements; sub-contracting; co-operation arrangements limited to aspects of technology and marketing, and agreements between foreign and domestic enterprises to carry out joint ventures.

⁴⁸Among these studies, those concerning income distribution and situations of extreme poverty and on the subject of basic needs are particularly pertinent. See, for example, CEPAL, *The economic and social development and external economic relations of Latin America*, 1979, *op. cit.*, vol. I.

With regard to the general phenomenon of integration-

exclusion, the studies by Osvaldo Sunkel, "Capitalismo transnacional y desintegración nacional" in *El Trimestre Económico*, Mexico City, N.º 150, and by S. Hymer, *op. cit.*, are worthy of mention.

This matter is made clearer if we look at fragmentary figures on the relation between exports and imports (and financial payments) for the case of Brazil, where the phenomena under consideration are to be seen more clearly and significantly affect the fields selected.

A study carried out by the Ministry of Planning of Brazil, which refers to the year 1974 and to 115 of the main transnational enterprises, revealed that the trade balance of the latter showed a negative balance of 2,161 million dollars,⁴⁹ which rises to 2,412 million dollars on the current account (i.e., taking into account payments for services) and which is reduced to 1,731 million dollars if we take into account investments and loans under the movement of capitals. From the point of view of the current account, this balance is equivalent to one-third of the total deficit recorded for 1974 (7,286 million dollars).⁵⁰

It hardly seems necessary to stress the great importance of the structural turnabout in the internal and external projections of the activities of these corporations. For a start, it raises a clear contradiction between the need for foreign exchange and the inward effects on the level and composition of domestic demand, which stimulates an increase in imports. Moreover, it obviously represents an obstacle to the progress of the internationalization of the economy (or, if you prefer, its "transnationalization"), insofar as it makes payments on foreign capital and the growth of imports more difficult. New net investments and an increase in other exports and credits can obviously make up for this dissociation to some extent, but their growth capabilities suggest that only a change in the structure of external relations of these enterprises—in the direction of increasing their export trends—could restore a manageable level of harmony to the opposing trends if, of course, these are going to continue playing such a decisive role as in the recent past.

Be that as it may, the change in question seems to imply that, in the second historical period under consideration, foreign enter-

prises or investments did not so much contribute to the progress and change of the *international* division of labour as help to deepen *national* divisions in this, i.e., within each country, as expressed in movements of labour and capital between and within the productive sectors. Of course, the outlook would be different if we forgot about the national framework and took as our reference a unified world system. From that point of view, this inward-directed change would have a sense equal to that of the international division of labour as it is normally understood.

1) *Oil and internationalization*

It would be a serious omission not to include some brief remarks about the incidence of the change in oil prices on the question under examination. Although the difficulties of the world economy, and particularly those of the central countries, had already begun to show themselves earlier,⁵¹ there can be no doubt that this price rise has been of decisive importance in the second half of the nineteen-seventies and it seems that it will be even more important in the future.

The truth is that this abrupt change gave rise to universal awareness of the realities of internationalization (and interdependence), however their nature and content might be viewed.

It may be, as has been suggested, that this was simply the detonator which dramatically brought to the surface the various disequilibria generated by the kind of development followed since the war, but at the same time few will deny that it has a personality of its own and effects which go far beyond the mere moment of the explosion.

For the particular purposes of the present study, what is worth stressing more than anything is the fact that this episode constitutes the first and unprecedented case in which the impulse towards internationalization—with all the consequences which it involves—has originated from a decision of a sector of the

⁴⁹The exports of the 115 enterprises totalled 837.5 million dollars as against 3,000 million dollars of imports.

⁵⁰See SUBIN, Ministerio de Planejamento, *Balanco de Pagamentos de 115 empresas multinacionais*, Brasília,

1976, and CEPAL, *Economic Survey of Latin America, 1976*, *op. cit.*

⁵¹See in this connexion the analysis which appeared in CEPAL, *Economic Survey of Latin America, 1971*, *op. cit.*

periphery, thanks to its partial but strategic domination and handling of a product which is essential for modern society and especially for the most highly industrialized core of that society.

Many appraisals shared by analysts of diverse and opposed tendencies probably exaggerate the negative repercussions of this phenomenon and underestimate, in contrast, the capacity of adaptation of the centres. There seems to be general agreement, however, that the adjustment process (quite apart from having a striking influence on the growth rate, inflation and the terms of trade) may involve substantial changes in their style of development and, more specifically, in their resource assignment matrix. Recalling an oft-repeated metaphor, it could be said that the type of economy based on oil at less than 2 dollars a barrel can hardly be the same when the price in mid-1979 is already over 20 dollars.⁵² A more direct and equally transcendental result could be the massive reallocation of investments called for by energy programmes.

