

# CEPAL

## Review

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UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA  
SANTIAGO, CHILE / AUGUST 1981

# CEPAL

## Review

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Number 14

August 1981

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## The transnational corporations and Latin America's present form of economic growth

*Luiz Claudio  
Marinho\**

The form of development which particularly predominates in the largest countries of the region has been repeatedly criticized in various CEPAL studies because of its tendency towards a concentrated distribution of income, the persistence of extreme poverty, incapacity to absorb the entire labour force in a productive manner, growing external vulnerability, and increasing loss of national capacity to manage the economy.

The author accepts the critical appraisal of this form of development, and after describing its broad features he seeks to identify the role which transnational corporations have played and are still playing in its conformation. According to his main hypothesis, there is a contradiction between the transnational objectives of these enterprises and the national objectives aimed at securing an integrative and autonomous style of development.

This fundamental contradiction is manifested at both the internal and external levels. At the internal level, it is expressed in particular through the orientation of the structure of production, which is adapted to the restrictive and elitist demand of the strata with the highest income, while at the external level it is reflected in the incapacity of the transnational corporations to solve the problems of the external bottleneck, which they may even help to make worse, and in their real and potential role with regard to the regional integration processes.

Finally, the author concludes that the region could enjoy strong bargaining power *vis-à-vis* the transnational corporations on the basis of its present level of development and productive potential, and if this power were used wisely and energetically, it would enable the countries to ensure that the participation of the transnational corporations was in keeping with national interests.

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## Introduction\*

It is important to make some cautionary observations at the very beginning about the analysis presented in this document.

The first observation is that the approach adopted in the analysis seeks to treat Latin America as a whole without, however, overlooking fundamental national differences. The statements made below are therefore not valid for a particular country, or at least were not intended in this way. Clearly, when dealing with a particular national case there are much greater possibilities of action and a broad range of variables comes into the reckoning, which is not the case when dealing with the entire region. A strategy which may be viable for a particular national case in a particular regional and world situation may be quite unfeasible for the region as a whole.

The second observation consists of the recognition that the analysis does display a certain bias towards the large countries of the region. This is because these countries constitute outstanding cases of penetration by the transnational corporations and because their present economic dilemma is closer to the limits which could be reached if the present form of development is maintained in the future.

Finally, throughout the document references will be made to the serious problems raised by the present form of development of the region and hypotheses will be proposed regarding the possibilities of a new pattern of resource allocation. In order to deal with this set of problems, an analysis should be made of the action of the State, public enterprises, national capitalism, and the transnational corporations, bringing out the various combinations of interests among them. In fact, however, the document concentrates its attention on the transnational corporations, without going into a more

\*This study forms part of a more general scheme and is complemented by the study by Arturo Núñez del Prado, "The transnational corporation in a new planning process", also published in this issue of *CEPAL Review*.

An earlier version of this article was presented at the Seminar on Restrictive Trade Practices sponsored by UNCTAD in June 1980. The author wishes to thank Norberto González, Arturo Núñez del Prado, Pedro Sáinz and Adolfo Gurrieri, whose observations and comments permitted significant improvements to be made to this work. It goes without saying, of course, that this does not commit them in any way to the views expressed in this article.

detailed analysis of the role of the 'internal' agents of development. In other words, it gives special treatment to *one* of the manifestations of exclusive, concentrating and vulnerable development. This does not mean, however, that it overlooks the fact that the phenomena of transnationalization take place through internal

power structures which are penetrated by it or that the correct analytical approach calls for consideration of the State, national capitalism and the transnational corporations as co-promoters of the present pattern of development and jointly responsible for its maintenance or supersession.

## I

### Contradictions of the present form of development

According to the concept which lies at the base of this study, the present form of growth in the region —based on restrictive industrialization— is now at the crossroads, at both the internal and external levels, and this fact is bound to bring about the restructuring of the dynamic factors of growth for the future, whatever the particular visions of the various power groups.

There are many studies and an increasingly broad consensus which indicate that the present style of development of Latin America (and particularly of the countries which have gone farthest in the process of industrialization) will not be capable of solving the serious problems with which it is currently faced. This type of development, which is concentrating, exclusive and vulnerable at the external level, as indicated so many times by CEPAL and various Latin American authors, will not be changed simply by pursuing the goal of economic growth nor through the 'sovereign' action of the market forces.

Thus, a redefinition of the present style of development is necessary, and this will certainly pass through levels of political decision-making which will have to take into account the needs or demands of substantial masses of the national population which have so far been marginated in one way or another from enjoyment of the benefits of the previous kind of growth.

It can be expected, however, that this restructuring of national objectives and commitments will come into conflict with the present interests of internal power groups and with the form of operation of the transnational corporations in the region.

It is clearly necessary to recognize the fragility of the distinction between internal and external factors in a 'transnationalizing' form of development, in which both aspects necessarily merge. Nevertheless, in the present article an attempt is made to state some considerations regarding the specific role of the transnational corporations in the present style and in its possible reformulation.

Of course it must be acknowledged that in order to produce a wide range of goods which are of vital importance for their development, the countries of the region need the support of the transnational corporations. The needs for technology, for increasing productivity on the basis of new inventions, or for penetration into the markets of the central countries are only some of the aspects in which it is clearly seen to be in the region's interest to have the support of such corporations.

The idea that 'what is good for General Motors is good for the rest of the [capitalist] world', however belongs to the past, or else survives only among diehard neoclassical economists.

It is obvious today that the motives of the transnational corporations do not necessarily coincide with the most representative national interests, and that their action at the world level may be a factor in the frustration or conditioning of the objectives of the countries themselves.

The present article proposes to analyse this contradiction at the present stage of growth of the region and to weigh it in relation to the possibilities that this growth could take new courses.

## II

The challenge to development<sup>1</sup>1. *The production potential*

The process of industrialization of Latin America is today a reality and in the evaluation of our *material possibilities* it is of vital importance to understand this. Over the period 1950-1975, the region's product more than quadrupled, reaching a level higher than that of Europe in 1950, when the latter region was already one of the most industrialized areas and included some of the main world economic powers among its member countries. Over the same period, the production of machinery and equipment in Latin America has increased ninefold to cover three-quarters of the region's needs; the production of steel has increased more than 13 times, that of cement has increased sevenfold, the amount of electrical energy generated in 1975 was more than eight times that generated in 1950, and automobile production—which did not even exist in 1950—amounted in 1975 to almost two million units.

Over the same period, the share of the manufacturing sector in the total product of the most industrialized countries of the region has reached percentages comparable with those of the United States economy.

These facts, and other well-known items of a similar nature, reflect the development of the forms of production in Latin America, and the picture can be heightened by some projections into the future. Thus, according to CEPAL calculations,<sup>2</sup> some significant changes may be glimpsed ahead. In order to understand this better, they will be presented in comparison with particular aspects of the situation of the European Economic Community in 1970.

<sup>1</sup>This section is based on the addresses delivered by the Executive Secretary of CEPAL, Mr. Enrique V. Iglesias, at recent sessions of CEPAL. See *CEPAL Review*, No. 3, first half of 1977, and No. 9, December 1979.

<sup>2</sup>See CEPAL, *Long-term trends and prospects of the development of Latin America*, E/CEPAL/1076, April, 1979.

—The domestic product of Latin America in 1990 will come to a little over US\$ 450 billion: i.e., it will be only slightly below that of the EEC in 1970, which was US\$ 500 billion in round figures.<sup>3</sup>

—The Latin American manufacturing product is expected to amount to some US\$ 135 billion, which is only 20% less than that of the EEC in 1970.<sup>4</sup>

—The supply of electrical energy in 1990 will be very close to 800 billion KWH: much more than the supply of the EEC in 1970, which was 606 billion KWH.<sup>5</sup>

—The gross value of the production of machinery and equipment in 1990 is expected to amount to some US\$ 138 billion, which is more than the figure recorded in 1970 for the EEC (US\$ 126 billion).<sup>6</sup>

Of course these comparisons could be subject to many reservations, but they are useful for bringing out the big changes which have taken place in the size and composition of the regional economic system.

Although these results are undoubtedly impressive as regards material possibilities, however, they cannot serve to conceal some criticisms and reservations regarding various problems of fundamental importance. On the contrary, in emphasizing the size and nature of the region's production potential what is sought is not to give rise to complacent satisfaction, but rather to arouse reflection.

In this respect, it must be acknowledged that a number of the region's problems have got

<sup>3</sup>In 1970 dollars, as in all the other estimates. A growth rate of 6.1% per year has been assumed: i.e., that actually achieved between 1970 and 1975.

<sup>4</sup>The industrial growth rate assumed is 7.1% per year, which is the actual average for the period 1970-1975.

<sup>5</sup>Assumed growth rate of 8.7% per year, observed on average during the period 1950-1975.

<sup>6</sup>The growth rate for the period 1950-1974 was of the order of 11.2% per year on average, and the projection assumes that this will remain constant for the period 1974-1990.

worse. The social distribution of the fruits of the expansion of production has remained unaltered and in some cases has even deteriorated; new and more complex forms of dependence with respect to the exterior have developed, and the political system has not evolved in the direction of greater representativity. Moreover, these are only a few of the most delicate problems.

## 2. *Extreme poverty*

The first of these problems is to satisfy the essential needs of the great masses who have not had access to the fruits of development in recent decades: that is to say, to afford substantial relief from the extreme poverty in which a considerable proportion of the population of Latin America is still living, or else eliminate such poverty altogether within a reasonable time.

The magnitude of such extreme poverty in the region is reflected in some recent estimates made by CEPAL, according to which in 1972 around 40% of the population of Latin America (i.e., over 110 million people) were living in conditions of 'absolute poverty', and 54 million of them could be considered as 'indigent'.<sup>7</sup>

It is worth looking at some world-level figures regarding this problem in order to get a better idea of the particular situation of Latin America.

The World Bank has published some estimates on the investments needed in order to secure a substantial improvement within one decade of the situation of the 750 million persons in the world who at present have a per capita income of less than 200 dollars per year, which is considered to amount to a situation of extreme poverty. The investments required in this period are calculated to be between US\$ 110 and 125 billion, or between US\$ 11 and 13 billion per year over one decade. This figure may be compared with world spending on

arms, which amounted in a single year (1975) to some US\$ 300 billion. Many other comparisons could be made: with the total product of the developed countries, with the present amount of investments or spending on certain items which are consumed on a massive scale but are not essential, etc. In all cases it may be concluded that while the investment required is considerable it is nevertheless within the bounds of possibility and is not utopian. In other words, from the point of view of the development of its productive forces, human society as a whole—without considering divisions between nations and classes—seems to be potentially in a position to cross the threshold of what has been called the realm of necessity. In a region like Latin America, whose production potential and per capita income are considerably higher than in Asia or Africa, this assertion has of course a much firmer basis.

