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Notes and explanation of symbols

The following symbols are used in tables in the *Review:*
Three dots (...) indicate that data are not available or are not separately reported.
A dash (—) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (-) indicates a deficit or decrease, unless otherwise specified.
A point (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.
Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.
Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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CONTENTS

Latin American and Caribbean development in the 1980s and the outlook for the future

Gert Rosenthal
ECLAC Executive Secretary

Now that we are at the threshold of a new decade, what can be said about the one that is ending with regard to the development process in Latin America and the Caribbean? So much emphasis has been placed on the depth and duration of the economic crisis of recent years that little new can be added, at least in terms of the description of its origin, scope and consequences. Still, the 10-year time span offers us an extraordinarily rich perspective for taking brief stock and making some observations on future perspectives, taking into account the legacy which this decade leaves us, a decade described by some as "lost" as far as development is concerned.

This is certainly not the happiest of descriptions, since it implies a regression of every order and in all countries. What is certain, as is indicated below, is that this decade also witnessed some advances: partial and precarious in the economic sphere, substantial in the political. Still, if one measures the region's evolution by the most general and conventional of criteria —the evolution of per capita gross domestic product— the description is correct. Strictly speaking, at the end of 1989 the region's average per capita product will be lower than in 1980 by almost 10% and equivalent to the 1976 level. Moreover this is a widespread phenomenon: only in three or four countries of the region will this indicator improve in 1990 in comparison with its level at the beginning of the decade. Since in addition the deterioration in average income[1] was markedly regressive, it can be asserted that the 1980s marked a tremendous step backwards in the material standard of living of the Latin American and Caribbean population.

But this is only one of the final results of the period, which will surely mark a milestone or rupture in the region's economic history. The term "crisis" applies to the performance of the great majority of the economies and also to the efflorescence of age-old insufficiencies and failings of various kinds brought to light by the unfavourable economic circumstances.

When drawing up the balance-sheet of the decade it should be remembered that the main trends did not occur in all the countries with the same intensity or within one country at different times during the decade. Neither did they have the same effect on all sectors, strata and regions of a given country. Rather, as already indicated, positive phenomena did emerge within the generally adverse scenario: in all the countries there were companies which improved their international competitiveness, even within the framework of adverse circumstances; there were communities which increased their standard of living by strengthening their capacity for self-management; there was widespread discovery of what yielded positive results and what failed; human creativity was stimulated by the various kinds of restriction; in some cases —few up to now— there was a relatively successful structural adjustment (not without high social costs). Above all, we must point to a clear trend towards democratic openness, with more pluralistic, tolerant and participatory political régimes.

In any case, the decade's balance-sheet shows much greater liabilities than assets. Ten phenomena which exemplify the main events of the decade in the social and economic fields will now be described. The first two exhibit the main characteristics of what has rightly been called the "crisis of the 1980s", the others derive in one way or another from the first two. They all, of course, interrelate and interact with each other.

[1]This was even greater than the fall of the product, owing to the negative trend in the terms of trade in nearly all the countries.

I

The loss of dynamism of traditional sources of growth

First, varying in degree from one country to another, the main sources of economic vigour in the three previous decades —an expansive export sector but one dependent on primary products, and manufacturing based primarily on domestic demand— tended to lose power or even to come to a halt. In the export sector, in the majority of the countries the value (though not the volume) of external sales of traditional products fell markedly owing to a drop in their unit prices; even total export value stagnated or fell in 11 of the 19 main countries of the region. Apparently, the decline in demand for commodities was not only due to a traditional cyclical downturn but also reflected important changes in the structure of domestic demand.[2] According to ECLAC calculations, a weighted real price index of 19 basic commodities exported by region, excluding fuels, reveals a decline of over a third between 1980 and 1988. If fuels are included, this decline rises to almost a half.

Where manufacturing is concerned the value added of output grew faster than the product during upswings, but its contraction also turned out to be greater than that of the product during recessions, at least in those countries geared primarily to meeting domestic demand. Thus in the 1980s the relative share of value added in the product tended to decline in the majority of the countries; manufacturing value added for the region as a whole grew by barely 0.5% a year, and the average level of manufacturing in the region therefore fell from 25.2% to 23.8% between 1980 and 1988. Consequently the manufacturing sector, instead of strongly boosting growth, helped to accentuate the recessionary situation.

The loss of dynamism of the two "motors" of growth immediately raises the question of whether they can be restored as driving-forces of growth; if not, it may be wondered what will supply the stimulus for the Latin American and Caribbean economies in the future. An inkling of an answer lies in the example of those countries which have performed relatively better in recent years —the very countries which have advanced along the path of the transformation of production. In some cases a greater degree of international competitiveness was achieved in manufacturing. For example, its relative share in Mexico's exports rose from 12.7% to 44.5% between 1980 and 1988; in the case of Brazil, this coefficient rose from 56.5% to 71.3% in the same period.[3] In other countries, such as Colombia, the greater competitiveness of manufactures was combined with the incorporation of new commodities in the export sector. In still others, the growing incorporation of technical advances in primary activities —vegetables, seafood, forestry products— enabled the export sector to expand strongly, as for example in Chile, Costa Rica, the Dominican Republic and Uruguay.

[2]Beyond the known phenomenon of the low income elasticity of the demand for these products in the world market, many foods and beverages have been affected by changes in consumer preferences in industrialized countries; others have had to face competition from the frequently subsidized production of the industrialized countries themselves; and still others have been affected by technological innovations which tend to replace some minerals with substitutes which are lower in cost or whose production consumes less energy.

[3]It has been frequently pointed out that the recovery of exports of manufactures simply reflects the imperative need of businessmen to place their exports, given the deep cutback in domestic demand. However, while this phenomenon undoubtedly exists, it is not a sufficient explanation of the marked and sustained increase of sales of non-traditional products abroad.

II

The waywardness of macroeconomic imbalances

The macroeconomic imbalances which affected a great many countries of the region in the 1980s had certain features, both in themselves and in their consequences, which distinguished them from similar phenomena of previous decades. The first feature is that these imbalances were generally much more accentuated than before. Although many countries managed to adjust their trade balance to the new realities of the world economy, frequently by means of recessionary adjustment policies, very few managed to make progress at the same time in their attempts to fight inflation, to reduce the external deficit and also to grow.

One of the factors having the most influence on this situation was the impact of external-debt servicing on public-sector finances and the balance of payments of the current account. This phenomenon has been widely described in numerous documents and does not need any further elaboration here.[4] It is enough to point out that the countries which were most successful in adjusting and at the same time stabilizing their economies were those where there was a direct link between the capacity to transfer resources abroad and to improve the financial situation of the public sector. Thus, when the value of exports produced by State enterprises rose (as occurred with copper in Chile), there tended to be a direct and simultaneous improvement in the balance of payments and fiscal accounts, thus allowing for greater growth and lower inflation. The opposite is also true: when the value of exports fell (as generally occurred in recent years with oil exporters), the fiscal deficit tended to widen and the external imbalance to become more acute.

There were other consequences worthy of mention which arose as side effects of these economic imbalances. They include, for example, the marked priority acquired by short-term economic policy over medium- and long-term measures; if you like, survival instead of development. For this reason economic policy tended to pay greater attention to correcting imbalances, and in particular to fighting inflation, than to growth and promotion of change. Finally, the reduced room for manoeuvre in the conduct of economic policy imposed by the new shortage of foreign exchange considerably weakened the State's capacity for action, as described in the following section.

III

The sharp decline in investment

A phenomenon which is closely connected with the gradual loss of vigour in Latin American and Caribbean supply in the 1980s is the marked decline in net investment in numerous countries. In preceding decades the expansion of production capacity —for exports and domestic supply— was based on a relatively high and rising level of private and public investment (between 22% and 25% of gross domestic product).

The situation in the 1980s was very different. The deterioration in the terms of trade and the external-debt service, generally accompanied by a decrease in the net inflow of foreign capital, substantially reduced the supply of net resources available for investment. Thus, the net investment coefficient for the region fell from 22.7% in 1980 to 16.5% in 1988. This phenomenon affected the majority of the countries and also reflected the generally adverse trend in public finances, for reasons explained below.

[4]See, for example: ECLAC, *Restrictions on sustained development in Latin America and the Caribbean and the requisites for overcoming them* (LC/G.1488(SES.22/3)), Santiago, Chile, 14 January 1988, especially pp. 3-9.

In addition, various modalities of financing the fiscal deficit had negative effects: they hindered private investment, reduced the public sector's room for manoeuvre in the financial sphere and generally had a feedback effect on the crisis. Thus, in some cases the availability of credit for the private sector was reduced by the use of forced-saving mechanisms, within a context of financial stringency which encouraged flights of capital. In others, public-debt bonds were issued under conditions in which they contributed to much higher interest rates, while at the same time generating expectations of future taxes. There were also cases in which money was simply printed, stimulating demand, inflation and a foreign-exchange crisis.

As a result of these developments, many countries are currently faced with the growing obsolescence of their production plant and an alarming deterioration in their physical infrastructure.

IV
The decline in the average material standard of living

Although the majority of the economies stopped growing, the population did not. At the beginning of the decade the region had 362 million inhabitants; at the end it had 448 million. Due to the demographic inertia of preceding decades and the gradual entry of women into the labour market, the economically active population grew on average by 2.8% a year during this period. The statistics generally show that although open unemployment increased, especially in urban areas, it did not grow in proportion to the contraction in the level of economic activity. Decline was avoided at the cost of increasingly lower productivity per person employed and rapid growth of the informal labour market.

The lack of economic vigour, the increase in unemployment and underemployment, and the rising levels of employment in informal sectors (accompanied by a decline in real wages in the majority of the countries), together with restrictions on public spending, contributed in one way or another to the higher incidence of extreme poverty. According to very rough estimates, in 1980 some 112 million Latin Americans and Caribbeans (36% of the total population) lived below the poverty line; this figure rose to 160 million in 1986 (38% of the total population). Furthermore, in the great majority of the countries there emerged pockets of production modernization, generally associated with the export of non-traditional goods, in contrast to the situation described above. It follows from this that the traditional segmentation of the labour market in Latin America and the Caribbean has become more acute in recent years and that the gap between upper and lower income groups has widened.

The marked deterioration in the standard of living of broad sectors of the Latin American population has frequently translated into situations of social tension. One of its many manifestations is the sharp increase in crime, particularly in large urban centres. Still, it appears that greater efficiency in current public spending for social purposes, has sometimes counteracted the effects of the reduction in funds allocated to this sector.[5] There is no evidence, at least up to now, of a clear-cut decline in health and education indicators, with some exceptions.[6] Nevertheless, it will be difficult to

[5]This phenomenon is due in part to the fact that the reduction in spending, expressed in nominal terms, is not reflected in a reduction in real terms. For example, the wages of teachers and health-centre workers may have declined without a reduction in the number of posts. This fact could, however, be pointing to a gradual deterioration in the quality of services, as better-qualified persons seek better-paid jobs, frequently outside the public sector.

[6]Attendance rates for primary schools had decreased by mid-decade in some but not in the majority of the countries of the region. The same thing happened in the case of population with access to drinking water, although a greater reduction of coverage in rural areas may be found in those cases where recession has occurred. In turn, child-immunization indicators tended to improve between 1981 and 1986, with a few exceptions. (*Source:* UNICEF, *The State of the World's Children, 1984*, Oxford, United Kingdom, Oxford University Press, 1983.)

maintain this trend in those cases where no expenditures have been made on health and education facilities, or in which there has been no investment in training designed to improve nutrition and health.

Lastly, another manifestation of economic and social decline in the region is the increasing volume of migration by Latin Americans and Caribbeans, particularly to the United States and Canada. This is in addition to migration caused by political and military conflicts, as occurred for example in the case of the displaced persons and refugees in Central America, who moved within the subregion or emigrated to other countries. It is estimated that currently 8% of the total population of that subregion has been uprooted.

V

The gradual decline in the relative position of Latin America and the Caribbean in the world economy

It is generally held that Latin America, as a region, has seen its relative position in the international economy decline, especially when its performance in the 1980s is compared with the South-East Asian experience. This assessment is certainly empirically verifiable, at least if its scope is limited to trade and financial flows.

Although the export sector has been vigorous in some countries, the region as a whole has gradually been losing its relative share in world trade, a trend which accelerated in the 1980s. In 1960 the total value of Latin American exports accounted for around 7.7% of world exports. Twenty years later it had dropped to 5.5% and in 1988 to 3.9%. In the case of imports, its share dropped from 7.6% in 1960 to 5.9% in 1980 and to 3.3% in 1988. The figures show not only a contraction of economic activity, but also a deterioration in the negotiating capacity of countries of the region *vis-à-vis* third parties.

The same can be said of the participation of Latin America and the Caribbean in the attraction of international financial resources. The region was traditionally a net importer of resources but it has become a net exporter. In 1970 18.8% of direct investment by United States companies abroad went to Latin America and the Caribbean. By 1986 this share had fallen to 13.2%. On the other hand, 12 out of the 17 most indebted countries of the developing world are currently found in the region.

VI

The weakening of the State

With very few exceptions the public sectors moved into crisis during the decade. Excesses had been committed in past decades, as reflected for example in bureaucratization, inefficiency and inappropriate allocation of resources, and they remained painfully evident during the serious financial restrictions which characterized the economic scene in the majority of the countries in the 1980s.

At first there was a drop in fiscal revenues as a result of the recession and fiscal reforms were carried out in order to counteract it. In addition, public service tariffs tended to fall behind during periods of inflation. On the other hand, current expenditure tended to grow, partly as a result of the servicing of both foreign and domestic public debt. The financial burden of the foreign debt expressed in local currency, was magnified by successive devaluations and high international interest rates; the burden of the domestic debt was affected, more often than not, by exceptionally high interest rates. Faced with the growing current-account deficits which characterized the situation throughout the decade, the decision was made to cut back on public investment and social expenditure, which were considered to be more expendable areas, although their restriction bore a high social cost.

These financial problems underlined the existing scarcities and shortcomings and often, too, the need to reform and modernize the public sector and strengthen the State's capacity to govern. To achieve this, the decision was made to deregulate, to put concessions out to tender, and in particular to privatize public enterprises. In some cases —the fewest— this method was chosen in order to attain the explicit objective of reducing the size of the State; in the majority of cases, there was no choice but to scale it down, bringing it more into line with the financial constraints and ensuring that the actions undertaken on a smaller scale were carried out with greater efficiency and efficacy. Still, as was to be expected, the debate on the redefinition of the dividing line between public and private action has not been free from doctrinal bias.

VII

The degradation of natural resources and the environment

In the 1980s some of the phenomena already mentioned —the need to generate foreign exchange, ever higher levels of urban and rural destitution, the deterioration of the physical infrastructure— helped to highlight certain problems of the environment and the overexploitation of natural resources faced by many countries of the region throughout their history. Although lower agricultural growth in the first half of the decade was reflected in a minimal increase in the total agricultural area, which indicates that expansion of agricultural frontiers had all but stopped, the abject impoverishment of sizeable segments of the rural population and the need to increase exports in the shortest time possible led to greater overexploitation of resources; fisheries provide one of the most glaring examples. At the same time, the cutback in public spending reduced the possibility of adopting measures to conserve natural resources and bring environmental degradation under control.

In this decade the problems of industrial wastes —chemical and pharmaceutical toxins— and of environmental pollution in the big Latin American cities have also become extremely serious. In addition, there has been the realization of the onset of a process of climatic changes which, if it continues, could have particularly serious effects on Latin America and the Caribbean.