All this raises great queries which are far from being clarified, but their consideration goes beyond the scope of the present study, except as regards the repercussions of the general phenomenon on the periphery and the reactions of the industrialized economies.

A contradictory aspect immediately comes to our attention in this respect. There can be no doubt that the rise in oil prices represented a *global* strengthening of the bargaining position of the periphery *vis-à-vis* the centres, and this is the main reason for the political solidarity which is to be observed within the group of peripheral countries with regard to the OPEC. On the other hand, however, as is even clearer, it represented a differentiating and weakening factor in this group in view of the contrast which it created between the oil-exporting

countries and those dependent on the importation of petroleum.⁵³

Moreover, if we look at the situation of the latter countries, it is easy to see the multitude of negative consequences following upon the rise in fuel prices and transmitted from the central economies, the most readily visible of which are those deriving from "stagflation"; weakening of demand for the non-oil countries' exports, rises in the prices of their imports, and in addition the recrudescence of protectionism. In the more distant future, however, there loom other disquieting factors also, such as those which may result from the changes in the patterns of growth and investment already referred to.⁵⁴

Without weighing the various positive and negative elements against each other, there is a striking contrast between the effective impulse towards internationalization represented by the oil problem and the contrary influences —towards marginalization— which affect in particular the oil-importing peripheral economies.⁵⁵

Looking at the same problem from the angle of the central countries, we also note a contradictory situation. On the one hand, the energy crisis has so far stimulated joint decisions for tackling it, but few would deny that if it persists or gets worse this could well be the source of future conflicts.

(m) *A structural balance-sheet*

In order to give a broad picture of the changes which the internationalization process has

⁵³The first open manifestation of this split was seen at the UNCTAD Conference held in Manila in 1979.

⁵⁴By way of illustration, we may consider a tendency which was already taking shape before the oil crisis. Thus, between 1970 and 1973 over 80% of the total expenditure on the exploration of mineral resources was concentrated in only four countries: the United States, Canada, Australia and South Africa. See United Nations, *Development Forum*, Geneva, May 1978.

⁵⁵The so-called recycling of the oil surpluses and their contribution to international liquidity facilitated the flow of credits to the non-oil-exporting economies, and some measures have also been taken by the oil-producing countries to reduce the difficulties of the former. It is obvious, however, that these elements are far from representing adequate solutions to the problem. On the other hand, the allocation of a large part of the OPEC countries' resources to investments and purchases in the central economies has significantly aided the latter.

⁵²See J. W. Mullen, "World oil prices: prospects and implications for energy policy-makers in Latin America's oil-deficit countries", *Cuadernos de la CEPAL*, Santiago, Chile, 1978. In practice, the price of a barrel of oil before the 1973 increase, in constant 1975 dollars, was equivalent to less than half that prevailing at the beginning of the 1950s. It would be difficult to find a more eloquent illustration of the historic short-sightedness of the "market forces".

helped to bring about, two approaches have been selected. One stresses the changes in the pattern of trade of the main groupings in the world system, while the other stresses the structural shifts in the centre-periphery complex in its usual sense, i.e., without taking into account the socialist economies, although details are given regarding them.

With regard to the first approach, an attempt is made to establish to what degree there has been a change in the "classic" division between exporters of commodities and exporters of manufactures. See in this respect table 8, prepared for a recent CEPAL study, which clearly illustrates this matter.

As may be seen, there is a clear predominance of industrial exports in the export structures of the central economies and the European Socialist countries. In contrast, despite the significant changes which took place between the years in question, industrial exports represent only a small fraction of the

sales of the peripheral countries, although the Asian market economies constitute a significant exception to this because of the well-known weight of the group of countries which began their industrialization process with a view to the external market.

The situation is very different if we look at the composition of imports, since in all cases (with the exception of Japan)⁵⁶ imports of manufactures clearly predominate. This situation, of course, implies a marked distortion in the external trade structure of the periphery because of the scanty relative weight of their industrial exports in comparison with the very high value of their imports of such goods. In contrast, the symmetry in the imports and

⁵⁶This situation is largely explained by the shortage of natural resources. It is also influenced, however, by policies restricting the access of industrial products, which are frequently criticized, it may be noted in passing, by those who claim to be adversely affected by these policies.