The conclusions of a study carried out in CEPAL serve to corroborate this thesis.<sup>8</sup> If the historical growth rate of around 6% per year were maintained, the poorer half of the region's population could arrive at the position of satisfying their basic needs as regards food and clothing within one decade provided that their share of total income rose from approximately 14% to 20% either through an increase in their income, social allowances for their benefit, or a combination of both factors. For this to take place it would be sufficient for the share of income corresponding to the 10% of the population with the highest income to be reduced from 44% to 41% and for that of the intermediate strata to be reduced from 42% to 39%. It should be borne in mind that this would not prevent the absolute incomes of these groups from continuing to rise during this period (the income of the richest 10% would increase from US\$ 1 945 in 1970 to US\$ 2 424 in 1980, measured in 1970 dollars).

Perhaps these calculations could be accused of being a little ingenuous, but they undoubtedly serve to show that the elimination of critical poverty in the region is within the realms of the possible.

<sup>7</sup>See CEPAL, *The economic and social development and external economic relations of Latin America*, E/CEPAL/1061 and Add. 1, February 1979, Vol. 1, pp. 148 et seq.

<sup>8</sup>See Anibal Pinto, "Styles of development in Latin America", *CEPAL Review*, No. 1, first half of 1976.

### 3. *Income distribution, population growth and employment of the labour force*

In contrast with this real and concrete *possibility*, the available figures for 1960 and 1970 reveal that in the course of this decade there was no significant change in income distribution. In both these years the poorer half of the population received around 14% of the income, the following 20% received a similar amount, and the top 30% received the remaining 72%. In other words, to judge from the average figures, income distribution remained unaltered after a decade of development in Latin America. It may be, however, that in this case the averages do not express the whole magnitude of the situation. During this period, some of the countries of greatest relative development and fastest growth actually witnessed the aggravation of the problem of income concentration. Thus, in Brazil the relative share of total income received by the poorest 40% went down from 10.5% in 1960 to 7.1% in 1970, while in Mexico the same stratum of the population saw its share go down from 14.3% in 1950 to 11.6% in 1970.

In close connexion with the reality of the aggravation of income concentration, it is necessary to consider the challenges and problems deriving from the growth of the population as a whole and of the labour force; some CEPAL studies have estimated the probable trends of these indicators for the coming decades.

As this is rather a controversial matter it does not seem desirable to go into detail on the more hotly contested points of view, but we should keep clear in our minds an objective reality which is not affected by this. Whatever the future population growth policies followed in Latin America, the total number of inhabitants in the region will continue increasing rapidly until the end of the century and even beyond then.

Even if we assume a drastic fall in the growth of the population—if we assume, for example, that between 1970 and the end of the

century this growth rate will go down by half (from 2.8% to 1.4%)—the number of inhabitants in the year 2000 would nevertheless be close on 500 million, while if the present growth rate is maintained (a hypothesis which is not very likely in view of this rate's natural downward trend), the total population would exceed 600 million in the year 2000.

Whatever the final situation, it is certain that the future evolution of these indicators will to some extent bring into question the current views of those who maintain that Latin America is an underpopulated region with abundant resources in comparison to its population.

The prospects are even more striking as regards the labour force. For various reasons—high rates of growth in past decades and the age structure of the population—the number of persons seeking work will increase by about 3% per year for several decades. In this case, it should be noted, the differences between countries are smaller than in the case of the population growth rate. The estimates made, which cover a large part of the region (20 countries), indicate that the number of economically active persons will increase from some 99 million in 1975 to some 200 million by the year 2000.

Obviously, these facts will considerably heighten the existing serious problems of unemployment. A specialized body of ILO—the Regional Employment Programme for Latin America and the Caribbean (PREALC)—estimates that, for a group of countries of the region (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela) whose population makes up around 75% of the total for Latin America, under-utilization of labour around 1970, taking account of both open unemployment and under-employment in both agriculture and non-agricultural sectors, was equivalent to 28% of the labour force. In other words, out of every four economically active persons, one is not taking proper advantage of his productive potential.

### III

## The problems of development and the presence of the transnational corporations

### 1. *The present style.*

In the face of the large figures mentioned above, the traditional reaction is to put forward the economic reasoning that the region should speed up the growth rate of its product, for which purpose it is a prime necessity to raise the rate of investment. It should be noted, however, that the problems specific to the present style of development in the region, particularly in the countries of greatest economic potential, will not be solved exclusively through growth, even assuming that this reached unrealistically high rates. The problem is not just that of the need to *grow*, although this is the essential starting point: what it is absolutely essential to know is *how to grow* and, above all, to have a clear idea of *who the growth is intended for*.

The continuation of the present form of growth, based on the dynamism of the demand of the upper and medium income levels and the transplantation of the consumption patterns of the central economies, will not be capable of doing away with this style of 'misguided development' which excludes great masses of the population, concentrates wealth, and increases vulnerability at the external level: indeed, it may rather be said that it will tend to confirm this style.

It has been said that the consumer society in Latin America is incompatible with the eradication of the type of society where consumption is at an unacceptably low level.<sup>9</sup> In this connexion, in order to take up the challenge of eliminating extreme poverty and offering work opportunities to the economically active population it is necessary to redefine the present allocation of resources, reorienting the dynamism of the economic systems towards the sectors and activities responsible for basic and generalized items of consumption.

Obviously, it is necessary to bear in mind the difficulties and pitfalls which will stand in the way of any attempt to redefine the present pattern of development. Such an attempt would naturally come into conflict with the vested interests of the sectors of greater relative dynamism, which are heavily committed to 'elitist' consumption. As regards one of the main agents of this type of society, it could be expected that the redefined national objectives would call for a redefinition of the form of operation of transnational corporations and their relations with the countries.

The transnational corporations in Latin America are located, as is well known, mainly in the countries with bigger markets which have advanced furthest towards the consumer society, and within them, in the most dynamic sectors of that type of society. In a recent CEPAL study it was observed that in 1973 21% of the branches of 7 500 transnational corporations in Latin America were located in Brazil, 19% in Mexico and 12% in Argentina.<sup>10</sup> In the case of Brazil, out of the 2 800 largest manufacturing enterprises, in 1975 foreign enterprises had a particularly high share in total sales of transport equipment (76%), engineering products (71%), machines and accessories, including electrical machines (67%), rubber products (66%) and chemical products (62%).<sup>11</sup> In the case of Mexico, it was noted in 1970 that 40% of the industrial production corresponded to transnational corporations: 35% of the production of non-durable consumer goods, 30% of intermediate goods, 62% of durable consumer

goods, 62% of durable consumer

<sup>9</sup>See in this connexion the latest studies by Raúl Prebisch, "A critique of peripheral capitalism", *CEPAL Review*, No. 1, first half of 1976, and "Towards a theory of change", *CEPAL Review*, No. 10, April 1980.

<sup>10</sup>A. E. Calcagno, "Informe sobre las inversiones directas extranjeras en América Latina", *CEPAL Cuadernos Series*, Santiago, Chile, No. 33, 1980, pp. 39 *et seq.*

<sup>11</sup>CEPAL, *The economic and social development...*, *op. cit.*, Vol. II, p. 183.



goods, and 36% of capital goods.<sup>12</sup> In Argentina, an analysis of foreign investment in the industrial sector reveals that in 1972 31% of the total manufacturing production of the country corresponded to foreign enterprises.<sup>13</sup>

In reality, it does not seem necessary to go any further into statistics on matters which are well known to all. The transnational corporations in Latin America grow, and together with other forces they promote a type of development which is of an imitative consumer nature, but unlike what happens in the centres this development is exclusive and vulnerable. In this respect, any conscious attempt to change the present allocation of resources will have to overcome not only the resistance of domestic power groups, but also the opposition of the transnational corporations.

At this point it seems worth recalling the words of Raúl Prebisch: "Let us blame the transnational corporations for what we will, but let us not forget that the main responsibility for the great and growing inequalities in the distribution of income is not borne by external forces. These inequalities are the results of the internal economic, social and political forces of development. The transnational corporations have great importance, but the main role corresponds to the countries. The transnational corporations cannot by their own efforts change the economic system and the pattern of consumption. This depends on decisions of governments in their development plans".<sup>14</sup>

However, it is not only ethical considerations —although these are more than sufficient— which oblige us to consider changing the style of development of Latin America: there are also crucial economic issues related with the current problems of the external sector and the possibility of reorganizing the dynamic forces for future development.

<sup>12</sup>P. Fajnzylber, "Las empresas transnacionales y el sistema industrial de México", *El Trimestre Económico*, Mexico City, October-December 1975.

<sup>13</sup>A. E. Calcagno, *op. cit.*, p. 45.

<sup>14</sup>Statements made by Raúl Prebisch at the Meeting of High-Level Personalities commissioned by the United Nations to study the phenomenon of transnational corporations, quoted in J. Kñakal, "Las empresas transnacionales en el desarrollo contemporáneo de América Latina", ILPES, Santiago, 1979, p. 37.

## 2. *The problems of development and the external sector: the need to import*

The external projection of the present style of development in Latin America displays problems which have been becoming more acute, and for which it is difficult to see how any solution can be found without having recourse to decisive and intelligent action in the direction of a change in the growth model.

It is well known that the process of industrialization in Latin America started with the simplest activities and progressed to those which are more complex from the point of view of technology and organization. In the course of this process, great horizontal diversification was achieved but this was not accompanied by an equivalent degree of vertical integration and inter-sectoral complementation. The branches of greatest technological complexity and also of greatest dynamism thus remained somewhat behind, particularly in the case of those producing certain basic inputs, such as chemical and metallurgical products, and those producing a wide variety of capital goods. It will readily be understood that if the style of development is based on a form of industrialization which imitates that of the centres, and if the consumption of goods of great technological complexity becomes generalized in the strata with the highest incomes, then there will necessarily be a rapid increase in the need for imports in order to make good the lack of vertical integration and compensate for the absence of inter-sectoral complementation. In this respect, a CEPAL study stated:

"Up to 1965, the average growth of imports was 0.4 times that of the product: in other words, an annual growth of 6% in the product was accompanied by a growth of 2.4% in imports. In the period from 1965 to 1973, however, the relationship between the two growth rates came to be an average of 1.3, so that the same 6% annual growth rate in the product was now accompanied by an increase of 7.8% in imports". Going further into this point, the same study stated: "There is another fact which aggravates the situation still further: the coefficient of elasticity of total imports with respect to the product increases in relation to the growth rate. In other words, not only is the

coefficient of elasticity greater than unity, so that imports tend to grow more rapidly than the product, but furthermore, this situation becomes more serious in proportion as the growth rate accelerates, since the coefficient of elasticity itself also increases".<sup>15</sup>

In addition to the increase in the need for imports, there was also a change in their composition which reduced still further the field of action of conventional economic policy. Thus, between 1960 and 1975 the share of capital goods in total imports rose from 20% to 23%, that of basic inputs from 34.7% to 39.4%, and that of fuels from 8.7% to 14.1%.<sup>16</sup> The increasing rigidity of the import pattern with the present style of development means that any reduction in imports naturally has an adverse effect on the level of economic activity and, above all, on the rate of formation of capital and growth, thus threatening the very possibility of the survival of the style of development.