All of this is linked to the marked increase in the awareness and mobilization of public opinion with respect to the environment and the intensification of the search for and application of legal and institutional mechanisms for dealing with environmental issues. But new problems have also emerged. On the one hand, the need to make expenditures at a time of serious constraint. In addition, national investments in environmental protection often yield benefits which transcend the country's boundaries, but without the other beneficiaries sharing in the financing. On the other hand, difference of opinion as to the relative importance of the subject and of ways of dealing with it have introduced a new source of tension in the relations between industrialized and developing countries. Some Latin American countries figure prominently among the latter.

VIII

The deterioration of intraregional economic interdependence

Another distinctive phenomenon of the 1980s is that economic restrictions accelerated the gradual decline observed in the previous decade in the degree of compliance with integration commitments. This fact cannot help but be paradoxical. On the one hand, it might be thought that regional and subregional trade provided a means of easing or even reversing the fall in the volume of trade with the rest of the world, taking advantage of installed capacity and intensifying joint actions to solve common problems. On the other hand, the trend towards more pluralistic and participatory régimes was establishing a community of interests which certainly greatly facilitated reciprocal communication and trust between the governments participating in subregional integration processes.

However, integration in general did not play an attenuating role with respect to the recessionary effects stemming from the external sector; instead, the process itself became just one more victim of the crisis. The combination of exchange-rate instability, lack of foreign exchange, reduction of real incomes and lack of policies to absorb the impact of these factors on integration caused intraregional trade to plummet in the first half of the decade. In 1980 this trade accounted for 15.4% of total Latin American exports; the figure fell to 11.1% in 1985 and then recovered somewhat in subsequent years.[7] There was also a weakening of the institutions responsible for promoting and monitoring the integration process, while at the same time the gap was widening between the objectives of formal integration commitments and national economic policies, which reacted to urgent short-term imbalances and frequently followed a path of adjustment and trade deregulation incompatible with past integration commitments.

In short, the type of commitment entered into in the 1960s and 1970s proved unworkable in relation to the issues of the 1980s. The slogan of the decade was integration with the rest of the world, rather than with neighbouring countries. Some countries sought to tighten their bilateral ties with industrialized nations, while others introduced general deregulation of their trade.

It should be stressed that this does not mean in the least that integration does not have a role to play with regard to the new realities of Latin American and Caribbean development. What it really boils down to is that the commitments will also have to be adapted to the new circumstances. Recognition of this fact produced some new arrangements in mid-decade, especially within the framework of bilateral agreements of limited scope. Agreements between Argentina and Brazil on the one hand, and Uruguay and its two neighbours on the other, heralded a renewed effort to explore the possibilities of integration. The weak recovery of intraregional trade in the last two years is due primarily to this factor.

[7]The coefficient for the intraregional imports for Latin America and the Caribbean rose from 13.7% in 1980 to 15.8% in 1983; it then dropped to 13.5% in 1986 and subsequently began to recover unobtrusively.

IX

The revision of economic strategies

In the crisis of the 1980s the questioning of the strategies of economic policy gained ground, especially with respect to the anti-export and anti-rural bias which prevailed for many years in the majority of the region's countries. This fact reflects in part the advance of certain conceptual positions in the industrialized world, particularly in the United States and the United Kingdom; it was also in part the natural response to the rupture of the trends of the past 30 years, which led to a deep and prolonged recession.

At times, the debate revolved around extreme positions: openness models versus import-substitution models; the "invisible hand" versus planning; and State management versus private enterprise. However, the situation is too complex and varied to accommodate these kinds of approach, since in the real world things are rarely black and white but rather various shades of grey. In any case, both development strategies and short-term policies came to favour the emergence of a new non-traditional export sector through greater external openness; this has meant the lowering of tariff and non-tariff barriers, together with a relatively smaller role for the public sector in the economy. In some cases these efforts form part of adjustment programmes supported by the main multilateral financing agencies.

X

The growing differentiation between countries

Many ECLAC documents begin by stating that, given the growing diversity of situations in the region, it is impossible to refer to Latin America as if it were a single unit; but having said that, they proceed to analyse trends in the Latin American economy as a whole. What made this apparently paradoxical procedure possible in the 1980s was the common denominator of the adverse conditions created by the international economy. In the first half of the decade it could be validly stated that the performance of *all* the economies was very unsatisfactory; in the second half this was true only for the *majority* of the countries. However, the manner in which the external factors affected various countries and the set of measures which they each adopted to cope with the situation have exhibited a gradual differentiation between the countries of the region.

To the traditional types (large and small countries, countries with greater or lesser degrees of relative development, countries with high or low export coefficients or degrees of industrialization, countries which are net exporters or net importers of oil, highly indebted countries and so on) is added today a new differentiation: countries which have made considerable progress in the implementation of adjustment programmes and those which have not. Perhaps it might be premature to forecast that the former have much more promising growth prospects (although it must be supposed that this is the case). Nevertheless, it can be asserted that the restrictions on development —and hence the content and scope of the various economic policies— differ very much from one case to another. In short, although the economic crisis of the 1980s continues to affect all countries, several of them are better placed than the others to overcome it. Accordingly, it is not so easy now to talk of trends which characterize the region as a whole, or to formulate universally valid proposals.

* * *

On the basis of a superficial assessment of Latin American and Caribbean experience in the 1980s in economic and social matters, what can be said of the development prospects of the various countries of Latin America and the Caribbean? Will recessionary inertia and the burden of the many liabilities carried over from one decade to the next, prevail in the 1990s, or will the sometimes shaky and partial advances which have begun in the last few years prevail, at least in some countries? Will the tendency for ever greater differentiation continue with a handful of countries recovering the capacity to grow and the rest sinking into age-old quasi-stagnation, or will the recovery manage to become a general one, based on the transformation of production processes in the countries of the region?

It indeed is difficult to make an assessment in this respect. Perhaps it would be tautological to point out that the prospects for the region's economies in the 1990s will depend on their capacity to overcome the two main constraints of the 1980s, i.e., on their capacity to transform their production systems and correct their macroeconomic imbalances. This capacity, in turn, will depend on factors of domestic and foreign origin. Any forecast of the scenarios of the coming decade will therefore have to be based firstly on hypotheses about the performance of the international economy, and secondly on certain assumptions about the possibility of adopting domestic measures to correct the macroeconomic imbalances and transform the production structures.

With regard to the first aspect, and without getting into the issue of the relative importance of external as against internal variables in the performance of the region's economies, developments in the main industrialized economies of the world and their impact on monetary, financial and trade systems in the world economy will doubtless play a decisive role in the construction of alternative scenarios for the future of the countries of Latin America and the Caribbean. Assessment of the path to be followed by real interest rates in international financial markets, the fate of commodity prices and the dénouement of the external-debt drama are just a few examples of the difficulties and risks involved in the business of forecasting today. However, there are no indications on the horizon that suggest that the main economies of the Organization for Economic Co-operation and Development (OECD), to which can be added some of the economies of the socialist world, will not be able to maintain an acceptable and sustainable level of economic expansion over the medium term. It remains to be seen, of course, whether the developing countries will have timely access to the markets of the developed world or whether protectionist pressures, which have recently gained strength, will break the surface.

With regard to the second aspect, the balance-sheet of the 1980s points to the need to explore three decisive and interrelated variables whose evolution will determine future prospects. These variables are the possibility of correcting the macroeconomic imbalances of the 1980s, the capacity to transform production systems with a view to achieving greater international competitiveness, and the possibility of attracting resources to finance sustained development. It is obvious that all of these variables are connected with the way in which the debt-service issue is resolved in the long term between the heavily indebted countries and the international private banking system; it is equally obvious that a single solution will not be sufficient to provide access to sustained development.

The experience of the 1980s taught important lessons on how to move closer to macroeconomic balance, and in particular on how to carry out a stabilization programme successfully. There are two reasons for thinking that progress will be made in this matter over the next few years. The first is the concrete experience of certain countries (for example, Bolivia, Costa Rica and Mexico), which shows that it is possible to beat inflation, although painful measures are needed, and to gain some access to external financing. The most successful countries have not limited themselves to cutting demand; they have also acted on supply and at the same time attempted to guide expectations and structural factors (by means of "pacts" on wage and price policies). The reduction of the budget deficit played a decisive role in all of this. The second reason is that hyperinflation is an eloquent warning of the high social cost of the failure to decide in good time to tackle the situation. In fact, anti-inflation policy dominates the economic scene of 1989, precisely because the economic authorities have become fully aware of the imperative need for it.[8]

With regard to the transformation of production structures, there is once again a basis for hope. Even against the generally bleak background of the 1980s, some progress was made, although it differed in degree and scope from one country to another. As a matter of fact, the anti-export and anti-rural biases which characterized economic policy in past decades have tended to diminish or disappear in nearly all the countries. There is also greater awareness today that the transformation of production requires a complex set of actions in such diverse fields as the removal of institutional and organizational constraints, the availability of human resources, and physical infrastructure. This is not the place for an in-depth discussion on such a complex issue. However, it should be mentioned that to promote changes in production structure is a long-term task; this is why the results of the implementation of policies and strategies will not necessarily be felt in the early part of the coming decade.

There remains the important question of how to finance the modernization of production and greater social equity in the future. There is a dangerous accumulation of unmet demands: physical infrastructure in a dismal state of repair, increasingly obsolete capital plant, long delays in the provision of social services, minute allocations for technological research and its application to the production process, the need for industrial reconversion and to reduce environmental degradation, and many others. Moreover, although there are still some production activities in the countries of the region with idle capacity, sustained expansion of supply will necessarily have to be based on expansion of capacity.

However, it is unclear where the resources will come from to finance the necessary investment. This is why solving the external-debt problem is so important. This would not only permit a reduction of the current transfer abroad of a considerable proportion of domestic savings, but would also offer at least the possibility of establishing a "virtuous circle" which would facilitate the correction of macroeconomic imbalances and make it possible to reverse Latin America's transfer abroad of around 4% of its gross domestic product. To put it another way, if progress is made in the direction of easing the burden of external-debt servicing —and the first steps, albeit timid ones, announced in the Brady initiative offer a glimmer of hope in this respect— there would once again be grounds for facing the 1990s with greater hope. Needless to say, there is a vital role to be played in this effort by multilateral financial agencies, and in particular the Inter-American Development Bank .

In conclusion then, the prospects for the coming decade would improve if civil societies and governments took better advantage of the possibilities of economic integration. It should be remembered that the countries of the region, individually, will have to face economic macroblocs —Europe without frontiers and the expanded market of Canada and the United States— and the emergence of a new grouping of countries in South-East Asia. Why then not face these macroblocs together?

The subregional integration of Latin American and Caribbean countries and their vigorous involvement in the international economy are not necessarily contradictory proposals. On the contrary, the two proposals could strengthen each other. The emergence of new national development strategies based on deregulation, transformation of production and increased international competitiveness raises the possibility of regarding regional markets as sources of greater competition, which could contribute to the systemic process of learning and technological innovation necessary for exporting to other markets. Furthermore, some bilateral and trilateral sectoral attempts have been made, with strong political support, in such areas as technology, capital goods and agriculture, as is shown by the agreements between Argentina, Brazil and Uruguay referred to earlier. In addition, the joint position of the Central American countries *vis-à-vis* the international

[8]See ECLAC, *Economic Panorama of Latin America, 1989* (LC/G.1574), Santiago, Chile, September 1989.

donor community, as a result of progress in the peace process of the subregion, has opened up areas for co-operation which could facilitate the reactivation of intra-Central American trade and increase the existing interdependence in infrastructure and agriculture. If progress can be made in this respect, there will once again be a basis for facing the next decade with greater optimism.

To sum up, the balance-sheet of the 1980s itself provides some clues for the construction of a scenario of gradual economic expansion accompanied by improvements in the standard of living of the average Latin American. This scenario presupposes that there will be no major upsets on the international stage, and that, learning from the hard lessons of the 1980s, the governments of the region will move individually and jointly towards the removal of some of the main obstacles to development.

Accepting this assumption, the good thing is that in contrast to the past decade, the economies could now be reactivated. The bad thing, however, is that even with sustained annual growth rates of 4% during the first years of the decade the majority of the countries would be unable to regain before 1995 the real per capita income levels already achieved in 1980. In any case, it is plausible to maintain that the countries of Latin America and the Caribbean will overcome the crisis of the 1980s in the coming decade and that, like the legendary phoenix, will emerge perhaps stronger to face the challenges awaiting them in the next millennium.

CEPAL REVIEW No. 39

Features and phases of the "Swedish model"

*Olof Ruin**

Sweden and its social life are characterized by certain features which are frequently summed up under the term "Swedish model". This article deals with one of these features: the government system. For a long time now Swedish politics has been characterized by a considerable degree of consensus and stability. A very evident expression of this stability is the fact that the same party has managed to stay in power for the last 60 years, with the exception of a brief six-year period between 1976 and 1982.

In order to adequately understand the distinctive and persisting climate of consensus and degree of stability it is necessary to examine three periods of Sweden's political development. The first includes the phase preceding Sweden's transition at the end of the First World War to a parliamentary system based on the principles of universal and equal suffrage . Although this transition came about relatively late, the point is that it developed in a peaceful manner, without violence. The second period began in 1932 with the return of the Social Democratic Party to power and lasted practically to 1976, the year in which that party lost power. It was during those decades that what has come to be called the "Swedish model" was established. Finally, the third period includes the last 15 years; although it exhibits a greater degree of mobility and even tensions, from an international perspective it continues to appear very tranquil.

*The author is a professor at the University of Stockholm.

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I
The transition to a parliamentary system and universal suffrage

Sweden's transition to its current political system was —as we have already mentioned— very peaceful and at the same time late. The delay does not mean, however, that the transition came about suddenly. Sweden already had a long constitutional tradition when in 1917 it finally accepted a parliamentary system, i.e., a system with a government based on —or at least tolerated by— a parliamentary majority. Sweden also had a long tradition of popular participation in State management when universal and equal suffrage was established early in the 1920s. It was precisely the gradual nature of the development which preceded the establishment of a parliamentary system and universal suffrage that helps to explain why change could come about without any kind of revolution.

The Swedish national State —with a king from a Swedish family— was established, as in other European nation States, at the beginning of the sixteenth century. Unlike several other European States, however, what was distinctive about Swedish constitutional development was that the country never suffered periods of absolute autocracy. Alongside the king there was always a parliament whose roots dated back to the first half of the fifteenth century. However, during the last decades of the seventeenth century and the first decade of the eighteenth century —i.e., in the final stages of that long hundred year period in which Sweden rose to become a great European Power— the king's position was so strong that it came quite close to being absolute power. On the other hand, during the greater part of the eighteenth century —the so-called period of liberty— the parliament achieved a position of great power, with the monarchy thereby weakened to an equivalent degree. The constitution approved in 1809 was characterized by a balance of power between king and parliament. This balance in which the king held a considerable amount of personal power, was largely maintained throughout the whole of the nineteenth century.

Furthermore, this parliament —with varying degrees of influence— has always been part of the life of the Swedish State and has always included a popular element. Up until 1866 the Swedish parliament was comprised of four states or classes: nobility, clergy, bourgeoisie and peasantry. The popular "democratic" element was represented by the peasantry. At no time in its history did Sweden experience periods of open feudal serfdom or periods in which the landowning peasant class was in a totally marginal position, excluded by the landowning nobility. Down through the centuries the peasantry remained an independent force in Sweden's social affairs. Its situation was additionally strengthened by the two-chamber parliament which in 1866 replaced the old four-state parliament. The right to vote came to depend on a series of economic conditions, which were met by peasants who owned land. Nevertheless, this reform of the right to vote meant that only around 20% of the adult male population was enfranchised, while women remained totally disenfranchised. Workers and low-income and landless persons remained excluded from politics, in a Sweden which was still very poor.