Table 8

RELATIVE VALUE OF MANUFACTURES^a IN WORLD AND REGIONAL TRADE
IN GOODS (EXCLUDING FUELS), 1955 and 1975
(Percentages)

	Exports		Imports	
	1955	1975	1955	1975
<i>World</i>	49	70	49	70
North America (Canada and USA)	51	63	42	76
Western Europe	69	80	39	69
Eastern Europe and USSR	59	68	47	68
Japan	83	94	13	33
Other developed countries ^b	11	23	78	89
Latin America and the Caribbean	5	22	71	78
Africa (excluding South Africa)	6	12	72	79
Asia (excluding Japan and Asian socialist countries)	19	55	59	67
China and other Asian socialist countries ^c	17	39	78	73

Source: CEPAL, on the basis of data from UNCTAD, *Handbook of International Trade and Development Statistics*, 1976 (United Nations publications, Sales N.º: E/F.76.II.D.3) and 1977 (Sales N.º: E/F.78.II.D.1).

^aSITC sections 5, 6, 7 and 8, except for division 68 (non-ferrous metals). Figures based on FOB values.

^bAustralia, New Zealand and South Africa.

^cNorth Korea, Mongolia and the former Socialist Republic of Viet Nam.

exports of the central economies in this respect is very clear.⁵⁷

In view of the decisive role which exports of commodities will continue to play in the periphery and in Latin America, it is worth referring again here to an aspect which was already mentioned and which is of essential importance within the CEPAL conceptions of the centre-periphery system. We refer to the different demand dynamics for the goods which make up foreign trade and their influence on its structure. As we can see from table 3, between 1960 and 1974 the growth rate of industrial exports —at constant values— was two and a half times higher than the rate for primary commodities and foodstuffs, although it was not so much higher than that for fuels.

In order to try to draw up a balance from the other angle, we assembled and rearranged known data which enable the situations in 1950 and 1977 to be compared. These are given in table 9. As already noted, the socialist area has been excluded for the basic reason that it does not form part of this group, although it is linked to it by various channels and does form part of the world picture. Furthermore, this exclusion was due to more substantive reasons connected with the particular characteristics of these economies, which are based on collective, or, according to some, State ownership and planning, and with their internal or regional relations in the case of the USSR and the countries of Eastern Europe.⁵⁸ Reference will be made to their evolution later in this study.

Table 9

CENTRE AND PERIPHERY: DISTRIBUTION OF POPULATION, TOTAL PRODUCT AND PER CAPITA PRODUCT IN 1950 AND 1977

	1950				1977			
	Population	Total product	Per capita product		Population	Total product	Per capita product	
	(%)	(%)	%	In 1970 US dollars	(%)	(%)	%	In 1970 US dollars
Centre and periphery ^a	100.0	100.0	100	627	100.0	100.0	100	1 448
“Modern” sector	34.3	86.0	250	1 565	26.6	82.2	309	3 543
North America (Canada and USA)	10.2	51.4	506	3 172	8.6	41.9	487	5 595
Western Europe ^b	17.4	29.1	168	1 052	12.3	28.9	235	2 606
Japan	5.1	3.0	59	367	4.0	8.9	221	2 532
Other developed countries ^c	1.6	2.5	138	866	1.7	2.5	148	1 698
“Intermediate” sector	10.0	5.8	57	360	12.1	7.7	63	725
Latin America and the Caribbean	10.0	5.8	57	380	12.1	7.7	63	725
“Primitive” sector	55.7	8.2	15	93	61.3	10.1	17	191
Africa (excluding South Africa)	12.6	2.3	19	117	14.1	2.6	19	214
Asia (excluding Israel and Japan)	43.1	5.9	14	86	47.2	7.5	16	183

Source: CEPAL, on the basis of data taken from official United Nations publications.

^aIncludes only market economies and therefore excludes the centrally planned economies of Europe, Asia and Cuba.

^bAll the EEC and EFTA countries, Greece, Malta and Spain.

^cAustralia, Israel, New Zealand and South Africa.

⁵⁷See in this respect G. Fichet and Norberto González, “The production structure and the dynamics of development”, in *CEPAL Review*, N.º 2, second half of 1976.

⁵⁸With regard to the second element, it should be stressed that this group of countries, despite some similarities with the centre-periphery scheme of the capitalist sphere (such as the fact that there is a “main centre” and other economies which are dependent on it in essential aspects), there are differences in other important aspects, such as the fact that the “classic” system of trade between

exporters of industrial goods and exporters of basic commodities does not apply. In practice, the main producer of primary commodities is the USSR, and some of the smaller countries have an economic structure which is more homogeneous and “developed” than the “main centre”. For a longer and more fully documented discussion of this subject, see A. Pinto and J. Kiakal, *América Latina y el cambio en la economía mundial*, Instituto de Estudios Peruanos, Lima, 1973.