Clearly, there are various conjunctural causes which could explain this behaviour of the external sector,<sup>17</sup> but there can be no doubt that the structural background is linked with the existence of very dynamic consumption patterns derived from the concentration of income. In proportion as income increases in our countries, the intermediate and upper sectors, whose weight is decisive in effective demand, satisfy their simpler demands completely and go on to create a type of demand which is concentrated preferentially on more complex goods, largely originating abroad, or else requiring a high imported content if produced in the country.

As the counterpart to this, the structure of industrial supply evolves towards a type of dynamic industry with a high propensity to im-

port, in which the transnational corporations predominate.

It is worth stopping here to consider the significance of foreign ownership of the industries of greatest relative dynamism and its effects on the external sector imbalances. It is important to note right away that the demand for imports displayed by branches of transnational corporations does not always seem to be in keeping with the technical requirements for imported content of the type of goods they are producing. The conclusion might be reached that a percentage of the imports exceeds the real needs and thus makes up a sort of 'propensity to import' which favours the global and profit-making interests of the world enterprise. As will readily be understood, this occurs in addition to the dependence on imports imposed by the style of development itself, thus aggravating the situation of external sector imbalance.

In Mexico, it has been observed that the imports of foreign industrial enterprises make up almost half of the imports of capital goods by the private sector, and as this percentage is greater than the actual share of these enterprises in industrial production, it may be concluded that their import coefficient is higher. According to an estimate of imports of intermediate goods, the import coefficient (imports of intermediate goods/gross value of production) is 7.8% for the transnational corporations and 3.4% for the national firms, while for imports as a whole this coefficient (total imports/gross value of production) was 11.9% in 1970 for the transnational corporations and 5.1% for all industries taken together. Moreover, it is important to note that the attitude of the transnational corporations with regard to exports is usually not very dynamic. Consequently, the transnational sector of the economy displays recurrent trade deficits: in the period 1970-1973 the average trade deficit of the transnational corporations was 47% of the total trade deficit of the Mexican economy.<sup>18</sup>

In the case of Colombia, the position in

<sup>15</sup>This behaviour is even more unfavourable in some countries of the region. Thus, in Brazil between 1965 and 1973 imports grew almost twice as fast as the product, while in Argentina, from 1966 to 1972, the rate of growth of imports was approximately 1.8 times that of the product. See CEPAL, *Integración económica y sustitución de importaciones en América Latina*, by Juan Ayza, Gérard Fichet and Norberto González, Mexico City, Fondo de Cultura Económica, 1975, p. 13 and pp. 52 *et seq.*

<sup>16</sup>CEPAL, *Statistical Yearbook for Latin America*, 1978.

<sup>17</sup>Such as overvaluation of the exchange rate, slackening of action to contain imports from outside Latin America, increased facilities for external financing, etc.

<sup>18</sup>See Fernando Fajnzylber and Trinidad Martínez Taragó, *Las empresas transnacionales. Expansión a nivel mundial y proyección en la industria*, Mexico City, 1975, pp. 520 *et seq.*

1971 was that 93.5% of the imports of industrial enterprises corresponded to enterprises where there was more than 49% of foreign capital. Moreover, the balance between exports and imports of industrial enterprises in which there was foreign capital showed a heavy deficit of US\$ 196.2 million, which may be compared with the total trade deficit of the country, amounting to US\$ 192.3 million.<sup>19</sup>

In reality, the crucial problem is that this tendency of the transnational enterprises to import is frequently linked with a reluctance to export, thus giving rise to heavy external trade deficits. It must be understood that this study does not pretend to criticize in itself the fact that the imports of the transnationalized sectors are of greater relative weight, when this can be explained by reasons of location in the productive structure, type of goods produced, etc. What this study does wish to stress is that frequently these imports do not strictly correspond to those needs on the one hand, while on the other the reluctance of the transnational corporations with regard to exports, as we shall see below, means that the weight of these imports adversely affects the external sector position of the countries. Thus, a recent study carried out in Chile shows that in 1979 the trade balance of the total number of transnational corporations operating in the country gave a deficit of US\$ 234 million, which goes up to US\$ 334 million if the mining enterprises are excluded: this figure represents 38% of the total Chilean trade deficit.<sup>20</sup>

Comparisons between transnational corporations and national enterprises, not adjusted by scale, indicate that the former import more than twice as much as the latter, regardless of whether the measurement is between imported and domestic inputs or between imports and production. If a sample designed to take scale into account is included for the various industrial sectors, the difference is also systematically in the same direction, although smaller: imports represented 20% of the total costs of domestic industrial enterprises and

24% of the costs of comparable transnational industrial enterprises in Chile in 1978.<sup>21</sup> This shows that even in conditions of greater comparability the transnational corporations tend to import more than domestic enterprises.

From another viewpoint, it is important to observe that a high percentage of the imports of transnational corporations are carried out in accordance with an 'entrepreneurial rationale' which only fits in with the interests of the world enterprise, by means of operations carried out within the same firm between its various branches or associate enterprises.

Table 1 shows that in certain industrial branches in the modern sector in the Mexican and Brazilian economies—two outstanding cases of penetration by transnational corporations in the generation of consumer societies—the percentages of 'captive imports' of raw materials carried out by branches from their own United States transnational parent firms amounted in 1972 to an average of almost 58% of total imports of such goods in the first case and almost 50% in the second.<sup>22</sup>

The preference of transnational corporations for importing through intra-firm operations is even more marked if we consider the amount of their imports from the home country of their parent firm. Thus, for example, imports from the United States, Germany and Japan by branches of transnational corporations of those countries installed in Mexico represented 74%, 81% and 94% respectively of the total imports of such branches in 1972.<sup>23</sup>

Furthermore, as regards imports of capital goods by branches of transnational corporations through operations within the same firm, in the case of Brazil it was observed that there was a substitution of current or potential im-

<sup>21</sup>These data are the result of research currently being carried out by Ismael Cárdenas in the CEPAL/CTC Joint Unit on Transnational Corporations. See E. Lahera, *Agentes del comercio exterior en América Latina*, CEPAL, preliminary version (typescript).

<sup>22</sup>Foreign investments from branches of United States firms in Brazil represented 30.4% of total foreign investments in 1977, while in Mexico they represented 72.2% of such investments in 1975. See A.E. Calcagno, *op. cit.*, pp. 41 *et seq.*

<sup>23</sup>See F. Fajnzylber, *Las empresas transnacionales. Expansión a nivel mundial y proyección en la industria mexicana*, CONACYT-CIDE, Mexico, 1975.

<sup>19</sup>See A.E. Calcagno, *op. cit.*, p. 54.

<sup>20</sup>See E. Lahera, *La presencia de las empresas transnacionales en Chile*, CEPAL/CTC Joint Unit on Transnational Corporations, E/CEPAL/R. 235, 1980.

Table 1

**BRAZIL AND MEXICO: SOURCES OF INPUTS IMPORTED BY BRANCHES  
OF UNITED STATES TRANSNATIONAL CORPORATIONS, 1972**

| Sector                   | Total imports of inputs<br>(millions of dollars at current prices) |                    | Imports from parent firms<br>(percentages) |        |
|--------------------------|--|--------------------|--|--------|
|                          | Brazil   | Mexico             | Brazil                                     | Mexico |
| Non-electrical machinery | 73.2   | ...                | 75.5                                       | ...    |
| Electrical machinery     | 43.3   | 34.3               | 28.6                                       | 43.7   |
| Transport equipment      | 13.9   | 164.5              | 64.0                                       | 79.6   |
| Chemical products        | 120.4  | 115.0 <sup>a</sup> | 43.4                                       | 33.8   |
| Other                    | 25.9   | 47.1               | —  | —      |
| <i>Total</i>             | 276.7  | 360.2              | 50.1                                       | 57.7   |

*Source:* United States Senate Committee on Foreign Relations, Subcommittee on Multinational Corporations, *Multinational Corporations in Brazil and Mexico: Structural Sources of Economic and Non-economic Power*, United States Government Printing Office, Washington, D.C., August 1975.

<sup>a</sup>Excluding the rubber industry.

ports (in short-term 'consumption' and long-term production) with opposite signs, in the sense that these operations favoured the demand for imports to the detriment of possible domestic production.<sup>24</sup> That is to say, transnational corporations not only have a propensity to import, but also a large proportion of their imports correspond to internal operations within the same transnational corporation, with the possibility that the prices fixed for the imports of inputs and capital goods may be considerably different from those prevailing on the international market.

It may be noted that the practice of fixing 'transfer prices' in the trade within a single transnational corporation has become generalized and may often have more important effects than the actual financial transfers arising in connexion with such corporations' operations in Latin American countries. The transfer price fixing mechanism enables the transnational corporations to promote their interests at the world level—and in particular their world profitability—to the detriment of the national eco-

nomics interests of the countries where they are operating.

Thus, for example, transfer prices may be established within a transnational corporation in order "to reduce to the minimum payments in respect of dividends and taxes to local shareholders and authorities; to take maximum advantage of State subsidies and bonuses; to evade national controls on the repatriation of profits; to permit foreign exchange protection or speculation or accumulate cash balances in given countries; or to use such prices as a marketing policy instrument in order to eliminate local competition",<sup>25</sup> etc.