What is significant about the peaceful nature of Sweden's development is that, although many people still lacked the right to vote, they all had the opportunity to participate in various popular democratic movements which emerged in the country at the end of the nineteenth century. In turn, these movements were influenced by the long Swedish tradition of popular activity in social life. For example, there was a teetotalers' movement which organized the fight against alcoholism, and various independent religious movements which offered an opportunity for practicing Christianity outside the State Lutheran Church. Trade union were formed in order to fight for better working conditions and cooperative groups for acquiring and distributing cheaper consumer goods. In the spring of 1889, exactly 100 years ago, the Swedish workers' Social Democratic Party was created as one more popular movement. A person could be a member of several of these various organizations, fighting against alcoholism and at the same time for better working conditions, greater political rights, etc. In Sweden these popular movements provided a true democratic training ground, at a time when the parliamentary system and universal and equal suffrage were not yet fully developed.

During the first three decades of its existence the Social Democratic Party took up as one of its main tasks the definitive and full establishment of the right to vote and of a parliamentary system accepted by all, including the king. In pursuit of these objectives the party collaborated closely with the liberal sectors, while at the same time coping with those within the party who were impatient with the slowness of this reform work and dreamed of adopting revolutionary measures. The first real party leader, Hjalmar Branting, an intellectual from the upper class, always emphasized the importance of nonviolence and peaceful reform. During those first decades the main adversaries of the social democrats were the conservative groups and the king. It was, however, a conservative government which in 1909 obtained the first extension of the right to vote in parliamentary elections. A second similar reform was approved almost a decade later, on the proposal of a liberal-social democratic government. The very existence of this government, which the king had been forced to accept in 1917, in itself constituted proof that the monarch, and following him the country's conservative groups, finally accepted the parliamentary system. Sweden remained a monarchy, despite the fact that a few years later, in 1920, a government was formed for the first time solely from members of the Social Democratic Party, which in principle was a republican party. We can thus say that with the maintenance of the old monarchic framework the peaceful transition to a new form of government was completed.

II

The establishment of the "Swedish model"

The characteristics which are usually associated with the so-called "Swedish model" developed between the early 1930s and early 1970s. A very significant factor underlying developments during this period —a factor which of course should never be forgotten— was the existence of favourable economic conditions. Sweden —previously a poor country and a latecomer to industrialization— little by little grew wealthier by gaining markets where it placed processed industrial products based on a series of inventions and innovations developed around 1900 and on its possession of natural resources of great value, such as forests, mineral deposits and hydraulic power. In the years following the Second World War this economic power grew even more, for the country's industrial capacity remained intact. Sweden had been spared the war and Swedish products were needed for the reconstruction of Europe.

First, I will deal with Sweden's political stability during those decades. This stability was expressed primarily in the structure of the parties and in the relationships between them. At the time when the parliamentary system was established in Sweden five political streams were represented in it. The remarkable fact is that this same five-party parliamentary structure was maintained practically unchanged until the general election of 1988, a year in which a sixth party managed to enter parliament. Three of the five parties to which we referred initially were non-socialist and generally described themselves as bourgeois parties. They were the Conservative Party, long known as the Right and originally skeptical of parliamentary government and of universal and equal suffrage as a method for electing both chambers; the party of the liberals, currently called the Popular Party with which the social democrats collaborated at the beginning of the century; and lastly, a party created by farmers, long known as the Peasants League and today as the Centre Party. Two of the five parties initially mentioned were socialist, namely, the Social Democratic Party and the Communist Party, the latter originating in a split in the Social Democratic Party at the end of First World War. The sixth party is an environmental party called the Greens, which succeeded in entering parliament barely a year ago, taking its place alongside the other five parties.

The Social Democratic Party has always been by far the largest political party in Sweden. In the 1932 general election, which preceded the long period of social-democratic government, the party obtained only 41.7% of the votes cast. In the elections held during the next four decades the Social Democratic Party always obtained higher percentages. Six times it obtained more than 50%, winning majority electoral support on its own. The Communist Party's support has always been limited, except on a few occasions, with a usual share of 4-6%. Electoral mobility has always been greatest among the three bourgeois parties. For example, the Conservative Party was the largest bourgeois party between the two world wars, the liberals dominated the bourgeois field in the first decades after the Second World War and the Centre Party during the 1970s. In general, the electoral share common to each of the three bourgeois parties has oscillated between 10 and 20%. Owing to its parliamentary power, the Social Democratic Party —with the exception of 100 days in the summer of 1936— held uninterrupted power during the decades in which modern Sweden was being formed, although it was not always the sole party making up the government. Between 1936 and 1939 the social democrats governed in conjunction with the agrarian party, and during the Second World War, they established a government of national unity with the three bourgeois parties, from which the communists were excluded. Finally, in the 1950s the social democrats governed once again, this time for six years, in coalition with the Peasants' League, rebaptized that decade as the Centre Party. The governments in which the Social Democratic Party ruled alone were not always majority governments. Frequently it found itself in a parliamentary minority, dependent upon the support of other groups for approval of its proposals.

An additional manifestation of Sweden's political stability is that not only has the Social Democratic Party been the governing party for so long, but also that it has managed with so few leaders throughout its history. Hjalmar Branting, its first leader, was succeeded by Per Albin Hansson, who was Prime Minister from 1932, when the social democrats returned to power, until 1946, when he died suddenly of a heart attack. Per Albin Hansson was succeeded by Tage Erlander, who in turn was party leader and Prime Minister uninterruptedly between 1946 and 1969, a record period of 23 years. Tage Erlander was succeeded by his close collaborator, Olof Palme.

Next, I will refer to the high degree of collaboration and consensus which has characterized political development in the construction of the modern Sweden, although this did not exclude serious disagreements at times between political parties. I shall return to that point later. What it is important to point out is that the Social Democratic Party, as the party of government, managed to agree on various topics and issues with one or more opposition parties. We are not referring exclusively to those issues which often command co-operation between parties, as in the case of foreign, defence and constitutional policy, but also to those very topics which involved major steps in Sweden's development towards a vast and advanced Welfare State.

This began six months after the Social Democratic Party came to power in 1932, with what in Swedish politics has come to be called the agreement before the crisis. Industrial unemployment was high and the peasants were obtaining low prices for their products. The social democratic government and the agrarian party agreed in parliament on an extensive anti-crisis programme, consisting of the creation of new sources of jobs by means of public funds and various forms of protection and support for agriculture. During the years that followed various social-policy programmes were adopted one after the other, frequently involving measures based on the general idea that everyone should benefit from them, regardless of individual income levels. These measures were usually financed from taxes. The objective of these programmes was to establish a veritable network of protection around the citizens. The term "Home of the People" coined by Per Albin Hansson was intended to symbolize the objective of the struggle: that people should feel as safe in society as they did in their own homes.

This social-reform work was continued and accelerated in the postwar period. A persistent effort was made to keep unemployment low, decisions were taken to provide free medical care for virtually everyone, pensions were improved, etc. Subsequently this social-assistance effort gradually changed in nature, becoming less a fight against poverty and more an increasing response to the growing social demands for different types of services and goods. Despite having already obtained a basic level of social security, the people continued to demand new benefits from the public sector. Contrary to expectations, the demands intensified. At the same time as the standard of living gradually increased there were demands for better housing, better public health, better schools and universities, better roads for automobiles, better assistance for regions with problems, etc. The public sector, responsible for financing and administering these activities, thus grew constantly and accounted for an ever larger share of GNP. Tage Erlander, true symbol of this successive enlargement of the public sector, coined the phrase "the strong society", which to a certain extent replaced the earlier slogan "Home of the People". This vast social-welfare system, financed in principle from taxes, which was mostly but not exclusively constructed within a context of political unity, constitutes a very essential part of what has been called the "Swedish model".

Another element usually included in the concept of the "Swedish model" is the set of relationships which make up the labour market. During the period in question these relationships were also characterized by a high degree of collaboration between employers and employees, between capital and workers. Both sides were extensively organized, a factor which facilitated the conclusion of various agreements, the 1938 Saltsjobaden Agreement being the most important.The agreements were aimed at promoting calm and efficiency in the labour market. In this way, capital could count on a highly skilled labour force and the workers in return obtained relatively high wages. When situations arose in which companies went bankrupt as a result —among other things— very high wage levels, the State intervened with an active policy for the labour market, designed both to refrain and to relocate the affected workers. These relatively smooth relations between capital and labour also reached a peak in 1960, when leaders of the Swedish Employers Association (SAF) and the Swedish General Confederation of Workers (LO) undertook a joint international tour, speaking on the situation of class collaboration in Sweden.

The tensions and disagreements which also existed in Swedish political and social life during this period —often described as a golden era in Sweden's history— had to do with long-term ideological issues, as well as frequently with concrete and immediate economic-policy issues.

The social democrats portrayed themselves as socialists, while at the same time, renouncing in everyday politics any concrete ambitions in that direction, at least as this is usually understood by other similar parties, such as for example the nationalization of natural resources, industry, banking, etc. Social ownership was not defined as an objective in itself, and industry remained essentially in private hands. Nevertheless, there was a tendency —by means of various mechanisms— to discipline capital, combat capitalist distortions and excesses, confiscate profits, etc. For their part, the bourgeois parties reacted with mistrust to assurances by the social democrats that they did not seek to nationalize industry. Every so often they mounted public campaigns, attributing vast socializing ambitions to the social democrats, accusing them in particular of seeking unnecessary regulation and control of the industrial sector, and protesting against the unjustified appropriation of the sector's profits. For example, at the end of the 1940s, there was a major political debate over what was understood by economic planning, and 10 years later, at the end of the 1950s another fierce political battle was fought, this time over a specific social-policy issue, i.e., the proposed supplementary "pension" —something which at first glance might appear surprising. The enormous controversy arose partly because this proposal contained elements which increased the degree of State influence on industry, which would have to pay contributions to publicly administered pension funds.

Current economic-policy issues continuously unleashed quite awkward disagreements between the government and the opposition. These tended to be particularly acute when taxes and their increase and purposes were involved. The social-democratic representatives argued in favour of income, property and the sales taxes, and in addition frequently proposed increasing these taxes as means of financing the public programmes previously approved by majority agreement among the parties. Although with varying intensity, the non-socialist parties tended to accuse the social democrats of underestimating the dynamic effects of a taxation system which imposed a lighter tax burden and of deliberately promoting a "socialization" policy which, by taxing profits, directed resources towards the public sector, which could then redistribute the available resources among the citizenry.

There is a question which is often asked by the non-Swedish public, about the period in question. How was it possible for one party, the Social Democratic Party, to dominate Swedish politics for such a long period and in such an effective manner? Part of the answer has already been given. The Social Democratic Party was reformist and pragmatic in outlook and instead of pushing proposals which could awaken fears, concentrated basically on those reforms which could command the support of broad majorities. However, there are also other factors which help to explain the durability of the social democrats in power. The party was able successfully to sidestep those issues which often generate splits in other socialist parties. We are referring to such matters as the importance and scope of socialization measures, defence policy, international relations, and the attitude to be adopted towards military blocs and other systems of alliance. The most difficult internal conflict faced by Swedish social democrats during this period was indeed in regard to an issue of defence policy, i.e., whether Sweden should acquire nuclear weapons, for whose development the country had sufficient technical know-how. At the end of the 1950s and beginning of the 1960s, the party resolved —after successive postponements of the issue— not to add nuclear weapons to Sweden's already strong defences. Another explanation of the strength of Swedish social democrats, is that they have managed to maintain a very close relationship with the trade-union movement, although party-union relations have not always been free of friction and tensions. The behavioural pattern of Sweden's electorate was also for a long time consistent with the class structure and therefore quite stable. A very sizeable part of the social-democratic vote continued to come from manual workers, even though during the 1950s the party had already begun to gain support from white-collar workers. Lastly, up until 1970 Sweden had a constitution which to some extent favoured the social democrats. The indirect mechanism for election of one of the two chambers —in principle equal in their powers— automatically gave a large party such as the social democrats a number of additional advantages.

III

The "Swedish model" questioned

In the 1970s and 1980s, the political temperature in Sweden rose several degrees, higher than it had usually been during the four previous decades.

The formal conditions of political activity had changed. A new constitution had replaced the one which had been in force in its essentials since 1809. The most important constitutional changes were made in three areas: first, the parliament, previously divided into two chambers, was replaced by a single-chamber system; second, the existing proportional electoral system was replaced by another and very much tighter one which guaranteed all parties obtaining at least 4% of the votes cast parliamentary representation identical in percentage terms to its electoral support; lastly, elections to parliament and local-government bodies, previously held every four years and separately, were now held simultaneously on the same day and every three years. All of this helped to dramatize Swedish politics.

Inter-party relations also changed somewhat. The three bourgeois parties which had often gone their separate ways now showed greater willingness for and success in collaborating with each other. The two socialist parties also developed better relations, although they remained unable to organize a regular system of collaboration. The Social Democratic Party remained by far the largest party although with a somewhat lower average vote than in preceding decades. The almost permanent control of the government by the Social Democratic Party since 1932 was broken in 1976, and the three bourgeois parties formed a coalition government with a succession of various types of bourgeois ministry during the next six years. The social democrats, however, were able to regain control of the government in 1982. The modification of party relationships brought Sweden closer to the classical two-party situation although it maintained a multi-party political system: a bourgeois bloc opposing a socialist bloc. Recently, however, this kind of division of the political spectrum has once again begun to weaken owing to the arrival in parliament of the Greens, a new party and independent of the two blocs.

The dominant political figures in Swedish politics during these decades were also new faces. Olof Palme, who in 1969 had succeeded Tage Erlander as the social democrats' leader, remained leader for 16 years until that night in February 1986 when he was murdered in a downtown street in Stockholm. Ingvar Carlsson then became the fifth leader in the history of a party soon to be 100 years old. The most important political figure to emerge in the bourgeois parties during this period was Thobjorn Falldin, a farmer from the north of Sweden and leader of the Centre Party, who held office as Prime Minister for five of the six years during which the bourgeois parties had a parliamentary majority.

He has now retired from politics and returned to his farm.

During these two decades there emerged a kind of economic problem to which the country was unaccustomed. The oil crisis hit Sweden quite badly in view of the high degree of energy dependence of its industry. Furthermore, Swedish industry, which was heavily export-oriented, began to lose ground in the international market owing to its relatively high wage levels and growing competition from emergent new industrial nations. Central areas of Swedish industry, for example shipbuilding, had in fact to be closed down as a result of the conditions then prevailing in the international market. For some years the economic growth rate declined or came to a complete stop, inflation was quite high and budget deficits arose which were partially financed by foreign borrowing.

These problems in the Swedish economy basically emerged during the six years of bourgeois majority, although of course they cannot be attributed exclusively to the measures adopted by the bourgeois governments. The situation improved somewhat after the return to power of the social democrats in 1982. They drastically devaluated the krona and also adopted measures to stimulate employment. Swedish industry, which had transformed its structure in important areas, began to regain ground in the international market, and the external debt contracted earlier in order to finance the budget deficit could begin to decline. Full employment was restored, industry was allowed to accumulate large profits and at the same time public spending was curbed. Above all, this development in Sweden, often called "policy of the third way", coincided with a more favourable world economic trend.

The content of politics also took on a somewhat different character during these decades, with the emergence of issues which implied —or at least so it was supposed— a direct questioning of the system, resulting in a reinforcement of the political division into two blocs. At the same time sharp disagreements arose on totally new issues which cut across the political spectrum.