As will be noted, the statistical picture reflects the approach applied in Latin America for characterizing the structural heterogeneity of the region.⁵⁹ This procedure is not arbitrary, since a similar picture is to be observed at the world level, where several outstanding universes coexist and are interrelated: that of the predominantly prosperous countries (in relative terms and with the exception of some special cases which are of little significance for the group as a whole); that of the predominantly backward or poor countries (except for the case of small rich élites which are also of little significance for the total), and that of the countries which are "intermediate" in the Latin American style, namely, countries which are neither one thing nor the other because they contain markedly heterogeneous productive strata which represent significant proportions of the population and/or the product.

The global system then, resembles the Latin American formation in its structure. A modern sector (the central economies) accounts for a high proportion of the product and a low proportion of the population; the "primitive" sector (Asia and Africa)⁶⁰ is marked by the opposite features, while the intermediate sector (Latin America) shows something of a balance between the two positions (see table 9).⁶¹

⁵⁹Paraphrasing one of Marshall Wolfe's definitions (CEPAL, *Economic Survey of Latin America*, 1973, p. 291) for this purpose, it could be said that this corresponds to a situation marked by the coexistence of economic groups characterized by profound differences of productivity and "modernity" but connected by complex links of trade, dominations and dependence within the world as a whole. With regard to its application to Latin American analysis see *inter alia* A. di Filippo and S. Jadue, "La heterogeneidad estructural: concepto y dimensiones", *El Trimestre Económico*, N.º 169, January-March 1976.

⁶⁰In order to facilitate the statement of this position, the oil-exporting countries have not been separated in these groupings. In any case, the comparisons are on the basis of the real product in money of constant value, so that they do not take into account the variations in fuel prices.

⁶¹Another factor already referred to is the *internal* structure of Latin America. At the end of the 1960s, this was approximately as follows: the modern sector generated 53% of the product and gave employment to 12% of the labour force (not, it should be noted, of the total population); the figures for the intermediate sector were 48% and 42%, respectively, while those for the "primitive" sector were 5% of the product and 34% of the labour force.

The first element to consider is the expansion of the system and of its parts, for which purpose we may look at the increase in the per capita product. What strikes us immediately from this point of view is the dynamic evolution of the whole and the different increases of each segment of this. Thus, while the global increase was 83%, that of the centre exceeded 126%, that corresponding to Latin America rose by 100%, and that of the most backward area by 105%.⁶²

Despite the significant contrasts, the intermediate and primitive sectors slightly improved their share in the total product at the expense of the modern sector. The variations in absolute terms, however, are extremely unequal (almost 2,000 dollars for the centre, almost 100 dollars for the most backward countries, and 365 dollars for Latin America).⁶³

It is easy to see that the change in the relative population of the areas affected this evolution. Thus, in keeping with well-known factors, the population growth rate of the industrialized economies went down considerably, whereas that of the other groups went up. Clearly, however, this is only a minor factor compared with the centripetal tendencies of the system as regards the absorption of technical progress.

Naturally, there are marked differences between countries. Argentina, for example, differs considerably from the general picture in that the "primitive" sector only accounts for 5% of the labour force, whereas the modern sector employs 21% of the total labour. See in this respect A. Pinto, "Styles of development in Latin America" in *CEPAL Review*, first half of 1976.

⁶²The rates of annual increase were 2.3% for the whole, 3.1% for the modern sector, 2.6% for the intermediate sector and 2.7% for the primitive sector. In order to have a point with which to compare these, they may be placed alongside the increases in the per capita product in the United States in a similar period of active expansion (1897-1900 to 1928-1930), which came to 1.7% per year (US Bureau of the Census, *Historical Statistics of the United States, Colonial times to 1957*, Washington, D.C., US Government Printing Office, 1960).

⁶³The figures make possible a realistic appraisal of the references to Latin America as an international "middle class". Apart from the fundamental factor of the distribution of this increase by social classes and countries—which meant very small advances for the 50% of the population with the lowest income—the distance between Latin America and the levels of the centre is very much greater than that between Latin America and the most backward area.