In a study made in Colombia regarding the pharmaceutical industry, it was concluded that the total remittances to the exterior of 'declared profits' by branches of transnational corporations represented 3.4%, royalties in respect of technical assistance 14%, and *over-invoicing* the impressive figure of 82.5%. Also, "out of 19 foreign pharmaceutical enterprises studied in Chile it was found that in six of them *over-invoicing* came to less than 30%; in another

<sup>24</sup>See P. Malan and Regis Bonelli, "Os Limites do Possivel: Notas sobre Balanço de Pagamento e Indústria nos anos 70", in *Pesquisa e Planejamento Econômico*, IPEA, Rio de Janeiro, Vol. 6, August 1976, No. 2, pp. 390 et seq.

<sup>25</sup>See UNCTAD, *Intra-firm transactions and their impact on trade and development*, Geneva, Seminar Programme Report Series No. 2, May 1978, pp. 5 et seq.

three it was between 31% and 100%, and in the remaining ten it amounted to over 100%".<sup>26</sup>

In other economic sectors where the inputs display a higher level of 'standardization' and there is more diversified international supply, the levels of transfer price fixing may be lower. However, in order to gain an idea of its effects on the rate of real profits, a hypothetical exercise may be carried out on the basis of assumed over-invoicing.<sup>27</sup> Let us assume that imported inputs represent 20% of the value of the sales of the branches; that the overpricing is also at the rate of 20%, and that sales represent approximately double the capital invested. In these circumstances, it may be concluded that the profits obtained in this way amount to 8% of the capital invested. If this 8% and the 2 to 3% corresponding to royalties are added to the average profitability stated by the United States Department of Trade (11%), we obtain a level of real profitability which is approximately double that of the nominal figure.<sup>28</sup>

In the face of these problems of transfer price fixing and the imposition of restrictive trade practices, which are difficult to control by the host countries, the developing countries have been insisting on the need to adopt a code of conduct for transnational corporations to oblige them to refrain from such practices and respect the laws, regulations and exclusive jurisdiction of the host country.

Although the formulation and international acceptance of a code of conduct for transnational enterprises is obviously a complex and difficult process, since the industrialized countries oppose more effective control of such corporations, the unity of action displayed by the developing countries may be decisive in securing its adoption.

Taking up once again a more global view-

<sup>26</sup>See F. Fajnzylber, "La empresa internacional en la industrialización de América Latina", in J. Serra, *Desarrollo latinoamericano: ensayos críticos*, Mexico City, Fondo de Cultura Económica, 1974, pp. 135 *et seq.*

<sup>27</sup>Constantino Vaitos has mentioned figures of 40%, 25.5% and 16.7% of overpricing for the branches producing rubber products, chemicals and electronic equipment, respectively. See "Transfer of Resources and Preservation of Monopoly Rents", Harvard University Development Advisory Service, May 1970, Annex I.

<sup>28</sup>F. Fajnzylber, "La empresa internacional en la industrialización de América Latina", *op. cit.*, p. 136.

point which indicates a probable crisis point in the present style of development, some tendencies become clear which it might be useful to summarize:

—concentrated and exclusive development favours and permits the existence of dynamic demand in the system, and this demand, in view of the characteristics of the production structure of Latin American industry, leads to high and growing import coefficients;

—in these circumstances, in order to continue to maintain high growth rates it would be necessary to continue expanding imports, which are increasingly essential for the functioning of the dynamic sectors;

—the dominating presence of transnational corporations in the shaping of 'elitist' patterns of consumption and in the ownership of large segments of the sectors of production makes this external dependence even more marked,<sup>29</sup> and places the entrepreneurial rationale of a world enterprise above national interests, involving a strong propensity to import and the use of arbitrary external trade practices in transactions carried out within the same enterprise;

—there is asymmetry between the expansion of imports and the generation of the capacity to pay for these by increasing the value of exports, as is shown by the increasingly high levels of absorption of external financing and the consequent dizzy rise in external indebtedness: US\$ 167 billion in 1979 as against US\$ 56 billion in 1974, even taking into account only the Latin American non-oil-exporting countries.<sup>30</sup>

<sup>29</sup>It is worth recalling that even the energy dependence of our countries is an imitation of the 'civilization based on oil at a dollar a barrel'. Thus, Latin America at present uses only 5% of its hydroelectric power potential, whereas a country like Brazil depends on hydrocarbons for more than 40% of its total energy. See J. Goldenberg, "Estratégia energética para países desenvolvidos e em desenvolvimento", in *Pesquisa e Planejamento Econômico*, IPEA, Rio de Janeiro, No. 9, April 1979, pp. 87 *et seq.*

<sup>30</sup>This asymmetry, as we shall see in the following section, has its real origin in the asymmetry of the external trade in goods produced by different sectors. In Latin America, exports of basic commodities are 2.4 times greater than imports of the same goods, while at the other extreme, the exports of products of the metal manufactures and machinery industry amount to barely 0.2% of the respective imports. See Norberto González and Octavio Rodríguez, *El desarrollo latinoamericano y la estrategia externa*,

## IV

## Redefinition of the style of development and the role of the transnational corporations

In the context described above —marked by unacceptable distortions at the internal level and contradictions which are becoming more and more acute at the external level— it is essential to consider the need for a redefinition of the region's form of development.

This section seeks to explore some possibilities and ways of reorganizing the dynamics of growth. It aims to examine the possible dimensions of the external market (both of the centres and of the region) and the internal market, with special attention to the role played by the transnational corporations in each of the possibilities examined.

The explicit consideration of the transnational corporations within the possibilities of redefining development courses is related with two types of concerns. On the one hand, since the transnational corporations are located in the sectors of greatest relative dynamism of the present form of development, which is oriented towards the consumer society, it is natural to ask what resistance they would put up to a new pattern of resource allocation which alters the present articulation of growth forces. Moreover, the relative weight of foreign capital in the economies of the countries which have advanced furthest in the present form of development makes such capital an important central figure in defining the possibilities of a new style: a new form of economic growth could hardly be set afoot without the participation of the transnational corporations.

### 1. *Trade with the centres: the external market*

Reference was made in the preceding section to the existence of an imbalance in the

external trade of Latin America with the central countries. This imbalance is due to the productive structure of Latin American industry, which is not capable of satisfying the needs for certain imports and/or for the capital goods which involve more complex technology. Thus, the specialization of the region in international trade and in the international division of labour is of the inter-sectoral type: Latin America produces and exports mainly in a few sectors (primary commodities, consumer goods and intermediate imports whose manufacture is not very complex), all of which leads to a tendency towards imbalance. This specialization also means that the region exports goods which have less income elasticity and has to import the products of high-technology industries, the demand for which is much more dynamic.

These circumstances perpetuate the imbalance, which is aggravated, as we have already seen, by the presence of branches of the transnational corporations, and the possibility of continued growth remains subject to the capacity to absorb external financing. In order to maintain growth in the long term it is essential that the foreign exchange generated by Latin America's exports should grow at least at the same rate as the servicing of the external debt. This situation obviously demands strong efforts to apply export-oriented strategies, which become vital for the maintenance of growth.

It is important, however, to have a correct picture of the significance of the export effort for the different types of countries of the region. For the small countries with a small domestic market, exports represent a dynamic market which is of fundamental importance for domestic activities, but undoubtedly the situation is not quite the same for the countries of relatively larger size. For these, the significance of exports does not lie in their dynamic effect on domestic activities, as may be seen from the analysis given in table 2, which shows the low

CEPAL, Santiago, 1978 (preliminary mimeographed version), pp. 8 *et seq.*, and also O. Rodríguez, *La teoría del subdesarrollo de la CEPAL*, Mexico City, Siglo XXI Editores, 1980, pp. 254 *et seq.*

Table 2

MANUFACTURING INDUSTRIES: RELATION BETWEEN EXPORTS  
AND GROSS VALUE OF PRODUCTION, 1974

|   | Argentina | Brazil | Mexico | Andean<br>sub-region <sup>a</sup> |
|---|-----------|--------|--------|-----------------------------------|
| Foodstuffs, beverages and tobacco   | 4.4       | 3.3    | 1.2    | 1.6                               |
| Textiles, clothing and leather industry                                       | 5.0       | 6.5    | 4.3    | 3.9                               |
| Wood and wood products, including furniture                                   | 0.2       | 6.3    | 5.1    | 6.1                               |
| Paper and paper products; printing and publishing                             | 5.6       | 2.1    | 1.9    | 5.6                               |
| Chemicals; petroleum and coal-based chemical<br>products; rubber and plastics | 4.6       | 1.5    | 6.5    | 7.2                               |
| Non-metallic mineral products, except petroleum-<br>and coal-based products   | 1.8       | 1.3    | 3.3    | 2.9                               |
| Basic metal industries  | 6.5       | 2.3    | 10.3   | 3.9                               |
| Metal products, machinery and equipment                                       | 6.9       | 3.5    | 6.2    | 1.8                               |
| <i>Total</i>  | 5.2       | 3.2    | 4.4    | 3.6                               |

Source: Aníbal Pinto, *La internacionalización y la búsqueda de un nuevo patrón de relacionamiento externo: razones, peligros y opciones*, CEPAL (preliminary version, mimeo), 1979, p. 43.

<sup>a</sup>Andean sub-region in this table: Venezuela, Colombia, Ecuador, Peru, Bolivia, Chile. Table excludes petroleum refining in the case of Venezuela and production of non-ferrous metals in the case of Bolivia, Chile and Peru.

ratio between exports and the gross value of production for the three countries of largest relative development and for the Andean sub-region. In 1974, only in the case of the basic metal industries of Mexico did this proportion reach the figure of 10%, which is the highest of all the percentages recorded. For the large countries, the great importance of exports lies in the fact that they enable them to absorb the external financing through which they can continue to pay for their heavy import needs.

Whatever the significance of the markets of the centres for the different types of countries of the region, it is important to ask ourselves what possibilities there are that access to the markets of the central economies can expand at the rate required by the development of the regional economy.

The predominance of primary commodities in the region's exports still persists and will undoubtedly continue to do so, at least in the medium term. Thus, exports of primary commodities and fuels represented about 85% of the total in 1975 (47% being accounted for by raw materials and food). Even for Argentina and Brazil the proportion was close to 75%, and

the fact that it was somewhat smaller in Mexico was due to re-exports of goods produced under the subcontracting system. Furthermore, the world trade in primary commodities grows much more slowly than that in manufactures: between 1950 and 1975 the proportion of raw materials and food in total world trade steadily dropped from 46% to 19%, while over the same period the share of manufactures rose from 44% to 60% and that of fuels from 10% to 19%. We should not be surprised, then, that against this background of world trade the position of Latin America has suffered a marked deterioration.<sup>31</sup>

The past and present vicissitudes brought about by basing the export effort on primary commodities are well known. In order to avoid repeating well-known arguments, it suffices to consider some of the details assembled by the World Bank on the prospects for world exports. Table 3 clearly demonstrates that the possibilities of expanding trade in primary commodities will be more than overtaken by the growth prospects of exports of manufactures, although

<sup>31</sup>See CEPAL, *The economic and social development...*, *op. cit.*, Vol. II, pp. 1 et seq.