One issue which many saw as transforming the system was the "wage-earner funds" proposed by the Social Democratic Party and developed originally in the trade-union movement. The proposal was to transfer part of the profits of enterprises of a certain size to special funds for each branch of industry whose management boards would have a majority of wage-earner representatives. The advocates of the proposal usually represented it as a third step in the struggle of the workers' movement to transform society: the first step had been the conquest of political democracy and the second the establishment of a Welfare State. Now at last the average citizen —the wage-earner— would be a co-owner of capital. Opponents of the proposal vociferously, accused the social democrats of having abandoned their earlier pragmatism, of showing their true colours and of wanting to establish a new and dangerous modality of socialism in Swedish society. The proposal which was finally approved in 1983, after much discussion and handwringing, nevertheless constituted a very diluted version of the original design. Since then the debate —previously so heated— has gradually cooled.

Another issue regarded as having transformed the system was raised by the bourgeois side, particularly by conservative groups. They levelled strong criticism at the public sector which, after the record years of the Swedish economy in the 1960s, had continued to grow, reaching a level of over 60% of GNP in the early 1980s. The criticism was of the size of the public sector itself, i.e., of the enormous amount of money which it handled and distributed among various groups of citizens and the large numbers of public employees. Furthermore, there was also criticism of the ineffectiveness and in flexibility of the public sector, due —it was argued— to its monopolistic position. The criticisms were accompanied by demands for reduction of the public sector and privatization of some of its activities. The social democrats, who felt responsible for the construction of this vast public sector so characteristic of Swedish society, reacted by branding such demands as a direct attack on the social-welfare system. However, this did not prevent an intense debate in the 1980s within the Social Democratic Party itself concerning the various possibilities of changing the public sector's way of operating.

Simultaneous with the development of this kind of conflict, which tended to deepen the division of Sweden's political spectrum into

Right and Left blocs, controversies also arose outside the framework of this traditional Left-Right arrangement. The issues involved can often be ascribed to another category, that of development and non-development. Here a different alignment tends to be produced, with conservatives, liberals and social democrats on one side and the Centre Party, the communists and the Greens on the other. The problems arising from the tension between these two poles —development versus non-development— may in some cases also divide an individual party; this is especially true of the Social Democratic Party. Where this kind of problem is concerned, the issue which has stirred the greatest interest in Swedish politics is the issue of nuclear power. Sweden has, thanks to its own comparatively successful technology, a considerable number of nuclear power stations in use. A referendum on nuclear power in 1980 prompted parliament subsequently to adopt a decision on principles which provided for the gradual elimination of the use of nuclear power, a process which must conclude by 2010 at the latest. However, the issue is and will continue to be a source of tension and disagreement about the rationality of such a plan to abolish nuclear power. Two issues have recently moved to centre stage in the political debate. Both are to some degree connected with the above-mentioned alignment (development versus non-development) and cut across traditional political blocs. We refer in the first place to Sweden's relations with the European Community, which, will of course be entering a new phase of development from 1992, and secondly to the possibilities of carrying through a fundamental tax reform in Sweden.

It is time now to sum up Sweden's development during the 1970s and 1980s. To some extent the Swedish model, as developed during the decades immediately following the Second World War, has been coming under question in this latter period. The country's vast welfare system has begun to show certain shortcomings. Some sectors such as education and health seem to be functioning less efficiently than before, providing services regarded as substandard. The labour market has also undergone changes; the big trade-union organizations have been unable to negotiate workers' wages centrally and as effectively as before, giving rise to labour strife on many occasions.

However, these and other changes in what have been understood to be the fundamental characteristics of the "Swedish model" can hardly be interpreted as the beginning of the open abandonment of the model. In principle the extensive welfare system remains intact despite the deficiencies mentioned. Labour-market conditions are still characterized in many respects by calm and collaboration despite the tensions caused by the "wage-earner funds" and the more frequent labour conflicts. Lastly, there is still much collaboration and consensus on the way to conduct politics, which is precisely the aspect of Swedish society which I have undertaken to describe. And all of this despite the changes which have occurred during the last decades as a result of the new constitutional arrangements, the new relationships in the structure of the parties, and the emergence of a new type of problem. In general, it is my impression that the current political climate in Sweden is beginning to resemble —more closely than in the late 1970s and early 1980s— the climate characteristic of the first postwar decades. Once again the debate has turned less ideological, and the division of the political spectrum into two openly opposed blocs would today appear to be less marked once again, with the pragmatic tradition of co-operation prevailing in Sweden.

Comments on the paper by Professor Olof Ruin

*Adolfo Gurrieri**

The paper presented by Olof Ruin invites comment on very diverse aspects of Swedish and Latin American political development. I would like to concentrate on the question of the initial political conditions which made the transformation of the Swedish economy and society possible. This transformation, which began in the 1920s, is of special interest in that it managed to combine economic development, equity and democracy right from the start, without sacrificing any one of these objectives in favour of the other.

From this point of view, the overriding questions are: what were the initial political conditions which made it possible to realize the Swedish model? What conditions explain how the balance of power in Swedish society in those years could have brought such a transformation about and how could it have taken place without violent upheavals?

I will attempt to suggest some replies to these questions, as a way to stimulate additional comments from Olof Ruin and, of course, to raise some political issues which are of special interest to Latin Americans.

The *first condition* warranting examination is one which explains why the Swedish economic élite accepted this transformation, which did not coincide with its doctrinal outlook, or with its immediate interests. Doubtless the political lucidity of some of its leaders had an influence on their acceptance, but I think it would be erroneous to suppose that this was the main factor. Instead, I suspect that there were other factors which had a decisive impact.

First, this acceptance was spurred by a feeling of being under threat from popular pressure from within Swedish society and from what was happening in some nearby countries in those years; the events in the Soviet Union and Germany must have convinced the economic élite that there was much to lose if it did not adopt a flexible position.

Second, the armed forces did not seem willing to repress this popular pressure on any large scale and to wreck democratic institutions.

Third, the economic élite did not have the possibility in those years of evaluating its interests and manoeuvreing within the broad framework of the international economy, but instead saw itself obliged to decide its destiny within the confines of its national society.

A fourth contributing factor was a weakening of the electoral power of the parties of the Right and the élite's lack of confidence in its own proposals for coping with the crisis of those years.

Finally, the alternative proposal offered by the Social Democrats did not imply the elimination of the economic élite, but rather a restructuring, in which the élite would occupy an important position.

The *second decisive political condition*, second on my list but not in importance, was the existence of forces capable of serving as a social support for the transformation proposal. Three features of the two main social forces (the Social Democratic Party and the trade unions) should be highlighted:

a) their political strength;
b) their capacity to propose and promote a proposal which covered the whole of society, i.e., which was neither a sectoral nor a corporative proposal, but a national one;
c) their pragmatism which allowed them successfully to perceive where the point of intersection lay between the maximum that their opponents were willing to concede and the minimum that they themselves were willing to demand.

*Director of the ECLAC Social Development Division.

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The *third decisive political condition* was the prior existence of democratic institutions. Naturally, it was not just a matter of the democratic institutions providing a forum for negotiation and agreement, but rather, and primarily, of the existence of a democratic attitude among all the actors; this attitude implies a respect for one's political adversary and the conviction that inevitable conflicts of interest should be resolved through negotiation between the parties. This democratic attitude benefitted from the existence of solid national unity rooted in a homogenous population in which there were no major ethnic or religious antagonisms.

Lastly, I would like to mention a *fourth condition*, which is directly linked to the way in which Sweden dealt with its peasant problem. A very important role in the Swedish political process, has been played by the significant group of small and middle-sized peasant landowners, with a concomitantly weak aristocracy or agrarian oligarchy. As Professor Ruin points out, the alliance between the Social Democratic Party and the Peasant Party in the 1930s constituted one of the bases of the transformation.

But, in addition, when the expansion of commercial farming in the nineteenth century created a rural proletariat in Sweden, international emigration provided a safety valve; between 1860 and 1910 around 20% of Sweden's population emigrated to the United States, easing rural poverty and the economic and political problems it would have caused. The way in which the Swedish peasant problem was resolved doubtless had an influence on both the content of the transformation and the non-violent nature of its evolution.

A comparison of these initial political conditions of the Swedish experience with those currently existing in Latin America provides some interesting material for debate; but it is always dangerous to generalize about a region such as Latin America which contains very different national situations.

First, it is my impression that the predominant economic élites in Latin America today are much less inclined to accept a deep transformation combining development, equity and democracy. There is no doubt that, in general terms, they feel threatened by mass pressure and political violence, but at the same time they feel they are in a good position to defend themselves against this pressure. On the one hand, there is the possibility of repressing it by force; military coups that restore the *status quo* are an ever-present threat in Latin American politics. Furthermore, they are convinced that they know the only way out of the current economic crisis (the neoliberal proposal). Lastly, their transnational nature and their ample access to the international economy give them much greater room for manoeuvre than they would have if they had to decide their destiny within the narrow confines of a national State. Under these circumstances the economic élites of Latin America tend to adopt a rigid stance unfavourable for transformation on the basis of consensus.

Second, Latin America has traditional political parties with popular roots which could provide the political support for transformation, but their performance in recent years has been quite disappointing. In some cases they are already so enmeshed in the *status quo* that they cannot serve as the instrument of its transformation; in other cases, when they wished to transform their situation —and could have done so, at least at certain strategic moments— they did not know which way to turn.

The latter point seems to me of utmost importance: there is no viable transformation proposal articulated as an alternative to the neoliberal one and serving as a reference point for parties and movements struggling to bring about the transformation; this doctrinal vacuum has contributed to the failure in recent years to seize some decisive historical opportunities.

In addition, unfortunately, the trade-union movement in Latin America is very much weaker than it was in Sweden. Of course, there are structural factors connected with the heterogeneity of the labour force in our countries which have hindered the movement's development, but in recent years the disruptive force power of unemployment caused by the crisis and the repression by authoritarian governments have aggravated these factors. In the few cases in which the trade-union movement has been able to consolidate itself as a stable political force, it has tended to adopt corporative attitudes which weaken its influence at the national level.

Third, the Latin American peasant problem has not been resolved or has been poorly resolved, with the expulsion of population from the countryside to the cities. Unlike in Sweden, land-ownership is heavily concentrated, and there is considerable rural poverty in many countries, as well as urban poverty which already affects the majority and is increasing.

As is known, owing to the combined effect of population growth, trends in the age structure and changes in participation rates, the economically active population will continue to grow substantially in Latin America in coming decades, creating a tremendous problem with regard to its absorption in a productive manner. Some countries have had recourse on a growing scale to international emigration, but it is obvious that Latin America will not have the same safety valve as Sweden had in the latter part of the last century.

Fourth, the existence of very unequal societies, in which there is greater rigidity at the top combined with an increasingly dissatisfied and mobile base, does not provide a suitable foundation for consolidating the institutional mechanisms and democratic attitudes which favour consensus action for transformation; moreover, several of our societies have marked ethnic and cultural inequality in addition to this deep socio-economic gulf, in contrast to the homogeneity and national unity seen in Sweden.

For all these reasons it is my opinion that difficult times lie ahead for those in Latin America who attempt to implement strategies which combine economic development, equity and democracy; and I would not be surprised if the prolongation of the crisis caused the sacrifice of equity and democracy in favour of economic growth and political order.

Sweden and Latin America: comments on the paper by Professor Olof Ruin

*Francisco C. Weffort**

Is there such a thing as a "Swedish model"? The term is used several times in Professor Olof Ruin's paper, "Political Development in Sweden". Anyone who talks of a model admits the possibility that proposals based on the historical experience of one country (or countries) may be applicable to the experience of another country (or countries). And anyone who is familiar with the history of Latin American thought and politics knows that, in this sense, the idea of a "model" can prompt interesting —and at times disquieting— reactions in the minds of Latin Americans.

Of course it is always a matter of perspective. We always talk from the vantage point of the place where we are. Thus, in this case I shall always consider Professor Ruin's description of Sweden's political development from a Latin American point of view. Is there a "Swedish model" of political development for Latin Americans? This question has to be reworded. What can Latin Americans learn from Sweden? What should they regard as applicable and what as inapplicable to their circumstances?

I shall divide my comments into two parts. In the first part I will point out the historical and structural differences between what Professor Ruin tells us about Sweden and what we know about Latin America. It seems to me that these differences counsel Latin Americans against adopting a "Swedish model" (except perhaps in countries such as Costa Rica and Uruguay).

In the second part, I shall call attention to the similarities. These are not similarities in historical experience which allow us to take Sweden as a "model". I prefer to treat them as convergences, possible similarities of direction between what occurred (and is occurring) in Sweden and what, with much effort and good luck, could occur here. It is a question of general political principles and approaches which I think Latin Americans should adopt. In the event that they have already been adopted, they should be supported by all Latin Americans who seek to consolidate political democracy, economic development, cultural and social modernization and a more just and freer society.

I

The differences

I limit myself to five points.

First: Unlike Sweden, Latin America does not have a parliamentary tradition, which, according to Professor Ruin, helped to foster a more stable political development in Sweden. Sweden is a country with a monarchic tradition where, however, absolutism was always more moderate than in the majority of European countries. Professor Ruin says that since the mid-sixteenth century "alongside the king there was always a parliament". This came about because, although the monarch's power became quite strong during the transition from the seventeenth to the eighteenth centuries, the 1809 constitution was already characterized by a "balance of power between king and parlia-

*Professor at the University of São Paulo and researcher for the Centre for Studies on Contemporary Culture (CEDEC).

In this paper I seek to reflect my participation in the seminar on "Development, democracy and equity: the experiences of Sweden and Latin America" organized by the ECLAC Social Development Division in conjunction with the International Centre of the Swedish Labour Movement, held in Santiago, Chile, 29-31 May, 1989.

ment". From then onwards the parliament constantly changed, in the sense of offering institutional room for growing popular participation.

Latin America, in contrast, has a very deep-rooted presidential tradition. And many believe that the presidential system, with its propensity for plebiscites, has been a source of political instability and therefore of opportunities for the frequent recrudescence of authoritarianism in the region. In the nineteenth century —which in Sweden was the period of consolidation of the parliamentary tradition— the "unifying autocracies" referred to by Gino Germani were still in place in many countries of Latin America. And what followed, from the first decades of the twentieth century were oligarchic régimes of "restricted participation", and certainly still very far removed from European parliamentary democracies.

Second: Here we lack the independent peasantry which developed in Sweden from the early nineteenth century and which found institutional room for expression in parliament. Sweden, Professor Ruin tells us, "never experienced periods of open feudal serfdom". Latin America, although it was never feudal in the European sense of the word, was and remains seigniorial in many countries. We are the typical case of a continent made up of large landholdings with all the consequences that this implies for a social structure based on the relations of dependence between very large and very small landholders, and between owners and landless labourers.

The idea of a rural society where small and middle-sized landholdings predominate and generate an independent rural middle class, understood as a factor of stability in democracy, applies perhaps in the best of cases to some regions within some countries. What still predominates, in contrast, is the model of large holdings, although it may be in decline in many places and undergoing intense modernization in others. Agrarian structural reform is one of the many failures of reformist policies in Latin America.

Third: Sweden is an example of the development of a liberalism which is not only political (institutional) in content but also social. Professor Ruin's description shows that the historical alliance —since early in this century when a modern parliamentary system was established in Sweden— between the working class represented by the Social Democratic Party and social sectors represented by the "party of the liberals, currently called the Popular Party", would not have been possible without the favourable ideological outlook expressed in the social nature of Swedish liberalism.