It would be tiresome to go into all the details of the various aspects arising from the information presented, but it seems useful to draw attention to the shifts within the modern sector, which confirm the rise in the relative position of Western Europe and, in particular, of Japan, whose per capita product increased seven-fold. This is obviously due largely to the year taken as a reference, when these areas were only beginning their period of post-war reconstruction. Moreover, even in 1977 the specific and proportional weight of the United States continues to be striking.

In order to complete this balance-sheet, we include the information given in table 10, which shows the changes regarding the European Socialist countries. Even taking into account the year taken as a base, which likewise reflects the upsets of the war, the variations in all the indicators are still substantial; in this respect, it is sufficient to note that this group's share in the world product rose from a little over 12% in the base year to 23% in 1977, while their per capita product rose at an annual rate of 6% over the period in question.⁶⁴

Table 10

RELATIVE WEIGHT OF THE EUROPEAN
SOCIALIST COUNTRIES IN THE
WORLD ECONOMY^a
(World = 100)

	1950	1977
Population	14.8	12.2
Total product	12.2	22.9
Per capita product	82.0	189.0

Source: CEPAL, on the basis of data taken from official United Nations publications.

^aEastern Europe (Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and Yugoslavia) and the USSR.

⁶⁴By way of reservation regarding this evolution, it has been argued that the amount of expenditure on defence constitutes a larger part of the product than in the central capitalist economies and that the official exchange rates over-estimate the real significance of the figures; even so, however, the changes are substantial.

Recapitulation

As we have seen, the rate of internationalization—except for the interval between the First World War and the end of the Second World War—undoubtedly accelerated during the second period, while the process also became more complex and all-embracing, especially at certain superstructural levels. From the more directly economic point of view, however, the process continued to be concentrated in the developed countries, as the driving forces and guides of the overall movement, whereas it took place in relatively few countries of the periphery and even then only in certain dynamic activities now closely linked to the consumption patterns of the central economies and the middle and upper groups. Thus, the phenomenon continued to be primarily horizontal (North-South), selective with respect to the periphery (as regards countries, activities, social groups, spatial location, etc.), and, as a result, a source of relative or absolute marginalization in all these dimensions as far as the great majority of the world population is concerned.

In short, the expectations regarding “the world-wide expansion of industrial capitalism”⁶⁵ did not materialize, not so much because of overdoses of the supposed medicine, but rather because these doses were insufficient or unsuitable for transforming the world economy in the image and likeness of the centres.

As we already noted at the beginning of this study, we have not gone into the question of “interdependence” which is so often intermingled with that of internationalization.

This matter does, of course, involve related realities, and it can thus be maintained in general terms that the development of the second process necessarily promotes the first situation, but the problem is considerably more complex than this in reality, due mainly to the ambiguity of the concept of interdependence.

In order to go straight to the heart of the matter, let us recall one of the elements which form the backbone of the centre-periphery

⁶⁵R. Prebisch, “Towards a theory of change”, an unpublished study to appear soon in *CEPAL Review*.

theory formulated by Raúl Prebisch. As we know, he started from the analysis of the economic cycle and the dominating role of the "main centre of the cycle", reflected in the dependence of the peripheral countries. This analysis was progressively enriched through the identification of the structural contrasts which condition the links between the two spheres beyond the periodical fluctuations. Within the framework of this conception, the various functions discharged by the periphery for the development of the central countries are not ignored, but it is established beyond all doubt that it is the centres which impart their special features and dynamics to the evolution of the system as a whole and that of the periphery in particular.⁶⁶ In other words, the overall interdependence has as its basis these two substantially different roles.

The course of the processes since the war has not changed the essence of this composition: indeed, the world projections of the "stagflation" suffered by the centres is suffi-

ciently eloquent proof of this. Although there can be no doubt that the "oil challenge", which we discussed earlier, is a prime exception of great present and potential significance, it is no less true that it has also brought out the very different capacities for response and adaptation of the industrialized and peripheral economies.

In reality, as Dr. Prebisch pointed out, this is a situation of interdependence between unequals.⁶⁷

The moral of the analysis which we have tried to make is clear. The dynamic continuation of the process of internationalization is not enough to significantly alter the classic system of centre-periphery relations. For this, there must also be a profound change in the ways in which the peripheral countries are fitted into the world economy, and this, in its turn, is intimately connected with the shift in their own productive structures. There lies the nub of the discussions and policies on the New International Economic Order.

⁶⁶In this connexion, see O. Rodriguez, "On the conception of the centre-periphery system", *CEPAL Review*, N.º 3, first half of 1977.

⁶⁷In his statement at the UNCTAD Conference in March 1979.