Table 3

**GROWTH RATES OF EXPORTS BY MAIN CATEGORIES:  
HISTORICAL TREND AND PROJECTIONS**  
(At constant 1975 prices)

|                       | World<br>1960-<br>1975 | Developing<br>countries<br>1960-1975 | World<br>1975-<br>1985 | Developing<br>countries<br>1975-1985 | Exports of<br>developing countries<br>(percentages) |      |      | Share in<br>increase<br>(percentages) |               |
|-----------------------|------------------------|--------------------------------------|------------------------|--------------------------------------|---|------|------|---------------------------------------|---------------|
|                       |                        |                                      |                        |                                      | 1960  | 1975 | 1985 | 1960-<br>1975                         | 1975-<br>1985 |
| Fuels and energy      | 6.3                    | 6.2                                  | 3.6                    | 3.4                                  | 39  | 40   | 30   | 42                                    | 18            |
| Agricultural products | 4.2                    | 2.6                                  | 4.4                    | 3.1                                  | 43  | 27   | 20   | 16                                    | 12            |
| Non-metallic minerals | 3.9                    | 4.8                                  | 4.2                    | 5.8                                  | 7   | 7    | 7    | 6                                     | 6             |
| Manufactures          | 8.9                    | 12.3                                 | 7.8                    | 12.2                                 | 11  | 26   | 43   | 36                                    | 64            |
| <i>Total</i>          | 7.1                    | 5.9                                  | 6.4                    | 6.4                                  | 100   | 100  | 100  | 100                                   | 100           |

Source: World Bank, *World Development Report*, 1978, quoted by Aníbal Pinto, *La internacionalización...*, op. cit., p. 32.

this is in no way intended to suggest that we should overlook the conjunctural possibilities of achieving substantial successes in exports of primary commodities, especially taking into account the present diversity of products which the region can export.

From another point of view (and now bringing the main actor onto the stage), it cannot be denied that success in the export of primary commodities is not unrelated to the operations of transnational corporations. Both in the production of some types of foodstuffs and in the marketing of the raw materials which enjoy the most dynamic demand, the transnational corporations frequently play a leading role and are capable of siphoning-off a significant share of the profits from this trade.

It may be assumed with some degree of certainty, however, that the export strategy of Latin America will not be based on the possible dynamism of the trade in primary commodities unless there are extraordinary changes in prices, and even then these would be partial, cyclical or conjunctural phenomena.

As regards the trade in manufactures, Latin America's exports expanded during the period 1955-1975 at an annual average rate of close on 17% at current prices, while over the period 1965-1977 the share of these goods in total exports rose from 8.7% to 23.6%. For the large countries, which are responsible for almost

70% of the manufactures exported by the region, the proportion of exports of manufactures in their total exports came to 33% in 1977, while in the medium-sized countries the share was not more than 8%. The figures for the Central American Common Market are obviously higher because of the incidence of intra-regional trade (see table 4).

These figures clearly show a positive trend in that there is a higher degree of industrial processing of exports. Perhaps the picture will be more complete, however, if we analyse table 5, which shows the composition of exports of manufactures, by groups of countries.

The results are not surprising. Almost 90% of the region's total exports of metal products, machinery and equipment come from the large countries, while these countries also predominate in the export of non-durable consumer goods. For the medium-sized and small countries, the growth possibilities have been limited so far to exports of non-durable consumer goods and intermediate goods.

We may now ask ourselves if these lighter goods and goods involving more advanced technology will have access to the markets of the central countries compatible with the success of the export strategies of the various countries of the region. We shall first consider the case of the lighter goods, which are exported both by the small countries and the large ones.



Table 4

**LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF MANUFACTURES  
AND THEIR PROPORTION IN TOTAL EXPORTS OF GOODS,  
BY GROUPS OF COUNTRIES, IN 1965, 1970, 1975 AND 1977**  
(Percentages of FOB values)

| Groups of countries                                  | Origin of exports of manufactures |       |        |        | Proportion of manufactures in total exports of goods |       |        |                   |
|--|-----------------------------------|-------|--------|--------|--|-------|--------|-------------------|
|  | 1965                              | 1970  | 1975   | 1977   | 1965   | 1970  | 1975   | 1977              |
| <i>Latin America and the Caribbean</i>               | 100.0                             | 100.0 | 100.0  | 100.0  | 8.7  | 15.3  | 19.0   | 23.6              |
| Large countries <sup>a</sup>                         | 57.9                              | 62.6  | 68.1   | 69.9   | 13.8   | 25.4  | 31.9   | 33.0              |
| Medium-sized countries <sup>b</sup>                  | 14.0                              | 10.5  | 12.4   | 12.7   | 2.7  | 3.8   | 6.3    | 8.0               |
| Medium-sized countries less<br>Venezuela             | (9.6)                             | (9.1) | (10.8) | (11.1) | (4.5)  | (6.5) | (16.4) | (17.0)            |
| Central American Common Market <sup>c</sup>          | 15.2                              | 13.6  | 8.6    | 8.4    | 19.4   | 28.7  | 26.0   | 21.8 <sup>d</sup> |
| Other small Latin American<br>countries <sup>e</sup> | 4.1                               | 2.3   | 2.3    | 3.1    | 9.1  | 7.6   | 6.6    | 11.2              |
| Caribbean <sup>f</sup>                               | 8.7                               | 10.9  | 8.6    | 5.9    | 10.7   | 22.4  | 17.5   | 16.6              |

Source: Aníbal Pinto, *La internacionalización...*, *op. cit.*, p. 40.

<sup>a</sup>Argentina, Brazil and Mexico.

<sup>b</sup>Chile, Colombia, Peru, Uruguay and Venezuela.

<sup>c</sup>Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

<sup>d</sup>Partly estimated figures.

<sup>e</sup>Bolivia, Dominican Republic, Ecuador and Paraguay.

<sup>f</sup>Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Suriname and Trinidad and Tobago.

Clearly, these goods represent exports of great interest for the region, since in their case Latin America has natural comparative advantages or else advantages acquired through its industrialization process, and the acceleration of external sales of such goods can represent a powerful contribution of foreign exchange to the external sector:

Various export lines in this field have indeed had marked success in the past decade, which might give the idea that here there is a promising field for changing the region's traditional position on external markets. However, the conditions under which these goods gained access to those markets lead to the conclusion that in this kind of exports "there is nothing worse than success" as Aníbal Pinto said in a recent study.

Thus, in proportion as Latin American exports of products begin to reach levels which make them significant competitors for the local industries in the central countries, the latter countries begin to place restrictions on these

imports,<sup>32</sup> and the phenomenon of protectionism has become so serious and widespread that it is becoming increasingly difficult for the region to achieve success in any export strategy, at least as far as a large variety and quantity of products is concerned.

The practices used are very diverse, extending from effective tariff protection, which has little to do with nominal tariff rates (as we may see from table 6), to the application of quantitative restrictions, countervailing duties, differential treatment for Latin America, sliding scales of duties, etc. If these instruments do not prove fully effective, then bilateral agreements are resorted to or some countries of the region are persuaded to impose 'voluntary' restrictions on their own exports.

This is not the place to go into this phe-

<sup>32</sup> Well-known cases are those affecting exports of textiles, footwear, meat for the European Common Market, steel, zinc and a multitude of other products even extending to restrictions on exports of orchids from Colombia.

Table 5

**LATIN AMERICA AND THE CARIBBEAN: STRUCTURE AND ORIGIN OF EXPORTS OF MANUFACTURES BY KIND OF PRODUCTS AND GROUPS OF COUNTRIES, 1975**  
(Percentages of FOB value)

| Groups of countries                                  | Structure         |   |   |  | Origin            |                                      |                            |   |
|--|-------------------|---|---|--|-------------------|--------------------------------------|----------------------------|---|
|  | Manufac-<br>tures | Non-<br>durable<br>consumer<br>goods <sup>a</sup> | Inter-<br>mediate<br>goods <sup>b</sup> | Metal<br>products<br>and equip-<br>ment <sup>c</sup> | Manufac-<br>tures | Non-<br>durable<br>consumer<br>goods | Inter-<br>mediate<br>goods | Metal<br>products<br>and equip-<br>ment |
| <i>Latin America and<br/>the Caribbean</i>           | 100.0             | 39.5  | 32.3                                    | 27.3   | 100.0             | 100.0                                | 100.0                      | 100.0                                   |
| Large countries <sup>d</sup>                         | 100.0             | 41.0  | 23.8                                    | 35.4   | 68.1              | 71.0                                 | 48.7                       | 89.4                                    |
| Medium-sized<br>countries <sup>e</sup>               | 100.0             | 40.5  | 45.7                                    | 13.5   | 12.4              | 12.5                                 | 16.9                       | 6.1                                     |
| Central American<br>Common Market <sup>f</sup>       | 100.0             | 40.9  | 48.4                                    | 10.7   | 8.6               | 8.9                                  | 12.6                       | 3.4                                     |
| Other small Latin<br>American countries <sup>g</sup> | 100.0             | 66.9  | 32.4                                    | 0.7  | 2.3               | 3.2                                  | 1.9                        | 0.1                                     |
| Caribbean <sup>h</sup>                               | 100.0             | 20.4  | 76.4                                    | 3.1  | 8.6               | 4.4                                  | 19.1                       | 1.0                                     |

Source: Anibal Pinto, *La internacionalización...*, op. cit., p. 41.

<sup>a</sup>Includes textiles, clothing, footwear, furniture, printing, publishing and the like, foodstuffs, beverages and tobacco, and other manufacturing industries.

<sup>b</sup>Includes wood and cork, paper and paper products, chemicals and plastics, rubber products, earthenware, china and porcelain goods, glass and glass products, other non-metallic products, and iron and steel.

<sup>c</sup>Includes metal products, machinery and transport equipment and scientific and professional equipment.

<sup>d</sup>Argentina, Brazil and Mexico.

<sup>e</sup>Chile, Colombia, Peru, Uruguay and Venezuela.

<sup>f</sup>Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

<sup>g</sup>Bolivia, Dominican Republic, Ecuador and Paraguay.