In our case, liberalism has been from its origins the ideology of the big landholders. It became consolidated in the majority of countries as an ideology in the style of the big landholders, i.e., in economical and social respects based strictly on the private, and politically very formalist and legalist. Consequently it was totally out of touch with the "social issue", in other words, with the claims of the working class and the social problems created by the development of capitalism, in particular industrial capitalism. As it is put by some liberals who are unhappy with the rigidness of their own traditional attitudes, we are the typical case of a political development in which claims for political liberty and claims for social equality have always been separate. In other words, here the liberals, especially those with rural ties, have nearly always been opposed to the interests of industrial workers. From this point of view, we represent the antithesis of the Swedish experience.

Fourth: By the end of the nineteenth century Sweden had already acquired the characteristics which were to convert it into a typical example of an "organized society". Parties, churches, associations (e.g., the anti-alcoholics league) in Sweden at the end of the last century prefigured the face of Sweden today. It was a society of organized and independent groups which —for that very reason— proved able to coexist and to make pacts with each other. In addition to the political alliances between workers and peasants (and between socialists and liberals), this capacity to make pacts was revealed in the Saltsjobaden Agreement of 1938, which initiated a period of lasting harmonious coexistence between employers and employees.

In Latin America the social and political relations which have prevailed since the end of the nineteenth century define us as societies composed of social groups endowed with a poor capacity for organization and independence. For example, from the viewpoint of the workers' social and political history the typical experience of Latin Americans seems to evolve from dependence towards conflict. We move from phenomena of mass dependence —exemplified by our various forms of populism in which co-operation between classes occurs at the cost of the autonomy of the people at the bottom— to the assertion of their independence in social struggles.

The increase of our organizational capacity increases our capacity for conflict instead of decreasing it. Perhaps the same argument is true for other social sectors, e.g., industrialists or bankers. That is to say, the more organized we become, the more difficult it is to make pacts. Perhaps this ratio between organizational capacity and capacity for conflict will change its sign in the future and foster new ground for agreement between classes. However, that must be a very distant future, for it would be an illusion to imagine that such a possibility lies just around the corner.

We might also speculate that if things go well for political democracy in the future, we will move closer to a United States "model" of society, i.e., conflict and independence at the economic and social levels, and guarantees of equality at the political-institutional level, rather than to a social democratic European "model". But since things do not always go well here for political democracy, the conflicts generated by situations of extreme social inequality, economic crises etc., run the risk of leading directly into mass violence and equally large-scale State repression.

That is the problem: we are not an "organized society" like Sweden or a consolidated democracy like the United States. While United States culture asserts that the price of liberty is the vigilance of the citizens over the State, here the price of the independence of a social group seems to be mistrust of other social groups. No reader of Hobbes should be surprised if this war of "all against all" in a civil society lacking the protection of a strong political democracy paves the way for the Leviathan of the authoritarian State .

Fifth: In the historical and social beginnings of the establishment of a parliamentary system and then of social democracy Sweden experienced an extraordinary emigration which amounted to almost 20% of the population. This "relative overpopulation" which could not find employment in the patterns of the modern society then being built did find opportunities in other countries, especially in the United States. Most of the countries of Latin America have "relative overpopulation", but the excess simply has nowhere else to go. How can a society "organize itself" when its "normal" functioning presupposes the exclusion of such vast numbers of the population?

II

Convergences

The similarities, as I have already mentioned, are found not so much in the historical experiences as in the general principles of political behaviour and approaches. I wish to mention here four points of possible convergence.

First: Sweden's modern development has followed a historical sequence which is extremely attractive in the eyes of Latin American democrats and socialists. We are emerging from a long period of military dictatorships whose technocrats wanted us to accept the theory that it it first necessary to wait for the pie to grow bigger before it can be redistributed. The sad thing is that notwithstanding this theory and the dictatorships which inspired it, in several countries the pie has simply not grown. In others it has grown a little. And even in those cases where it has grown a lot there has been no actual redistribution.

Today we are witnessing a situation of stagnation in the majority of our countries which demands the identification of new avenues for growth. In such circumstances the Swedish case is extremely inspiring. It suggests that it is possible to *grow* and to *redistribute.* Although of course Sweden had various opportunities when it enjoyed favourable economic circumstances, which are the very ones lacking in current Latin American conditions, the Swedish experience of simultaneous growth and redistribution suggests the idea that redistribution, instead of being just the effect, could also be the cause of growth.

Second: Sweden's modern development began with *political democracy,* followed by *social democracy* and now *economic democracy* is expected. In other words, first come the political institutions (parliament, parties, etc.), then social rights (Welfare State) and redistributive economic policy, and, lastly, changes in the production structure designed to democratize economic life (e.g., wage-earner funds). It is in this area called economic democracy where the issues of the socialization of production have their place.

Despite the schematic nature of this sequence —which also applies to all these comments right from the start— it does bear some similarity to the situations today in various countries of Latin America. Although the topic of socialism is part of the Latin American debate, the fact is that economic democratization in the sense described above is beyond the reach of most of our countries.

But it is also true that in Latin America today, as in Sweden early in the century, the *starting point is political democracy.* It is likewise true that the next step in Latin America —which has to be taken soon if we believe in the need to consolidate political democracy— is *social democracy,* which means precisely the consolidation and extension of social rights and the achievement of a redistributive economic policy. From the perspective of the political democracy-social democracy sequence Sweden's experience provides an excellent example, despite all the differences already mentioned and whatever our idea of the prospects for economic democratization (or socialization).

Third: Latin America may also be able to find a point of convergence with the Swedish experience in terms of the actors and social forces promoting these changes. Unlike other European countries which relied more on their bourgeoisies and middle classes, Sweden's democratic development was based essentially on the industrial working class and the peasantry. In other words, on what in Latin America we include under the generic heading "popular classes".

From what is known of the historic experience of countries such as Uruguay, Argentina, Brazil, Chile and Mexico, it seems clear that the future is reserving a fundamental role for the popular classes in the development and democratization of Latin America. We are in a region in which, according to Weber's classic formulation, the traditional classes are *no longer* able to lead society. And although it can also be argued that the workers and the "popular classes" in general are still unable to do so, it appears that they are drawing closer to that point as modernization advances and political democracy is consolidated; and even because modernization and political democratization have been increasingly used in the majority of our countries to denounce the shortcomings of our industrial bourgeoisies, conceived as national classes. Unlike those classes which are vehicles of important projects for the entire national society in which they themselves exist, our industrial bourgeoisies seem more apt to benefit from the State than to direct it.

Fourth: *Last but not least,* a note on a cultural factor which may prove decisive in relation to the possibilities for development of democracy and for advances in equality in Latin America. Sweden is a triumphant example of a political culture which believes in the possibility of reform, i.e., which believes in the possibility of gradually changing society. The issue of the significance of reform is today a decisive one for the future of Latin America.

After much mistrust of reforms many Latin Americans have come to value the "small advances" made in recent and indeed difficult times. An entire political culture which was used to the idea, globalizing in direction but at times with a totalitarian leaning, that everything has to change (or else nothing can be changed) was forced by the pressure of events to admit that even a small change is better than no change at all. It may be that this perception will move us more in the direction of the Swedish experience than towards any particular "model".

Maybe in Sweden this is called pragmatism. Here in Latin America the appreciation of "small advances" has a dramatic significance which must be well understood. A reform policy must contain more than the element of calculation and cynicism which is usually attributed to pragmatism and it must be based on the conviction that not only is there no other way to advance but perhaps there is no other way to survive. For those who had to fight against State terror, several previously obscure issues became clear. For example, it became clear that *habeas corpus* is an essential "small advance". It was thus easier for them to understand that in countries in which millions and millions of people live in situations of dire poverty the responses to immediate problems, no matter how "small", may make the difference between life and death. Born out of major historical defeats of democracy and of the workers of Latin America, the conviction which underpins a policy of reforms in Latin America should mean the rebirth of hope for those who seemed to be condemned for ever to have no hope whatsoever.

Instead of a new pragmatism, perhaps the dramatic conditions of Latin America will create a new moral basis for establishing a policy of reforms. Despite my ignorance of Swedish history, I am convinced that in this respect Latin American socialists and democrats find themselves very close to the situation of the socialists and democrats in Sweden during the transition from the nineteenth to the twentieth century and to all those who are able to understand the meaning of their struggle. They were the source of a "new beginning" for human history in that part of the world. And that is precisely what is being attempted here.

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The incorporation of women in development policies

*Cecilia López M.**
*Molly Pollack E.***

There is an obvious imbalance between the magnitude of women's contribution to Latin American and Caribbean economies and the scope of actions and policies aimed at women. The same imbalance is seen between women's contribution and the benefits they receive through their participation in regional development.

This article analyses the lines of research and action concerning women undertaken in Latin America and evaluates the results. In the final section some proposals are made regarding, on the one hand, the identification and elimination of barriers to the integration of women in development policies. On the other hand, it is also pointed out that changes are required in the services offered by the State so that the volume, nature and specifics of women's work can be taken into account.

*Director of the Regional Employment Programme for Latin America and the Caribbean (PREALC).

**Responsible for the PREALC project on Women and Development.

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Introduction

The topic "Women and Development" is an especially complex one to deal with if the aim is to make a contribution which will facilitate the effective and permanent integration of more than half of the population in development planning. During past decades, and especially during the Decade for Women, numerous research projects, policy proposals and diagnoses have been produced and to some extent they have laid the foundations for the beginning of this new phase.

Two stages can be distinguished in the process of women's integration in development. In the first the effort focused on improving their status as beneficiaries of the process. In the second the emphasis was on the design of policies to incorporate women as participants, i.e., as agents of development. However, the problem is not that women are not integrated, but rather that the manner of their integration translates into a loss of resources for society as a whole, and this in turn gives rise to a delay in meeting the proposed development targets. In effect, women participate in nearly all activities of the development process, they benefit from it to some degree and, also play a leading role in it. The problem lies in the imbalance between their contribution and the benefits they receive, an imbalance which is even greater if their potential contribution is compared with their actual benefits.

The reasons why women have not enjoyed the fruits of development to the same degree as men have been very well summarized in the report of the seminar on women and development organized by the United Nations Joint Consultative Group on Policy (JCGP) and held in New York in December 1986. The following are among the main reasons: i) women are not included as a target group in development projects since it is taken as given that they will benefit by a trickle-down effect, once development reaches men; ii) traditional strategies for reaching women have proven inadequate, because no methodologies exist for reaching the poor, which is the sector where they are mostly concentrated; iii) development efforts aimed at women have been essentially channelled through specific projects for women or through the inclusion of "components for women" in projects, which have failed owing to the lack of connection between the proposed activities and the macroeconomic policies implemented; iv) governments have been unable to allocate sufficient resources to achieve the objective of women's complete integration in development; v) the situation of women has not been recognized as an issue warranting concern in studies on the repercussions of macroeconomic policies on growth (JCGP, 1986).

In order to tackle the third and last stage of the process of women's integration in development, it is of utmost importance to identify the magnitude of the problem, and this is taken up in the following section. The other sections examine the general research guidelines and actions concerning women undertaken in Latin America. The purpose is to determine whether women have been reached efficiently and, if not, to detect the failings. Lastly, some proposals are made for progress into a new era which will enable women to participate in an effective and permanent way in the benefits and contributions entailed by true development and, in particular, to be involved in the decision-making process.

I

The situation of women

During the last three decades the participation by Latin American and Caribbean women in economic activity has greatly exceeded the levels expected in the light of observed historical trends. In the last 30 years the number of economically active women has grown by 120.2%, which is far greater than the total growth rate of economically active women in the world (ILO, 1980).

In 1950 women accounted for 17.9% of the region's labour force and this figure will rise to 27.5% in 2000 (IDB, 1987). During this period the male labour force will have doubled and the female tripled.

This means that at the end of the decade the region will have 55 million women in the labour market, of which some 22 million will have been incorporated between 1980 and 2000. The issue of women is certainly taking on a different dimension today.

There is consensus on the causes of such radical changes in the Latin American and Caribbean labour market and also on the fact that the massive incorporation of women in the labour market has not been the result of explicit policies in the matter. A study carried out by ECLAC in 1986 recognizes that many of the achievements were rather the result of exogenous processes than of strategies specially designed to give women a share in the benefits of development (ECLAC, 1986). In fact, the processes of change which favoured women in the areas of health, education and welfare had begun before the launching of the Regional Action Plan approved in Havana in 1977, which represented a growing awareness at the Latin American and Caribbean level of the need to secure the participation of organizations and governments in support of women's integration.

The following are some of the phenomena normally cited in explanation of the greater participation of women in the labour market (Berger and Buvinic, 1988):

a) Urbanization, which has meant a migration of women to cities many times higher than that of men. The increase in poverty in rural areas has given rise to rural-urban migration and, given the division of labour by sex, a pattern has emerged according to which, for example, it is preferable for daughters to migrate first, and then sons;

b) Technological change which has meant that domestic work can be performed for the market;

c) Education, which by being available without discrimination has provided women with better work opportunities;

d) The ever greater need for households to have more than one income;

e) The trend for a greater percentage of households to be headed by women as a result of migration and new family-organization patterns. This has been accentuated by the feminization of poverty, which was intensified by the economic crisis and the adjustment process. According to an ECLAC study based on household surveys in 1982 in five Latin American cities, women headed between 18% and 38% of all households, with the highest rates found among the lowest income groups (ECLAC, 1984);

f) Family planning. The wider dissemination of birth-control methods, together with other factors (emigration, increased poverty levels, etc.), has resulted in declining birth rates.

In fact, all these factors boil down to two processes which have interacted at different times and with varying intensity during past decades: education and poverty. The first, i.e., the massive incorporation of women in the education system, acts in two ways: on the one hand it encourages women's participation in economic activity by providing them with opportunities for better-paid jobs, but on the other hand, by reproducing traditional roles, it puts women in a subordinate position *vis-a-vis* men. The second process, i.e., the deterioration of real household income levels as a result of the eco-

Table 1

PARTICIPATION RATES IN ECONOMIC ACTIVITY BY LEVEL AND SEX

	Total	Households		
		Indigent	Poor	Non-poor
Costa Rica (1979)				
Total	54.1	-	-	-
Men	80.1	-	-	-
Women	28.2	-	-	-
Costa Rica (1982)				
Total	56.7	61.1	51.4	63.1
Men	77.5	78.9	74.4	82.7
Women	36.4	40.9	29.8	44.0
Venezuela (1978)				
Total	63.0	50.9	51.1	65.1
Men	86.8	65.6	77.4	88.6
Women	38.1	38.4	27.5	39.9
Chile (1979)				
Total	49.2	45.7	46.3	53.0
Men	70.6	68.8	68.2	73.3
Women	29.9	25.2	24.8	34.7
Chile (1984)				
Total	50.4	48.9	49.1	54.0
Men	70.4	72.0	70.3	71.1
Women	32.4	28.6	29.2	38.1
Peru (1982)				
Total	53.5	43.2	50.9	56.8
Men	71.7	61.4	71.9	73.9
Women	36.5	28.9	30.5	40.4

Source: Pollack, Molly, *Pobreza y mercado de trabajo en cuatro países: Costa Rica, Venezuela, Chile y Perú.* (Poverty and the labour market in four countries: Costa Rica, Venezuela, Chile and Peru.) Working paper series No. 309, Regional Employment Programme for Latin America and the Caribbean (PREALC), Santiago, Chile, International Labour Office (ILO), 1987.