<sup>h</sup>Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Suriname and Trinidad and Tobago.

nomenon, and tackling the varied and sometimes imaginative forms of protectionism practiced by the centres would be beyond the purview of this study.<sup>33</sup> It is of vital importance, however, to note that whatever the attempted justification of such measures—and this takes very diverse forms, from 'stagflation', via the bargaining power of some relatively backward sectors, to problems of disorganization of markets—protectionism threatens Latin America's

chances of being able to exploit its comparative advantages in trade. Moreover, no favourable changes are to be glimpsed on the future horizon: it may rather be anticipated that as long as the central economies continue to suffer from modest growth rates and the problems of inflation and the need for reorganization of the less dynamic sectors of production persists, the phenomenon of 'conditioned free trade' will tend rather to get worse.

As regards products of more advanced technology, the average rate of protection has been going down steadily since 1950. Through various multilateral negotiations (the Dillon negotiations, the Kennedy Round and the Tokyo Round), eight developed countries managed to reduce the average rate of tariffs levied

<sup>33</sup>There are a large number of articles on this topic. Some recent studies are those of Pedro Mendive, "Protectionism and development", in *CEPAL Review*, No. 6, August 1978; Gary Sampson, "Contemporary protectionism and the exports of developing countries", *CEPAL Review*, No. 8, August 1979, and Pedro Mendive, "Exports of manufactures", *CEPAL Review*, No. 10, April 1980.

Table 6

NOMINAL AND EFFECTIVE TARIFF PROTECTION APPLIED BY THE DEVELOPED COUNTRIES  
TO GOODS WHICH ARE OF IMPORTANCE IN THE EXPORTS OF LATIN AMERICA  
(Percentages)

|                            | United States      |                      | European Economic Community |                      | Japan              |                      |
|----------------------------|--------------------|----------------------|-----------------------------|----------------------|--------------------|----------------------|
|                            | Nominal protection | Effective protection | Nominal protection          | Effective protection | Nominal protection | Effective protection |
| Processed foodstuffs       | 9.3                | 22.1                 | 13.8                        | *                    | 27.9               | 68                   |
| Textiles and made-up goods | 23.8               | 42.5                 | 14.5                        | 40                   | 15.4               | 45                   |
| Light industries           | 9.4                | 24.1                 | 7.2                         | 15                   | 10.3               | 26                   |
| More complex industries    | 6.7                | 16.2                 | 8.8                         | 22                   | 11.0               | 22                   |

Source: CEPAL, *The economic and social development...*, *op. cit.*, Vol. II, p. 15.

\*No data available.

from 50% in 1950 to 9% in 1967.<sup>34</sup> Here, however, there is an obvious paradox in the centre-periphery relations. "Decisions have been adopted to liberalize trade in those products in which the periphery lacks comparative advantages for the time being owing to the technical and economic superiority of the centres, which is manifested chiefly through the transnational corporations. And the goods that escape liberalization—defended by various forms of protectionism—are the manufactures (and primary commodities too) in respect of which the periphery does enjoy comparative advantages, or easily could do so through its own enterprises' efforts."<sup>35</sup>

It might be argued, however, that if the goods containing the most advanced technology, which are fundamentally traded among the centres, are subject to low tariffs, then Latin America—or at least those countries of the region of the highest relative development—should have considerable possibilities of expanding exports of these items.

In this respect, it is once more necessary to consider the role of the transnational corporations, for the production of manufactures con-

taining advanced technology in the region depends largely on foreign-controlled firms. As we have already seen elsewhere in this study, it is mainly in the dynamic and modern sectors of the Latin American countries that the branches of foreign firms are located, and the possibility of Latin America's exports in this field being able to enter the select group of central countries depends largely on the 'bridge' that the transnational corporations may build to this effect.

Once more it seems appropriate to ask ourselves whether the interests of these world enterprises coincide with the national objectives of promoting this type of exports.

First of all, it is important to bear in mind that the transnational corporations in Latin America seem rather reluctant to engage in exports, since they entered our countries with the idea above all of gaining monopoly positions which would enable them to take easy advantage of the domestic market with little or no competition. Table 7, which gives data on Brazil and Mexico—outstanding examples of the presence of transnational corporations in the most dynamic sectors—clearly shows that the percentages of exports by these sectors were more or less insignificant in 1972: in no case did they amount to more than 8.2%, and the respective national averages were 3.4% and 4.9%, a tendency which has persisted to the

<sup>34</sup>Belgium, Federal Republic of Germany, France, Japan, the Netherlands, Sweden, the United Kingdom and the United States.

<sup>35</sup>R. Prebisch, "Towards a theory of change", *op. cit.*, p. 191.

Table 7

**BRAZIL AND MEXICO: SALES BY BRANCHES OF UNITED STATES TRANSNATIONAL  
CORPORATIONS IN THE MANUFACTURING SECTOR, 1972**  
(Millions of dollars)

| Branch of industry       | (1)<br>Total sales |                  | (2)<br>Exports |                 | (1)/(2)<br>Percentage of exports |            |
|--------------------------|--------------------|------------------|----------------|-----------------|----------------------------------|------------|
|                          | Brazil             | Mexico           | Brazil         | Mexico          | Brazil                           | Mexico     |
| Transport equipment      | 797                | 605              | 28             | 47              | 3.5                              | 7.7        |
| Chemicals                | 673                | 796 <sup>a</sup> | 6              | 33 <sup>a</sup> | 0.9                              | 4.1        |
| Non-electrical machinery | 82                 | ...              | 32             | ...             | 8.2                              | ...        |
| Electrical machinery     | 346                | 350              | 18             | 29              | 5.1                              | 8.1        |
| Others                   | 750                | 1 076            | 16             | 29              | 2.1                              | 2.7        |
| <i>Total</i>             | <i>2 949</i>       | <i>2 826</i>     | <i>99</i>      | <i>137</i>      | <i>3.4</i>                       | <i>4.9</i> |

Source: U.S. Senate, *Multinational Corporations in Brazil and Mexico...*, *op. cit.*

<sup>a</sup>Excluding rubber.

present day. Similarly, it is instructive to note that the exports made by the United States transnational corporations located in the industrial sector in the region were equivalent to only 6% of their total sales in 1976, having shown a considerable decline since 1966, when they came to 10%.

It is even more enlightening, however, to examine the channels through which the exports of goods of more advanced technology are made. In this respect, tables 8 and 9 enable us to see that, in the case of branches of United States transnational corporations in Latin America (see footnote 22), the percentages of total exports of certain manufactures carried out through the internal trade within these world enterprises exceeded 73% in the case of Brazil and 82% in that of Mexico (overall average), compared with 68% and 54%, respectively, in 1960. For Brazil, except in the areas of metals, food products and rubber, the exports made within the transnational corporations always represented over 50% of the total exports of those branches, amounting to as much as 88% in the case of transport equipment and 100% in the case of technical and scientific instruments. In the case of Mexico, the picture is even more eloquent, since in no area is the percentage of sales within the same transnational corporations below 55% and in the electrical machine-

ry field it exceeds 89%, in technical and scientific instruments it exceeds 96%, and it is practically 100% in transport equipment. When these transactions are carried out with the parent firms of the transnational corporations, as in the case of exports to the United States, the trade within a single firm assumes proportions which frequently exceed 90%, especially in the branches of industry of greatest relative dynamism.

In these circumstances, taking as our starting point the representative example of the United States transnational corporations, it can easily be concluded that the possibilities of any considerable expansion in Latin America's exports to the centres of the products of greatest relative market dynamism must inevitably enjoy the assistance of the transnational corporations and fit within their overall entrepreneurial activity.

The small share which the region's exports of some dynamic items have in the markets of the central countries,<sup>36</sup> together with the frequent imposition of contractual restriction and

<sup>36</sup>By way of example, it may be mentioned that imports from Latin America of electrical machinery, non-electrical machinery and transport equipment represented 12%, 3% and 2.3%, respectively, of the total imports of the EEC countries, the United States and Japan (excluding regional trade) in 1975. See OECD, *Trade by Commodities, Market Summaries: Imports*, Paris, Vol. I, 1975.

Table 8  
 BRAZIL AND MEXICO: DESTINATION OF EXPORTS BY BRANCHES OF UNITED STATES TRANSNATIONAL CORPORATIONS, 1972  
 (Millions of dollars)

|                                      | Total exports<br>(values) |        | Intra-firm<br>transactions<br>(percentages) |        | Exports to United States |        |   |        |
|--------------------------------------|---------------------------|--------|---|--------|--------------------------|--------|---|--------|
|                                      |                           |        |   |        | Values                   |        | Intra-firm<br>transactions<br>(percentages) |        |
|                                      | Brazil                    | Mexico | Brazil                                      | Mexico | Brazil                   | Mexico | Brazil                                      | Mexico |
| Manufactures                         | 98.9                      | 137.1  | 73.4  | 82.2   | 21.0                     | 75.6   | 94.8  | 95.6   |
| Foodstuffs                           | 2.4                       | 7.1    | 16.6  | 76.8   | 0.4                      | 4.9    | 100.0                                       | 94.5   |
| Chemicals                            | 6.2                       | 32.9   | 62.8  | 56.1   | 0.9                      | 11.4   | 20.4  | 93.0   |
| Rubber                               | 1.2                       | 0.5    | 46.8  | 75.8   | 0.3                      | 0.1    | 25.9  | 93.8   |
| Metals                               | 2.7                       | 2.4    | 8.2   | 55.5   | 0.8                      | 1.9    | 0.6   | 56.1   |
| Non-electrical machinery             | 31.5                      | 7.3    | 77.7  | 69.6   | 6.7                      | 1.5    | 98.0  | 97.2   |
| Electrical machinery                 | 17.5                      | 28.5   | 79.6  | 89.4   | 5.3                      | 21.2   | 100.0                                       | 99.9   |
| Transport equipment                  | 27.5                      | 46.5   | 88.1  | 99.9   | 2.6                      | 33.0   | 100.0                                       | 100.0  |
| Technical and scientific instruments | 1.2                       | 9.0    | 100.0                                       | 96.2   | 0.1                      | 0.1    | 100.0                                       | 100.0  |
| Others                               | 3.7                       | 1.2    | 98.2  | 78.6   | 3.6                      | -      | 98.2  | -      |

Source: U.S. Senate, *Multinational Corporations in Brazil and Mexico...*, *op. cit.*

Table 9  
 BRAZIL AND MEXICO: INTRA-FIRM INDUSTRIAL EXPORTS BY BRANCHES OF UNITED STATES TRANSNATIONAL CORPORATIONS<sup>a</sup>  
 (As percentages of total exports)

| Destination of exports | 1960   |        | 1966   |        | 1972   |        |
|------------------------|--------|--------|--------|--------|--------|--------|
|                        | Brazil | Mexico | Brazil | Mexico | Brazil | Mexico |
| United States          | b      | 80     | 100    | 95     | 95     | 96     |
| Europe                 | b      | 10     | 67     | 45     | 82     | 46     |
| Latin America          | 68     | 16     | 58     | 45     | 64     | 70     |
| Other areas            | b      | b      | 83     | 95     | 79     | 83     |
| Total                  | 68     | 54     | 62     | 75     | 73     | 82     |

Source: U.S. Senate, *Multinational Corporations in Brazil and Mexico...*, *op. cit.*, pp. 77 and 129.

<sup>a</sup>For 1972, includes 82% of United States direct investment in Brazil and 79% in Mexico.

<sup>b</sup>No exports recorded.

restrictive trade practices in respect of this type of exports, would seem to indicate that Latin America's presence as a participant in the dynamic trade of the centres does not fit in with the interests of the transnational corporations, which are the privileged agents in this field.

## 2. Integration: the regional market

The importance of the intra-regional market of Latin America grows in our estimation if we bear in mind the steady loss of relative weight suffered by the region in world trade. Between

1960 and 1977, Latin America's share in world exports fell from 6.2% to 4.5%, while over the same period the exports of Latin American countries to the rest of the region rose almost three times faster than the growth rate of sales outside the region, increasing their share in total exports from 8% to 17%.<sup>37</sup>

Moreover, intra-regional trade also assumes importance because of its structure, since it is immediately clear that manufactures have a much greater weight in it than in exports to the centres, to such a point that for a group of countries<sup>38</sup> of LAFTA, this weight amounted to 53% of total exports to the region. Likewise, within total exports of manufactures to the region, those involving the most advanced technology, such as intermediate goods and metal products and machinery, represented 77% of the total for this same group of countries.

This situation indicates that there are frankly favourable possibilities for the growth of the external sector of the region. Thus, projections for 1985 show that Latin America's imports of machinery and equipment alone could amount to some US\$ 24 billion in that year: a market which is undoubtedly big enough to permit import substitution processes that are efficient and competitive at the international level.

However, this prospect must be toned down somewhat in the light of some problems which are characteristic of the integration process.

To start with the basic topic of this study, we must ask ourselves what role the transnational corporations have played so far in intra-regional trade and what their foreseeable future interests would be. Clearly, the foregoing means that the transnational corporations cannot be considered as neutral with respect to the integration processes. In fact, they become one of the most important agents of co-operation, influencing policies and participating in their execution, and in their efforts to further their entrepreneurial interests they may constitute an integrating or on the contrary a disinte-

grating force.<sup>39</sup> It goes without saying that it is not an easy matter to analyse the role of the transnational corporations in the integration processes. Sometimes they have been an integrating force, representing a bolder agent than governments and national enterprises, but on other occasions they have been just the opposite.

In the regional integration of Latin America, the transnational corporations have generally pursued two objectives: furthering and controlling the forms of co-operation which are favourable to them, and taking advantage of regional market opportunities within their perspective as world enterprises.

With regard to the first objective, it has been the practice of the transnational corporations to participate actively in the meetings and decisions regarding regional integration. In the case of LAFTA, in the 194 meetings held over eleven years to negotiate agreements on industrial tariff concessions, examination of the proceedings of the meetings shows that 50% of the participants represented branches of transnational corporations, and that in dynamic trade sectors such as electrical and electronic products, office equipment and chemical and pharmaceutical products, the proportion rose to 80%.<sup>40</sup> It was not only transnational corporations interested in promoting some particular type of integration scheme which were represented, however: at the meetings in question, most of the transnational corporations represented *did not* export a significant part of their total sales, and their interest lay in keeping watch on the progress of the integration process and trying to impose their entrepreneurial logic over the considerations of integration.<sup>41</sup>

The same logic is shown in the way that the transnational corporations operate when

<sup>39</sup>See in this respect C. Vaitos, *Crisis en la cooperación económica regional*, Mexico City, ILET, 1978, pp. 42 *et seq.*

<sup>40</sup>At some meetings Cyanamid was represented by six subsidiaries; Pfizer by five; Ciba-Geigy, Sandoz and Wyeth by four; Bayer, Hoechst, Johnson, Rhodia, Merck and Eli Lilly by three. See C. Vaitos, *op. cit.*, pp. 47 *et seq.*

<sup>41</sup>C. Vaitos, *op. cit.*, p. 47; R. Almeida, *Reflexiones sobre la integración latinoamericana*, E/CEPAL/L.214, February 1980, pp. 55 *et seq.*

<sup>37</sup>See CEPAL, *The economic and social development...*, *op. cit.*, Vol. II, pp. 95 *et seq.*

<sup>38</sup>Argentina, Brazil, Colombia, Paraguay, Peru and Uruguay.

seeking to take advantage of the regional market. Table 10 shows that in 1972 some of the most dynamic intra-regional export items were marketed through transactions within a single enterprise, at least in the case of the branches of United States enterprises. From this table it can be seen that the average percentages of operations between branches of the same firm in the total exports of manufactures to the region exceeded 63% and 69% for Brazil and Mexico, respectively, and were even over 80%

in cases such as transport equipment and technical and scientific instruments. It can thus be seen once again that the products of greater relative trading dynamism—those that involve the most advanced technological processes—are under the domination of the transnational corporations and are traded among the centres or within the world enterprises, between the parent firm and its branches or between branches, as in the case of Latin American intra-regional trade.

Table 10

**BRAZIL AND MEXICO: EXPORTS BY BRANCHES OF UNITED STATES  
TRANSNATIONAL CORPORATIONS TO LATIN AMERICA, 1972**  
(Millions of dollars)

|                                      | Exports to<br>Latin America<br>(values) |        | Intra-firm<br>transactions<br>(percentages) |        |
|--------------------------------------|---|--------|---|--------|
|                                      | Brazil                                  | Mexico | Brazil                                      | Mexico |
| Manufactures                         | 59.4                                    | 47.1   | 63.5  | 69.6   |
| Foodstuffs                           | ...                                     | 1.1    | ...   | 54.1   |
| Chemicals                            | 4.1                                     | 13.6   | 45.8  | 32.1   |
| Rubber                               | 0.9                                     | 0.4    | 37.2  | 76.2   |
| Metals                               | 0.6                                     | 0.4    | —   | 64.5   |
| Non-electrical machinery             | 13.6                                    | 3.7    | 52.9  | 68.1   |
| Electrical machinery                 | 9.6                                     | 5.1    | 63.5  | 42.9   |
| Transport equipment                  | 24.3                                    | 13.5   | 86.6  | 99.7   |
| Technical and scientific instruments | 1.1                                     | 8.8    | 100.0                                       | 99.5   |

Source: U.S. Senate, *Multinational Corporations in Brazil and Mexico...*, *op. cit.*

Thus, the intra-regional process which serves the interests of the transnational corporations calls for a domestic base for exporting dynamic products from some countries where industrialization is more advanced and an expansion of the production and input linkages with the parent firm in the central countries. This explains why in 1974 intra-regional exports of the metal manufactures and machinery industries represented 71% of total exports of such goods in the case of Argentina, 45% in the case of Brazil and 21% in the case of Mexico, whereas intra-regional imports of these same goods by the three countries did not amount in

that year to even 1% of total imports of such items.<sup>42</sup>

The foregoing brings us to another point of vital importance for the future success of the integration processes. A problem of trade imbalance has in fact been arising in intra-regional trade similar to that which exists in the trade relations of Latin America and the central countries. The large countries export to the rest of the region goods whose demand has high income elasticity, while they import goods of

<sup>42</sup>CEPAL, *The economic and social development...*, *op. cit.*, Vol. II, pp. 106-107.

less income elasticity and less incorporated added value, and this obviously leads to a chronic deficit on the part of the countries of less relative development (see table 11), thus discouraging them in their integration efforts. In this way, the advantages of integration snowball for the large countries, for which, however, this process does not come to be essential, since they enjoy the reserve represented by an actual or potential domestic market of appreciable size. In contrast, the other economies, which receive relatively smaller gains in the present forms of integration, are those which actively promote and vitally need this form of trade. This does not mean, of course, that the countries of relatively less development would be better off without integration, or that without it the large countries would stop displaying big differences with regard to the others in their favourable trade balances. But it does mean that there is an inverse relation between the benefits of integration and the impulse to further it, and that the process is becoming increasingly difficult.

The problems set forth here —the role of the transnational corporations and the trade imbalance— are only two of the main questions among a number of other problems which discourage and impede the process. Other factors which enter into the situation are the attitudes of private national agents which are opposed to integration; the positions of countries —especially those of greater relative development— which sometimes confuse the internal and external levels and maintain that before trying to secure regional integration it is necessary to achieve horizontal and vertical domestic integration, as though there were some inherent contradiction in progressing at both levels at once; grudges deriving from geopolitical differences; and in some cases the short-sighted desire to promote autarkic national development or a type of insertion in the international economy which is viable for a single country but not for the whole region.<sup>43</sup>

Obviously, such differences and opposing forces should not be 'minimized'. However, it

must be very clearly asserted that the best answer to fears or contrary attitudes, and the best alternative for reducing the dominance of foreign interests in the region, would be precisely to carry out effective integration. In the face of the transnational corporations, effective union among the countries of the region would make it possible to secure homogeneity in their policies as regards the treatment of foreign capital (Decision 24 of the Andean Pact is an excellent example of what can be achieved when the countries unite), and if Latin America acts as a single bloc, it has sufficient importance and relative weight in the world community to make it a better proposition for the transnational corporations to adapt themselves to the interests of the region than to set themselves aside or stay away from a dynamic and profitable market. On the other side, the sensitivities of private national agents and governments would gradually react to a concrete reality seen to be of mutual benefit, so that the current points of friction would be smoothed down with the passage of time.

The possibilities of Latin American integration depend directly on the firm political will of the countries, and this, in its turn, must be based on their understanding of the mutual benefits involved in reciprocal trade and the need for the objective of integration to become part of concrete national development strategies and thus contribute to the search for solutions to basic problems of current development such as income distribution, unemployment and external vulnerability.

### 3. *Integrative development: the domestic market*

Latin American economic studies usually emphasize that the domestic market is the main focus of economic dynamism and that its importance will be even greater in the future. Clearly, this observation is basically correct, but at the same time it involves a generalization of different national conditions and indistinguishably merges fundamental differences of meaning as to what should be understood by the domestic market.