Table 2

UNEMPLOYMENT RATES BY LEVEL AND SEX

	Total	Households		
		Indigent	Poor	Non-poor
Costa Rica (1979)				
Total	4.5	-	-	-
Men	3.7	-	-	-
Women	6.9	-	-	-
Costa Rica (1982)				
Total	10.2	14.2	8.9	3.5
Men	10.3	14.8	8.7	3.0
Women	9.9	13.0	9.1	4.8
Chile (1979)				
Total	13.4	32.2	16.4	5.9
Men	13.1	30.1	16.0	5.0
Women	14.2	37.2	17.7	7.5
Chile (1984)				
Total	19.4	32.0	18.7	8.2
Men	18.4	30.8	15.3	7.2
Women	21.5	34.8	26.3	9.8
Peru (1982)				
Total	6.3	13.5	7.1	4.8
Men	4.7	10.1	4.6	3.7
Women	9.3	19.3	12.8	6.6

Source: Pollack, Molly, *Pobreza y mercado de trabajo en cuatro países: Costa Rica, Venezuela, Chile y Perú.* (Poverty and the labour market in four countries: Costa Rica, Venezuela, Chile and Peru.) Working paper series No. 309, Regional Employment Programme for Latin America and the Caribbean (PREALC), Santiago, Chile, International Labour Office (ILO), 1987.

nomic crises which have affected Latin American and Caribbean societies during the period, have forced women to overcome cultural barriers in order to find ways of generating income.

Thus, research on the relationship between the labour market and poverty carried out in some Latin American countries (Pollack, 1987) shows that women's participation in economic activity increases during times of crisis as a way of easing the impact of reduced household incomes. In Costa Rica and Chile this generally occurs at all income levels (see table 1). On the other hand, unemployment affects women with greater intensity than it does men, and the indigent and the poor more than the upper income groups (see table 2). Indeed, in the overall population unemployment in indigent households is three to six times higher than in non-poor households. The group most affected by unemployment consists of women from indigent households.

There are two sectors in which women's participation in the labour market reaches very high levels: the agricultural and the informal.

With regard to the first, FAO reports that in 1983, according to the most conservative statistics taken from agricultural censuses, 19% of rural women in Latin America and 54% in the Caribbean participated in the agricultural labour market (ECLAC, 1986). However, it is recognized that the census methods underestimated women's participation in primary activities.

The differences between participation rates obtained in the censuses and those obtained in household surveys range from 10% to 50%.

There is consensus as to the need for more accurate surveys, especially if the information submitted by the various countries, based on specific studies, points to much higher participa-

Table 3

WOMEN EMPLOYED IN THE INFORMAL SECTOR

(Percentages)

	Informal sector	
	Excluding domestic work	Including domestic work
Bogotá		
1982	21.5	48.7
1985	25.1	50.6
Caracas		
1982	14.7	37.5
1985	12.2	36.3
Panama City		
1982	13.1	35.4
1985	8.4	33.3
San José		
1982	12.4	28.8
1985	13.4	29.4
Sao Paulo		
1982	-	-
1985	14.9	32.9

Source: ECLAC, *Mujer, trabajo y crisis* (Women, employment and crisis) (LC/L.458 (CRM.4/6)), Santiago, Chile, 1988. Data obtained from special tabulations from household surveys for 1982 and 1985.

Table 4

EMPLOYMENT OF WOMEN NOT HEADS OF HOUSEHOLD IN THE INFORMAL SECTOR[a]

(Percentages)

	Total	Households		
		Indigent	Poor	Non-poor
Costa Rica[b]				
1982	35.4	65.3	46.4	31.4
Venezuela				
1978	45.1	50.0	83.1	40.8
Chile[c]				
1979	32.1	55.3	50.9	25.2
1982	25.9	54.2	36.2	21.5
1984	23.9	34.0	39.2	17.3
Peru				
1982	61.3	100.0	86.7	49.2

Source: Pollack, Molly, *Pobreza y mercado de trabajo en cuatro países: Costa Rica, Venezuela, Chile y Perú.* (Poverty and the labour market in four countries: Costa Rica, Venezuela, Chile and Peru.) Working paper series No. 309, Regional Employment Programme for Latin America and the Caribbean (PREALC), Santiago, Chile, International Labour Office (ILO), 1987.

[a] Estimated, since the figures refer to the employment of spouses who are not heads of household, the majority of whom are women.

[b] Secondary household members (spouses, children and others).

[c] Excluding wage-earners in small enterprises, since the figures reflect an underestimate of the percentage of persons working in the informal sector.

tion rates than those indicated in official sources (ECLAC, 1986). This is made even more necessary by the evidence that the crisis has resulted in a feminization of small-scale agriculture (Arizpe, Salinas and Velásquez, 1989).

With respect to the informal sector, some estimates based on household surveys in some countries in 1982 and 1985 reveal high participation by women in informal activities. According to an ECLAC study (ECLAC, 1988), in some cities of Latin America in 1985 the percentage of women employed in the informal sector, including domestic service, fluctuated between 30% and 50% (see table 3). On the other hand, the employment of women in the informal sector discriminates by household-income level, which increases as the poverty level rises. Table 4 shows that in four cities of Latin America the percentage of women who are not heads of household, belong to indigent and poor households and work in the urban informal sector is much higher than the percentage of women from upper-income households. In San José, Costa Rica over 65% of married women from indigent households with jobs are employed in the informal sector, but the percentage of working women from poor and non-poor households drops to 46% and 31% respectively. Something similar occurs in the other cases studied: Caracas, Santiago and Lima. In Lima 100% of married women from indigent households with jobs are employed in the informal sector.

II

Research and action

According to the above diagnosis, it can be said that the problem of women in the region is not their integration in the development process. The fact that at the end of the twentieth century there will be 55 million women in the labour market, besides the traditional contribution of women to the reproductive process and their important role within the family unit, is proof of their definitive insertion in the socio-economic processes of Latin America and the Caribbean.

The problem is different. Is this contribution efficient? Is this contribution valued? Has the status of women improved as their economic contribution increases? Do women benefit from government strategies aimed at the sectors in which they operate? Is there increased awareness of the new role of women in the design of policy strategies, given the advances made in the region in planning matters?

In general terms the reply is negative. This is confirmed by much research undertaken during the last decade (ECLAC, 1986) (Joekes, 1987) (Wilson, 1985) (Berger and Buvinic, 1988) (León and Deere, 1986). There is indeed a problem of integration, but it is definitely not a question of integration in development.

Various studies carried out in the region —many of which have been partial in their geographic coverage or in their scope— clearly support the conclusion that women have not been taken efficiently and realistically into account either in development strategies or in development policies.

1. *Research*

The volume of knowledge accumulated worldwide and from Latin America and the Caribbean on the subject of women, in particular in the last decade, cannot be rejected. It has made it possible today to identify with relative ease the magnitude of the main problems pertaining to women. Progress has also been made on what could be called the diagnosis of the capacity of the various strategies designed for dealing with these problems; this diagnosis has proven negative.

For example, the dire effects of the agrarian reform on rural women are known with some certainty. According to the conclusions of a study by Wilson, in the majority of cases of agrarian reform in Latin America and the Caribbean the number of women beneficiaries has been insignificant or, worse still, women have been excluded because the criteria for the allotment of land have given priority to men. Wilson attributes this exclusion to legal, structural, cultural and ideological mechanisms which derive from the formulation of strategies whose unit of action is the household or the nuclear family. The head of the family is of necessity the man, who in turn performs the remunerated agricultural activity, while the woman belongs to the category of worker as an unpaid family member (Wilson, 1985).

A second example is the restrictions established in credit policies. According to Lycette and White, women, especially in the rural and informal sectors, have had scant access to the resources of financial institutions, owing to restrictions relating to supply and demand. Among the main demand factors the authors indicate transaction costs, collateral requirements —in many Latin American and Caribbean countries women are still forbidden to own property in their own name— and social and cultural restrictions (Lycette and White, 1988).

A third example is the policies of rural technical assistance, or of technological modernization in general, which have shown an exiguous capacity for bringing about significant changes in the production methods of women workers. Research carried out by Boserup shows that agricultural modernization, far from improving the situation of women workers, heightens the differences in productivity between the sexes. However, technological innovation seems to have had positive effects, in the current modernization of the agricultural export sector, for a massive incorporation of female labour has been recorded (Boserup, 1970).

2. *Action*

Given the magnitude of their contribution to the Latin American and Caribbean economy, women are affected not only by actions aimed specifically at them but by all the measures directed at the sector in which they are employed. Two types of bias are observed in this. The first denies women's economic role and recognizes only their reproductive role. In this case, projects and programmes are focused on the family or on the man. The second accepts women's contribution, but denies the specific nature of women's work. If the objective is to obtain recognition for these specifics, it is essential for current strategies to be modified.

In their actions both institutions and specific projects aimed at women start off from the erroneous premise that there is a need to integrate women in development. Moreover, they then arrive at the simplistic idea that this integration is attained through more education, more health and more employment, in circumstances where the reality shows that women, especially poor women, contribute to the economy in the services sector, in agriculture and in trade, without access to education, health or formal jobs (López, 1988).

Added to this is the fact that governments and international agencies have been designing programmes for women focused more on welfare objectives than on development objectives (Germain, 1982). This has meant on the one hand that the efforts have been concentrated on improving women's status as beneficiaries of development and not as agents of development, and on the other hand that income-generating projects have not facilitated improvements in women's productive capacity because the majority of then have been assistance-oriented.

A third characteristic of these types of action is that they operate at the macroeconomic level and are carried out in an isolated and uncoordinated fashion. These efforts help to resolve specific problems of the handling of women's issues, but in practice their effect is as yet very limited.

III

A new era: women in planning

The imbalance is evident between the level of women's contribution to the economy of Latin America and the Caribbean and the scope of the policies aimed at them. Marginal and short-term strategies and biased global policies prevent increases in the efficiency of women's work, improvement of their status and that of their families, and productivity increases the sectors where they work. In the case of women, the imbalance between diagnosis and action means not only a very high economic cost but also an even higher social cost, since it delays the relief of poverty, which is the sector where the majority of women are found. To illustrate this point, table 5 shows that the percentage of households headed by women is much greater at indigent levels than at other levels.

Table 5

HEADS OF HOUSEHOLD BY LEVEL AND SEX

(Percentages)

	Total	Households		
		Indigent	Poor	Non-poor
Costa Rica (1982)				
Men	84.3	62.7	82.3	86.2
Women	15.7	37.1	17.7	13.8
Venezuela (1978)				
Men	88.3	63.7	86.4	89.4
Women	11.7	36.3	13.6	10.6
Chile (1984)				
Men	89.3	87.6	90.4	89.6
Women	10.7	12.4	9.6	10.4
Peru (1982)				
Men	88.5	76.7	90.3	91.3
Women	11.5	23.3	9.7	8.7

Source: Pollack, Molly, *Pobreza y mercado de trabajo en cuatro países: Costa Rica, Venezuela, Chile y Perú.* (Poverty and the labour market in four countries: Costa Rica, Venezuela, Chile and Peru.) Working paper series No. 309, Regional Employment Programme for Latin America and the Caribbean (PREALC), Santiago, Chile, International Labour Office (ILO), 1987.

However, neither research nor the experience gained through action have yet contributed enough material for the design of macroeconomic strategies with sufficient theoretical and empirical backing to locate women properly within the overall planning processes. The immediate, dispersed and fragmented nature of the majority of actions directed at women hinders the collection and integration of all the information and experience obtained in the region.

There thus arises a disjunction involving various risks: there is a delay until all these isolated efforts generate the appropriate conceptual framework, with the possible negative effect of delaying women's incorporation, or risks are taken and women are taken into account in planning on the basis of the available materials. The current and future volume of the female workforce, with its consequent economic contribution, and especially the need to reduce the level and intensity of poverty in the region, demand the immediate adaptation of macroeconomic policies. The issue is then reduced to determining who runs the risks.

By virtue of the political power they wield and the resources at their disposal, and because running risks is in their mandate, it is the policy-making authorities who must take the initiative.

1. *Positive factors for a new approach*

Among the numerous factors which could be mentioned there are two which support the definitive insertion of women in development planning in Latin American and Caribbean countries. The first is to make many of the region's Governments and important sectors of society aware that the relief of poverty cannot be postponed. The crisis of the 1980s which reversed the positive trends in economic and social variables during the last three decades generated a social debt for the whole region equivalent to 5% of GNP (PREALC, 1988). Moreover, not only did the level and intensity of poverty grow in this decade, but poverty also underwent feminization. In the design of strategies, therefore, women are indispensable, and the strategies have to be macroeconomic, integrated and long-term ones.

The other important factor is the growing awareness of this problem on the part of United Nations agencies. After a critical review of its role in this field during the last 15 years, it realized the need to support efforts aimed at women at the highest possible level of the planning process. There is a whole range of human and economic resources available to Governments and other organizations that wish to commit themselves to the effort of backing the launch of the new era. United Nations organizations should therefore provide incentives for policy-makers to devise a method of development planning which takes Latin American and Caribbean women into account in their full dimension (JCGP, 1986).

2. *Methodological steps*

Taking women into consideration in planning processes requires two kinds of adjustment of global policies which are complementary rather than exclusive. The first, which starts with a diagnosis of the degree of women's participation in economic activity and all the restrictions on it, consists in identifying and eliminating the barriers which obstruct women's access to policy measures. A typical example of these restrictions is the rural and general credit systems, in which a man's presence is a mandatory requirement in order for women to obtain financing. But without doubt, the largest structural barrier in the majority of policies is that they are aimed at the family unit, and this, as has been shown, excludes women.

The second adjustment relates to changes which have to be made in the services offered by the State in order to take into account the level, nature and specifics of women's work. These services must facilitate women's work and should not produce negative side-effects. Government training programmes for women in the rural and informal sectors are a typical case in point where this kind of change must be made. While ignoring women's true socioeconomic situation, Governments allocate substantial amounts of resources to traditional programmes which do not cater to women's production needs. Moreover, these programmes are scheduled at times which are incompatible with their other roles. Another important example is rural technical assistance, where women are offered technological alternatives which are better suited to men's production methods and impose difficult working hours which are unsuitable for women.

These two types of problem can be identified by using two complementary methods. The first is to make an analytical comparison of the realistic diagnosis of the situation of women with the situation implicit in government policies. The second is to review the content of the programmes and actions of institutions offering services to sectors in which women work (López and Campillo, 1985). The first method identifies structural barriers and the second indicates the operational changes needed to overcome them.

Once these two basic problems and the way of dealing with them have been made clear, the next step is to determine in which sector of global policy the process of taking women into account in planning should begin. It is still naive to expect changes in long-term macroeconomic policy. However, the conditions are present for this effort to be made in sectoral policies, especially in those aimed at the agricultural and informal sectors.

Income-generating projects, which are the traditional methods which Governments and international agencies rely on for incorporating women, have a dominant role to play in this new strategy. If the necessary adjustments are made, and with less welfare and more development, these projects could be either the seeds which multiply and thus justify the sectoral policy, or else laboratories where the implementation of macroeconomic decisions is verified or where necessary adjustments are suggested in the light of experience.

The factor which energizes these efforts is women themselves, who must be made aware and organized. Communication mechanisms between the State and the female users of its services should be regarded as a vital instrument for consolidating comprehensive and long-term strategies in an area in which sufficient experience has not yet been gained.

3. *Limitations*

There are three main types of problems which arise. The first and doubtless the most important is cultural in nature and has to do with the reluctance to view women's work as something natural, in spite of the magnitude of their economic contribution. This is reflected in policy design and implementation at the macroeconomic level, in the unwillingness of the State, its governors and sectors of society involved in this decision to accept the economic and social importance of taking women into consideration in development plans. For this reason, sectoral policies envisaging strategies suited to the specifics of women's work must enjoy political support at the highest level.

Given that institutions change at a slower pace than the situation of the societies in which they operate, the refusal to accept both women's contribution and the need to include them in institutional actions could be even more determined when it comes to actual operations. Only a clear political will and a massive information campaign based on irrefutable figures which rule out any denial of the facts can eventually succeed in increasing the flexibility of these attitudes which tend to be adopted when concrete actions are put into operation. This institutional obstacle could seriously jeopardize the success of this kind of initiative.

Finally, the concentration of women at the poorest levels of society constitutes an operational barrier which extends beyond the specific sphere of women. This barrier is connected with a limitation which is more structural in nature and consists in the failure to discover, up to now, how to reduce poverty. For this reason many sectoral policies which effectively introduce the modifications needed for the incorporation of women are necessary though insufficient conditions for making a definite impact on women's productivity and quality of life. Given a serious commitment to improving the status of women, it is then necessary to promote the design of strategies to relieve poverty. Otherwise, the planning efforts will only be able to reach women in the middle and upper levels.

4. *A final comment*

There is an obvious imbalance between the magnitude of women's contribution to the Latin American and Caribbean economies and the scope of actions and policies aimed at women. There is thus an imperative need to close the gap between this diagnosis and the action taken.

Among the numerous problems raised by the initiation of this process, there are two which are fundamental. The first has to do with the need to raise the awareness of Governments and of society in general concerning the true role of Latin American and Caribbean women and the high concentration of women at the poorest sectors. Many Governments hard pressed by the crisis of the 1980s still do not grasp the fact that women must be taken explicitly into account in development and survival strategies.

The second problem relates to the need to fill the evident vacuum in research, in order to ensure that policies are effective. The meagre knowlege of the employement of women in the informal sector, in addition to the spotty nature of the data which suggest a majority participation by women in informal activities, raises the urgent need for a more thorough understanding of the characteristics of women who work in this sector.

However, these obstacles may be finally overcome once the need is recognized to tackle the problem at the appropriate level. It can thus be said that the first bases have already been established for the incorporation of women in sectoral policies and thus for a start to be made on their permanent and definitive incorporation in the development planning processes of Latin America and the Caribbean.

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CEPAL REVIEW No. 39

An overview of social development in Brazil

*Sonia Miriam Draibe**

This paper analyses the structural characteristics and dynamics of social policies in Brazil. Once the Brazilian model of the Welfare State was consolidated under the authoritarian régime in the 1960s and 1970s, its meritocratic-individualist features became more acute, owing to the socio-economic base of poverty and social exclusion on which it rested. In dynamic terms, this model eventually was reproduced according to some clearly defined principles: extreme political and financial centralization; pronounced institutional fragmentation; lack of user participation in the basic decision-making processes; self-financing of social investment; privatization of the public sphere of resources and decision-making; and the clientelist use of the social apparatus. These principles of reproduction partially explain the system's current degree of social exclusion, as well as its increasingly social-assistance bias.

The perspectives of social protection in Brazil will depend on how the economic development/social equity equation evolves. An increase in wages is a premise of the rupture of the vicious circle that makes even wage-earners into social-assistance clients. Moreover, State management must be reformed if it is not to become an additional factor of disintegration.

*Doctor of Political Science; Director of the Department of Public Policies (NEPP) of the State University of Campinas (UNICAMP), São Paulo, Brazil.

Introduction[1]

With just one exception,[2] Brazilian social policy has not been examined, as a whole, from the analytical perspective of the Welfare State. The notions of the "Welfare State" or the "Benefactor State" seem to be quite remote from both Brazil's reality and its scientific-academic traditions in the areas of *social policy* or *public analysis*. Even in semantic terms, these expressions have no translation, so that the current designation for the State's social intervention is given in the plural —"social policies"—, and reference is made to sectors: social-security policy, health policy, education policy and so on. Studies that have attempted to handle the entire set of State social policies by using more consistent categories, such as "intervention profile", "model", or "Brazil's social-security system"[3] have been few and very recent, which is in itself an indicator of the reluctance to approach this matter from the classic perspective.

Furthermore, there is no unanimity among scholars and authorities as to the definition of the areas that constitute social policy. It seems that there is no doubt about such sectors as social security, social assistance, health and education. Nevertheless, the inclusion of housing, sanitation or mass-transit policies arouses certain doubts, which are magnified when wages and employment policies are concerned, for they are considered to be exclusively economic policy. Finally, the use of the concept of social security is very new in the country, a concept intended to mean more than the limited concepts of social insurance and encompass a positive and broad

[1]This is a summary version of the paper presented at the seminar on "Social Development Options for the Nineties", organized jointly by the Economic Commission for Latin America and the Caribbean (ECLAC) and the Latin American Faculty of Social Sciences (FLACSO), San José, Costa Rica, 15-18 November, 1988.

[2]The exception is Wanderley G. Dos Santos, *Cidadania e justicia*. This work deals with the issue of social policies in Brazil, following the tradition of the studies on the Welfare State.

[3]See Pedro Luis Barros Silva, *Atenção a saúde como política governamental*, Master's Thesis, Department of Social Sciences, IFCH, UNICAMP, May 1984; Sonia M. Draibe, "O padrão de proteção social brasileiro: desafios a democratização", *Análise Conjuntural*, vol. 8, No. 2, Curitiba, Brazil, Instituto Paranaense de Desenvolvimento Econômico e Social (IPARDES), 1986, *mimeo.*

designation of mechanisms for maintenance and subsidy of income and for provision of health care.

It is evident that the lack of consistency and depth in the concept of Welfare State in Brazil reflects among other things, the profile and characteristics of social policies, mainly their weak impact and low levels of social efficiency and effectiveness. Finally, the notion of Welfare State seems to be heavily loaded with socially positive content, and it seems strange to use it to refer to our situation of poverty, destitution and social exclusion. Moreover, the lack of consistency also reflects the very institutional and financial framework that supports social policy: the multiplicity of social-security contribution and funds, and the fragmentation of the administrative apparatus, marked by overlapping and opacity in matters of social expenditure. This is an institutional and administrative situation that provides little concrete support for the kind of unitary treatment suggested by the concepts of Welfare State or *social protection.* Also, at the symbolic level the more integrated and dynamic notions of social policy are absent. The ideological support of the struggles for the extension of social rights, for greater justice and equality or for greater emphasis on redistribution in the State's social actions has been furnished piecemeal and by categories; this comment applies both to the claims and to the claimants.

Under such circumstances it is not surprising that the studies and debates on social policies in Brazil have acquired a strong negative tone in relation to an entity —the Welfare State— that is regarded as exclusive to the Nordic and British situations, as the favourite son of European social democracy, or as an Anglo-Saxon specialty in the field of social policy. From this standpoint, the "Brazilian case" and the few references made to Latin American countries begin to look like cases of lack of development of the Welfare State or, at best, like "anomalous" particular cases, so specific that they could hardly be considered variations of general trends or at least typical of other models (evidently different from the Swedish or British) of the Welfare State.

Nevertheless, the richest pages of today's vast literature on the Welfare State have pointed precisely to the fact that —once the fertile roads of comparative studies have been travelled— the Protector State can be understood not so much in terms of the implementation of postwar social democratic programmes, but rather as an important structural element of contemporary capitalist economies, as a certain kind of interaction between State and market, or State and society, or as a particular type of social regulation, which manifests itself at a given moment of capitalist development.

On the other hand, through a comparative examination of the historical processes of the formation of the Welfare State in various countries, this literature recognized and conceived distinct patterns for the consolidation of contemporary Welfare States. These patterns or models, of course, stem from different historical roots and conditions and manifest themselves in variations in the complex dimension of social protection, whether it be the inclusion/exclusion ratios involved in the systems, or their redistributive aspects, or their relations with the political system. For this very reason, the strong positive value component which seemed to be written into the very concept of the Welfare State can be reassessed, thus opening up the possibility of considering both progressive models and more conservative forms of building a Welfare State.

Comparative studies have shown that the Welfare State can be more universalist, more institutionalized and State-controlled in some cases, while in others more subsidiary and favourable to private action; in some cases more generous in its cover and the diversification of the benefits that it provides, and in others more selective and assistance-oriented; in some countries more antagonistic to political-party and electoral mechanisms and dynamics, and in others more "politicized" and used in a more clientelist manner. In certain cases and models it has nearly been possible to eradicate absolute poverty, guaranteeing a minimum income (or a negative tax) for all those who could not integrate themselves through the market and earnings; in others, the poorest strata of the population have been left relatively unprotected. A recent typology has attempted to describe all these different possibilities, in order then to discuss national cases with greater precision.

Types of welfare state

a) Subsidiary: characterized mainly by selective policy.
b) Meritocratic-individualist.
   i) - Corporative.
   ii) - Clientelist.
   (Characterized by its structuring principle, i.e., the original status of the individual in the job market, and therefore based on merit, professional performance and productivity. Social policy intervenes only partially in order to correct market actions.)
c) Institutional-redistributive —characterized by a substantially universalist and egalitarian policy, marginally corrected by selective policy.[4]

Some authors have recently made an effort to measure Brazilian social policy against the international framework of Welfare States.[5] Although there are still no definitive results, several of these studies already seem to allow or at least suggest the possibility of rethinking and reevaluating the "Brazilian case". Many of the characteristics that would seem to constitute the unalterable specificity of the Brazilian sytem of social policies can be reconsidered in the light of international studies on models of the formation, development and crisis of the Welfare State. In other words, it is possible to examine the theoretical and historical literature on this topic in order to seek analytical instruments and indicators that locate Brazilian social policies within a given pattern of Welfare-State development and consolidation in a late capitalist country like Brazil, where the most complete stage of conformatin of the social-protection system took place under the auspices of an authoritarian régime and within the framework of an economic development model that was concentrated and socially exclusive.

This way of understanding our Welfare State has several advantages. The first is that perhaps we will thus be able to stop using vague descriptive expressions such as "embryonic" or "less developed" to describe the Welfare State in Brazil. These expressions can mistakenly convey a linear concept of the development of the country's social policies which inhibits an understanding of the structural characteristics of our social-security system. In our opinion, though, the most important advantage relates to the crucial questions of the future of the Welfare State in Brazil. If the Brazilian case is understood as a prototype —one of several that served to shape the types of State intervention and social regulation in the capitalist world— the discussion about the possibilities and alterntives of future development can receive much more consistent input from international experience. Finally, the procedure suggested here corresponds to a methodological approach that means breaking both with idealism, which posits general ahistorical models, and with historicism, which postulates the irreducibility of each historical case. It is true that the social intervention of the Brazilian State is specific, but this specificity consists in retaining and mixing characteristics of general trends (the types of intervention of capitalist States) and adapting them to Brazil's particular historical conditions.

The paper presented here has been oriented in that direction. On the basis of comparative international studies it first attempts to examine the morphological and dynamic characteristics of the Brazilian Welfare State and then considers the prospects for its future development.

[4]This typology created by Ugo Ascoli reformulates another classic one by Titmus, with the goal of describing, through the differentiation of the second type, a situation like the Italian one where the content of the clientelist and corporative type is imposed on the functioning of the Welfare State. See Ugo Ascoli, "Il sistema italiano de Welfare", *Welfare State all'Italiana*, Laterza, Italy, U. Ascoli (ed.), 1984.

[5]See Sonia M. Draibe, "A especificidade do Welfare State no Brasil", *A politica social en tempo de crise: articulação institucional e descentralização*, ECLAC, Research Report, April 1988, preliminary version; Sonia M. Draibe and W. Henrique, "Welfare State, crise e gestão da crise: um balanção da literatura internacional", *Revista Brasileira de Ciencias Sociais*, ANPOCS, No. 6, vol. 3, São Paulo, Brazil, February 1988; and Francisco de Oliveira, "O surgimento do antivalor", *Novos estudos CEBRAP*, Centro Brasileiro de Analise e Planejamento (CEBRAP), No. 22, São Paulo, Brazil, October 1988.

I

The Welfare State in Brazil: periods of development and characteristics

The Welfare State was built and institutionally consolidated in Brazil between the 1930s and 1970s. It is useful, then, to define the concept of welfare with which we are working. By "Welfare State" we mean, in the setting of the capitalist State, a particular form of social regulation expressed in the transformation of the relations between the State and the economy and between the State and society at a given moment of economic development. Such transformations are manifested in national, public or State-regulated systems of education, health, employment and income substitution, social assistance and housing, which, along with wage and employment policies, directly or indirectly regulate the volume, rates and behaviour of employment and wages in the economy and directly affect the standard of living of the working population and, in more general terms, the conditions of capitalist accumulation. Concretely, these are processes that, once the structure of the State is transformed, are expressed in the organization and production of collective goods and services, the creation of social transfer schemes, government intervention in the structure of opportunities for access to public and private goods and services and, finally, the regulation of the production of private social goods and services.

This conception requires the system of social protection to be nationally administered and State-regulated. For that reason, when we think of breaking down the establishment of welfare in Brazil into periods, we can go back only as far as the 1930s and consider the series of changes in the Brazilian State and the forms of social regulation which began at that time. On the other hand, this same conception forces us to examine carefully the nature of the legislation and policy innovations brought in between the 1930s and now, for this will save us from taking a linear view of the construction and consolidation of the Welfare State in our country.

It is well-known that in this period th legislation fell into two stages: one lasting from 1930 to 1943, and the other from 1966 to 1971, both, moreover, having occurred under authoritarian régimes. This situation seems to confirm the thesis of preventive actions taken by the élite and the pursuit of legitimization through social policies.[6] However, this is not the issue that we wish to pose here. We feel that it is more important to examine how similar these two periods are or the extent to which they express distinct sequences in the general process that we wish to break down into periods.

The legislation of the 1930-1943 period relates basically to the creation of the *Institutos de Aposentadorias e Pensões* (pension and benefit institutes - IAP) on the one hand, and, on the other, the labour legislation consolidated in 1943. Although these innovations are in fact the most important ones, the period also saw many changes in health and education policies, areas in which much of the centralization of resources and institutional and administrative instruments is vested in the Federal Executive.

Later, within the limited framework of the democratic régime in power between 1945 and 1964, the process of legal and institutional innovation continued (in the areas of education, health, social assistance and, in a less pronounced way, public housing), and the system of social protection was expanded along the lines and within the parameters defined by the innovations of the 1930-1943 period. This means that there was simultaneous progress in the processes of institutional centralization and in the incorporation of new social groups into the protection schemes; nevertheless, this was accomplished within *the framework of a pattern of State social intervention which was selective (at the*

[6] The history of the constitution of the Welfare State in Brazil, which reconstitutes the general process of setting up the centralized social apparatus and the particular processes of formation of education, health, social-security, social-assistance and housing policies has been recounted by us in Sonia M. Draibe, "A especificidade do Welfare State no Brasil", *ibid.*

level of beneficiaries), heterogeneous (at the level of benefits) and fragmented (at the institutional and financial level).

Both in its nature and in its content and social impact the period starting in the mid-1960s and ending practically in the mid-1970s is very different. As compared to the previous period, the series of legislative measures prevents a scenario of radical transformation in the institutional and financial structure of the system of social policy. This transformation is considered radical because the period saw the effective organization of the national, public or State-regulated systems in the sectors of basic social goods and services (education, health, social assistance, social security and housing), with the elimination of the fragmented and socially selective structure of the previous period, and it cleared the way for a number of universalizing trends, but above all for implementation of a policy for the mass of the population with a relatively broad cover. Moreover, it was also a period of innovation in social policy, since only then was State intervention in the housing sector firmly established and the mechanisms introduced for workers' equity formation and participation in the profits of enterprises (Guarantee Fund for Length of Service (FGTS), Social Integration Programme/Programme for Civil Servants' Equity Formation (PIS-PASAP)). Despite its extremely exclusive nature, the protection system moved towards the inclusion of rural workers.