For the purposes of the present study, which seeks to identify a new form of economic

<sup>43</sup>Rómulo Almeida, *op. cit.*, tries to make a characterization of the position of the social groups with respect to integration. See pp. 52 *et seq.*



Table 11  
LAFTA: TRADE BALANCES  
(1962 = 100)

| Country   | 1970  | 1972  | 1974  | 1977   |
|-----------|-------|-------|-------|--------|
| Argentina | 182   | 810   | 1 214 | 2 614  |
| Bolivia   | 186   | 380   | 1 391 | 434    |
| Brazil    | 1 813 | 2 689 | 5 117 | 2 540  |
| Colombia  | 249   | 434   | 380   | 526    |
| Chile     | 229   | -813  | -755  | -927   |
| Ecuador   | -374  | -185  | 3 585 | 5 970  |
| Mexico    | 208   | 173   | -97   | 1 209  |
| Paraguay  | 245   | -10   | -805  | 686    |
| Peru      | -284  | -388  | -738  | -2 327 |
| Uruguay   | 77    | 82    | 539   | -189   |
| Venezuela | 47    | 48    | 197   | -128   |

Source: R. Almeida, *Reflexiones sobre la integración latinoamericana*, op. cit., p. 31.

growth and promote a different form of action by the main actors (especially the transnational corporations), it is of primary importance to establish some distinctions between countries, even if only in broad lines, and to understand clearly that 'domestic market' does not necessarily mean 'socially integrated market'.

It was already noted earlier that the analysis contained in this study has a certain 'bias' towards the large countries. Having made this observation, we shall now deal firstly, and perhaps in greater detail, with the topic of the domestic market in this group of countries, where the present economic dynamism is undoubtedly linked with that market. We already saw elsewhere in this study that the sectors of greatest relative dynamism, where the presence of the transnational corporations is more concentrated, are more basically oriented towards domestic consumption, and their exports are as yet of little significance.

This does not mean, however, that the market available to these countries for goods with more advanced technology is comparable to similar markets in the central economies. Obviously, consumption of this type of goods is concentrated in a minority section of the population, and this minority does not attain sufficient magnitude in absolute terms to enable efficient production processes to be carried out

and to take full advantages of economies of scale.<sup>44</sup>

The counterpart of this concentrated and not very efficient supply structure is the presence of types of income concentration which give highly dynamic purchasing power in the upper and medium-upper income groups, capable of absorbing the higher cost structure (including profits).

A basic contradiction thus takes shape in current development: systems whose average income would only be sufficient to cover the basic needs of the population can maintain and increase industrial structures comparable with those of countries where the average income is five or six times greater.

Examining the problem from another angle, a CEPAL study noted as far back as 1975: "Judging by the number of inhabitants, Latin America as a whole and some individual countries in it have quite a big market. However, this size is more apparent than real. If we observe the behaviour of the demand of social sectors with different levels of income, we clearly see that only persons with an income of over 500 dollars per year generate a significant demand for non-food industrial goods. Over

<sup>44</sup>See J. Ayza and N. González, op. cit., chapter III.

80% of the demand for non-food manufactures in Latin America comes from persons whose income is over the figure in question. Yet half the population has an income of less than 500 dollars".<sup>45</sup>

This makes up a structure of exclusive growth whose dynamism does *not* depend on the consumption of the broad domestic masses. Restrictive industrialization is not committed to generalized consumption, and can maintain its dynamism even though 50 to 60% of the population are not participating in it, provided that it can appropriate the economic surplus and distribute it in a 'suitable' manner. In effect, it owes its vitality to the consumption of the capitalist sector itself (of enterprises, the public sector and high-income strata), doing without the consumer market of the majority of the population.

In this respect, it is important to note that the dynamic domestic market at the disposal of such economies should not be confused with a socially integrated market in which all income strata participate.

The problem facing this type of growth is not, as some Latin American publications have assumed on more than one occasion, that there is insufficient domestic demand for the present dynamic sectors, since this demand is guaranteed by the maintenance of concentrated income structures. Its long-term difficulties actually arise as the result of at least two types of considerations already sketched out in this study.

Firstly, it is unthinkable that development can continue in the long term unless its fruits are distributed in a more equitable manner, and this conclusion stems not only from minimum ethical considerations but also from the perfectly clear fact of the risks involved in the persistence of the present concentrating style.

Secondly, we have already seen that the dynamism of this style is threatened by the growing external vulnerability, and that its persistence may mean extension of the domination by the transnational corporations and the central economies over national destiny and freedom of action: in this respect (and in spite

of the fact that this alone would be enough), what is involved is not only the growing external imbalances which, in the *present* international situation, are being solved through increased external indebtedness. It is necessary to underline the world *present* here, since possible changes in world financing markets would mean a serious reverse for the prevailing style.

It must also be borne in mind that the dominating presence of transnational corporations in the dynamic sectors of these economies has already reached such a magnitude in absolute and relative terms that these enterprises can exercise a decisive influence on the directions taken by national development. Some data showing the extent of this presence in the large countries were already presented earlier in this study. Here, solely by way of illustration, using the case of Brazil, it may be noted that if the average rate of profits of the transnational corporations during the period 1968-1972 (12%) is applied to the total foreign capital existing in Brazil in 1975, then the gross volume of profits would represent 16% of the income generated by exports in that year. Of course, there is no suggestion that remittances of profits of such magnitude could be carried out at any given moment, but the fact that such amounts are not repatriated opens the possibilities of greater investments in expansion and in the purchase of national industries. Obviously, these circumstances postpone the problem, but they only put it further off in the future, without giving any solution.<sup>46</sup>

Thus, maintenance of the long-term development potential of the Latin American economies will inevitably involve profound changes in the present pattern of resource allocation. This means big changes in the distributive structure, productive employment for broad sectors of the population, and a considerable reduction in the vulnerability *vis-à-vis* the centres and transnational corporations. In short, it means setting up an integrated domestic market in which the growth incentives are located at different degrees, in different forms and at different points in time—in

<sup>45</sup>*Ibid.*, chapter III.

<sup>46</sup>See P. Malan and R. Bonelli, *op. cit.*, p. 396.

keeping with national conditions— by the basic general consumption of the *whole population*.

Of course future development, which must necessarily be of an integrative nature, will naturally have its external projection through intra-regional integration schemes which enable the transformation of productive structures to be continued on more suitable scales with greater efficiency, thus also forming a primary market which will serve as the basis for a new type of insertion in world trade.

The considerations sketched out above also hold good, with a few modifications, for the case of the countries of less relative size. In these, too, we see the presence of concentrated income structures which prevent the incorporation of broad social strata into the domestic market for manufactures. Here, too, integrative development based on profound changes in the present allocation of resources could make possible the incorporation of these strata, which would not only mean economies of scale in some of the more advanced industries but would also boost the traditional industries producing non-durable consumer goods, for which there are not too many technical difficulties in most of the countries.

In the case of this latter group of countries, however, it is more necessary even than in the case of the large countries to go beyond national borders if it is proposed to advance towards

more complete industrialization. Their present external linkage, consisting of specialization in exports of traditional manufactures and advantages backed up by their natural resource endowment, could be profoundly changed within an expanded intra-regional market. The process of effective integration would tend to correct structural imperfections, thus enabling the countries to develop basic and more advanced industries. The integration industries of the Central American Common Market and the programming areas of the Andean Group (petrochemicals, the motor industry, and industries producing metal products, machinery and equipment) are current examples of the path which it would be possible to travel in the future.

Thus, both for the large countries and for those of smaller relative size, the future projection of development would point towards the strengthening of the domestic market by integrating into it the sectors which are currently lagging behind, backed up by the dynamic impulses deriving from a real and effective process of regional integration.

Of course, this new direction would raise various queries about the role of the internal and external forces currently involved in the process of the transnationalization of development. Clearly, however, it would not be possible to deal with this matter fully within the limits of the present document.

## V

### Final Summary

An attempt has been made in this study to show that in the long term the present form of growth of Latin America, unless subjected to profound changes, will aggravate the region's most crucial problems: the concentrated income structure, extreme poverty, the absence of productive employment for great sectors of the population, the growing external vulnerability, and the progressive loss of national capacity for managing the economy.

An effort was also made, from the very beginning of the study, to show that the present

problems and the fact that they have been becoming more acute are not due to physical impediments of the productive forces of the region. Indeed, the development already achieved gives grounds for hope that these distortions can be solved on the basis of the region's productive potential; the persistence of exclusive and vulnerable forms of growth is merely due to the way in which the economic agents have acted in the region. An effort has been made to analyse among these agents, in particular, the action of the transnational corpo-

rations in order to clarify their 'impact' on the formation of the present imitative style of development and the conditioning factors which their presence imposes on the search for new directions.

The hypothesis formulated here is that there would appear to be a contradiction between the form of operation of the transnational corporations, which is subordinated to the internal entrepreneurial logic of the world firm, and the most representative and legitimate national objectives, which, for their part, should be defined on the basis of a search for a style of development which integrates the great masses within the countries.

This contradiction is manifested, of course, at the internal level, where the relative weight of the transnational corporations in the most dynamic sectors makes them a particularly powerful economic agent. The necessary search for new dynamic impulses oriented towards the satisfaction of the needs of broad sectors of the population could conflict with the interests of the branches of world enterprises, which are deeply committed to restrictive and 'elitist' industrialization.

On the other hand, the external projection of Latin America also comes into conflict with the interests of the transnational corporations. In this respect, an attempt has been made to show that their action as a bridge in trade towards the central countries has been in line with criteria which do not favour the solution of

the existing commercial imbalance but instead tend to make it even more serious in view of these corporations' tendency to import and their reluctance to export, both of which represent the internal interests of the big firms.

Similarly, special mention was made of the action of the transnational corporations in attempts at regional integration, and it was observed that their entrepreneurial logic inclined them towards opposing processes likely to involve regional agreement on policies regarding foreign capital and planned regional industrial development.

Thus, both at the internal level and in the external projection, a change in the present style of development would arouse obvious resistance on the part of the transnational corporations, to judge by the way they have acted so far.

At all events, in comparison with the Third World as a whole Latin America constitutes a semi-industrialized area which combines relatively high levels of income and development with great potential. Obviously, such conditions give the region particularly strong negotiating power, and the well-known clear-sightedness of the transnational corporations as regards the future could make it possible to use this bargaining power successfully in order to obtain better adaptation of foreign capital to regional interests and to safeguard a more independent form of development.