Thus, with the authoritarian and technocratic characteristics of the régime imposed in 1964, the constitution of the welfare system in Brazil was completed; the key elements of State social intervention were defined; the centralized support apparatus for that intervention was established; the funds and resources to give financial backing to social-policy schemes were identified; and the principles and operating mechanisms and, finally, the rules of social inclusion and exclusion that definitively characterized the system were defined. The massive expansion from the mid-1970s was effected in accordance with this model which had been developed from 1964 and which by the end of the 1970s, began to show signs of wear and crisis (in its organizational, financial and social aspects).

These considerations suggest that the evolution of the Welfare State in Brazil can be broken down into the following periods, each with its own individual characteristics:

1930-1964 - *Introduction and fragmented expansion.*

a) 1930-1943 - Introduction.
b) 1943-1964 - Fragmented and selective expansion.

1964-1985 - *Institutional consolidation and conservative restructuring.*

a) 1964-1977 - Institutional consolidation.
b) 1977-1981 - Massive expansion.
c) 1981-1985 - Conservative restructuring (attempted).

1985-1988 - *Progressive restructuring.*

a) 1985-1988 - Progressive restructuring (attempted).
b) 1988 ... - Definition of new profile (Constituent Assembly).

Despite all the possible objections to this division into periods, the efforts seems worthwhile, at least as a means of supporting the subsequent analysis of the morphology and functioning of the Welfare State in Brazil, as consolidated after 1964. Before going into that topic, however, it is worth mentioning the general traits of the model applied in Brazil throughout the stages of introduction and consolidation.

As observed in the first part, Welfare State typologies chiefly stress a meritocracy-universalism combination in the orientation of the State's social actions, as well as the subsidiary aspects or the selectivity with which they reach or cover given social groups under their benefit schemes. The principle of *merit*, understood mainly as occupational and income status in the production structure, is what constitutes the basis of the Brazilian system of social policy. In the case of social protection, the principle has been in force since the introduction phase; in the consolidation phase, when other benefits and the system of social funds were established, the predominance of the income-contribution-benefit ratio was maintained and, in that sense, the majority of the social policies reproduced the system of inequalities that prevailed in the society. Their redistributive or egalitarian aspects were few, theoretically found only in basic education (compulsory and free) and health (emergency care). Thus, the absence of minimum social standards (benefits in kind, income, services or goods) for all citizens regardless of their status in the job market undermined the corrective mechanisms that, in principle, ought to have operated through social policies in Brazil, within the framework of the State/market relationship.

It can therefore be asserted that the Brazilian Welfare State model is of the *meritocratic-individualist* type, as Titmus defined it. However, on that basis the Brazilian system also acquired other important characteristics during the 1970s, mainly in the sub-period beginning in 1981. Given its meritocratic nature on the one hand, and the distorted employment and wages structure on the other, the Brazilian system developed a complex social-assistance scheme, overlapping or parallel to the social-security scheme (for example, the programmes of the Brazilian Assistance Legion (LBA) or the free food distribution programme of the National Food and Nutrition Institute (INAM). This scheme related to specific groups —and therefore theoretically residual ones— but in the final analysis it was directed at the majority of the population, wage-earners or not. The established requirement was a family income of less than two minimum wages, but in fact the assistance programmes (not based on contributions) were directed, by definition, at "risk groups" —babies, pregnant women, nursing mothers, old people. Furthermore, given the low wages, the beneficiaries constituted a large majority of the population.

Thus, the theoretically supplementary public-assistance policy was hardly a residual one; it functioned more as an indeed precarious substitute for minimum social standards (not defined and not institutionalized and, for that very reason, not guaranteed). It is evident that underlying this later development in the Brazilian system, exacerbated of course since 1985, are misery, underemployment or unemployment. In any event, it is important to note that the Brazilian system of social protection, instead of being made universal or progressing towards minimum social standards, followed the route of supplementation through social-assistance mechanisms, whose volume today seems to be quite significant (we should remember the many programmes implemented by the Social Investment Fund (FINOSOCIAL), FAS, the Special Secretariat for Community Assistance (SEAC), etc.).[7]

In its relations with interest groups and the political system, Brazil's Welfare State has tended to acquire since its introduction phase a *corporative* connotation that frequently appears in meritocratic-individualist systems. However, it may be the *clientelist* nature that most affects its dynamics. This is due to diverse and complex reasons. Since the introduction phase, for example, there has been no doubt about the privileged relations and, in the case of social security, the corporative and clientelist management of trade-union bureaucracies in the pension and benefit institutes (IAP), in the bureaucracy of the Ministry of Labour and in the party machines, especially the Brazilian Workers' Party (PTB). Once that pattern was broken after 1964, other forms of clientelism appeared in the system, influencing the allocation of resources and the process of expansion and, tending to create feuds (through the domination of interest groups, individuals or party machines) in social-security bodies, and mainly in the distribution of benefits during election periods.

Since the end of the 1970s, the increase in the role of social-assistance measures in social policies only reinforced the clientelist dimension; the opening-up of the political system after 1985 revealed this characteristic more clearly. It is important to remember, nevertheless, that clientelism was not found exclusively in the domain of social security. It affected education (in the political relations within the Federation, after 1964 mainly in the functioning of the Federal Education Council) and also influenced the functioning of the National Housing System. In the health and education sectors this corporative dimension acquired importance more recently, basically through pressure from professional groups committed to the system (teachers, doctors, paramedics, etc.).

It is true that there were universalizing trends —in terms of cover and beneficiaries— that gained ground in the system. In the social-

[7]For more information, see NEPP-UNICAMP, *Brasil 1985-Relatório sobre a situação social do país*, two vols., São Paulo, Brazil, UNICAMP, 1986 and 1987. See also the 1986 volume.

security sector, the unification of the pension and benefit institutes (IAP) in the National Social-Security Institute (INPS) initiated the standardization of benefits and universalization of entitlements, at least for urban wage-earners with formal jobs. As for health policy, since the late 1970s, emergency care has been extended to the entire population through social-security medical schemes. In the case of education, compulsory and free basic education had already been stipulated in the first republican constitution, and the extension to eight years of compulsory basic education in the 1970s expanded this "right" of the people (the effective cover during that period was low, especially in the first stage, which had a 50% drop-out rate as compared with the second). Despite all this, these universalizing trends were very far from investing the Brazilian system with "institutional redistributive" characteristics.

Now that these brief observations have been made, it is possible to construct the morphology of the Welfare State in Brazil, as it manifested itself from the 1970s (see annex). Following Jens Alber,[8] our main focuses are distribution on the one hand, and conservation of the opportunities structure on the other; from another angle, the public or private nature of the supply of social goods and services is indicated. A thorough evaluation of this situation would entail quantification (of resources, services offered, beneficiaries, etc.), which could not be undertaken here. Nevertheless, it can be seen that, in the system as it has been set up, increased equality in the sense of a vertical redistribution of income (through social policies) has not been the priority goal; the minimum level that is offered to everybody is very low, and this is even worse because the internal redistributive mechanism in the scheme of social transfers is also quite fragile.

In principle, the fundamental objective of the Brazilian system in social security would tend to be the protection of the *status* already acquired by the worker against the risks of social decline (present or future). However, here too, owing either to the way the system is financed and the injustices which it causes, or to the low levels of benefit and the historical devaluation of pensions and allowances, even this objective is hard to attain.

These morphological features combine with other features of a dynamic nature, related to the system's modes of functioning, which emerged during the period of institutional consolidation under the authoritarian régime. We will analyse them next.

It is possible to identify the organizational principles of the system of social protection in Brazil as defined and established in the consolidation phase. Since then, these principles have operated dynamically through the reproduction of the system.

1. *The extreme political ad financial centralization at the federal level of the government's social actions*

There is no doubt that the centralization of decision-making power and the financial controls of the Federal Government assumed unprecedented proportions. On the one hand, centralization denied states and municipalities the instruments of social intervention in three ways: by concentrating the financial resources in the Federal Executive; by establishing general norms for social policies, and by making the allocation of federal funds subject to Union decisions, always avoiding any type of "automatic transfer" of resources. On the other hand, a relative reduction of social action by direct administration took place within the Federal Executive, with the substitution of large organizational complexes (BNH, SINPAS, etc.) or indirect-administration bodies: State enterprises, foundations and autonomous entities.

2. *Vast institutional fragmentation*

The other face of centralization was the multiplication of different types of public body, such as institutes, foundations and, mainly, public enterprises. This sort of "decentralization" had disastrous effects on the organization of the social apparatus of the State:

— excessive bureaucratization;

[8]Jens Alber, "Politiche sociali e benessere nella Repubblica Federale Tedesca: un bilancio", *Lo stato del benessere: una crisi senza uscita?* (ed.), M. Ferrera, Florence, Italy, Le Monnier, 1981.

— blocking of the formulation and implementation of general plans for each sector of a national social policy;
— lack of public control mechanisms, which left the road open for action by private interests in the State apparatus;
— an incredible overlapping of programmes and clientèles in a manifestation of institutional disintegration.

3. *The exclusion of the population's social and political participation in decision-making processes*

The process of bureaucratic and authoritarian centralization and fragmentation suppressed or prevented the participation of trade unions, political parties and social movements in all areas of social policy, both where there previously existed a tradition and in recently created sectors, conceived and managed according to technocratic criteria. The basic guidelines of these social policies were not discussed in Parliament either. Thus, all the public-control mechanisms were suppressed, causing the social-security system to manifest at the beginning of the 1980s, signs of all kinds of institutional disorder, administrative disorganization, fraud and corruption.

4. *The principle of self-financing of social investment*

This principle, as well as implying the creation of specific financial funds for each sector, also meant subjecting social expenditure to economic and financial criteria of private profitability with regard to resource allocation. Examples of this were the "priorities" established by BNH, which gave priority to housing over sanitation, and to policies favouring middle-class housing, to the detriment of low-income housing.

5. *The principle of privatization*

Social policies began to be regulated by the golden rule of self-financng: the users had to pay for what they received. Taken to an extreme, this rule means the privatization of social services, which has diverse implications:

— an opportunity for private interests to penetrate the State apparatus through pressure groups, *lobbying*, etc.;
— a form of highly structured interrelationship between the State apparatus and the private sector providing services (such as hospitals) or supplying "social products" (such as builders). Thus, it can be asserted that a division of labour is established between the State and the private sector: the State sets the rules and transfers the resources; the private sector assumes the responsibility for the production of goods and the provision of services;
— the reduction of the relative participation of the State in the health and education sectors, and the corresponding increase in private-sector participation in the supply of these services.

6. *Clientelist use of the social apparatus*

As a consequence of several of these principles, particularly the almost total lack of public-control mechanisms, the clientelist behaviour of the Government left its mark on the system's functioning. Whether under the typical forms of patronage practised under the military régime or, even more clearly, under the civilian régime inaugurated in 1985, the fact is that the clientelist use of the social apparatus has been a constant and has constituted an immeasurable source of power for the Government, the parties and some individuals.

These are the principles that underlay the consolidation of the Welfare State in Brazil and have determined its functioning since then. For this reason, the magnitude of the distortions that have accumulated in the system comes as no surprise at all.

In the first place there is the problem of the highly regressive nature of the financing of social expenditure. The fiscal resources allocated to the social sphere have acquired, over time a highly residual nature, both because the State spends in this area a relatively small percentage of what it collects in taxes and because State expenditure is a minute fraction of all social expenditures. The remaining resources —social-security contributions, equity funds and funds and contributions of enterprises— once defined as a wage (or payroll)/contribution ratio, are basically levied on wage-earners and lower-income sectors in general or operate as indirect taxes through transfer to prices and are therefore paid by all consumers.

Another point that should be mentioned is the excessive bureaucratism that has characterized the public social-security apparatus, which is largely responsible for the mistakes in national social policy, particularly the inefficiency, ineffectiveness and exaggeratedly high cost, since it absorbs an enormous proportion of the resources.

Given all the characteristics listed here, one can understand why during the mid-1980s Brazil found itself in a situation in hich social expenditure was nearly as high as in a developed country (18.3% of GDP), while its results were as discouraging as those of the underdeveloped world.[9]

These observations help to clarify the meritocratic-individualist nature of the Welfare State in Brazil.[10] In reality, the State's social intervention is based on the workers' ability to contribute, sanctioning what we might call the *primary distribution of income*. For example, works to extend water-supply and sewerage networks were only carried out when the states and municipalities could service the loans from the former National Housing Bank (BNH) by charging the users "realistic rates". The loans for low-income housing made from resources coming basically from FGTS (guarantee fund for length of service) always required a loan value consistent with BNH and financial-agency costs. This produced a real interest rate of around 10% annually and is the reason for the extremely high insolvency rate among low-income borrowers, who were relatively very few. The fares on urban mass-transit services had to be profitable for private investments. Students who did not find places in the public system had to assume the monthly payments demanded by the private system, which equated to investments in education. Private hospitals, which operated like any other capital investment, came to charge 70% of the cost of medical services. Within this framework, as already mentioned, public expenditure financed by regressive systems did not perform any redistributive role that could alter primary income distribution.

These distortions in our Welfare State can be better understood when viewed in their true context, i.e., the conservative route of social "progress" that Brazilian capitalism has taken. In other words:

i) rapid economic development caused a rapid and profound transformation of the social structure;

ii) this led to a transformation of the employment structure, which in turn was expressed socially in upward social mobility;

iii) on the other hand, however, wages were low for large groups of workers, at the same time as millions more were underemployed in cities or completely marginalized in the countryside.

Therefore, social progress assumed the form of mobility accompanied by the absolute poverty of a large part of the population, i.e., mobility with extreme inequality. In Brazil social progress was achieved by meeting fully the requirements of the "ideal form" of social development of capitalism, which consists of all-out competition among free men, which "selects" the "most capable" and inhibits the integration and incorporation of broad strata of the population.

This situation is entirely different from the historical framework of the Welfare State in developed countries. Of course, social-welfare policies emerge simultaneously with a situation of full employment which, in conjunction with a constant rise in real wages, raises the standards of living of the overwhelming majority of the population. In the Brazilian case this has not occurred. For the large majority wages are low, and for a considerable number there is no job stability. The consequences of these Brazilian "specifics" are various:

i) the very base of the per capita contributions (wages) is relatively narrow in comparison with scope of social security. Consequently, the quality of services is undermined and benefits are necessarily insufficient for their intended purposes;

[9]See World Bank, "Brazil. Report of the social expenditure review mission", Washington, D.C., 20 October 1987, *mimeo*.

[10]Liliana Aureliano collaborated in the development of the argument that follows.

ii) the policy tends to become assistance-oriented, and the assistance programmes aimed at fighting poverty are overloaded, since they must cater to the needs of practically one-third of the population;

iii) the other two-thirds, despite being employed and having stable wages, need State assistance to ensure a decent life. This undermines the very definition of assistance policy and it has to be provided with a different conceptual basis;

iv) within this framework there is a shortage of resources for supporting new tasks of assistance policy and supplementing the contribution-based benefits (social security, health, etc.).

Brazilian capitalism takes a conservative road to construction of the Welfare State and, through all the disortions examined here, modifies it by practically denying the welfare promised by economic progress.

II

Outlook for the Welfare State in Brazil

This paper will not undertake an analysis of the limited and insufficient achievements of the Welfare State in Brazil or of the mediocre results determined by all its morphological and structural characteristics and by all the dimensions or operational principles that have just been described. It will offer instead some thoughts about the meaning of the changes in the system's operation, with a view to using them to evaluate the possibility of its coexisting in decades to come with a more equitable development model.

To begin with, it should be recognized that the situation of the Brazilian Welfare State, like any social situation, is neither immobile nor immutable. It is modified when it enters a crisis; for example, when it can no longer be reproduced according to its structuring principles. Changes take place when, under these circumstnces, some of its fundamental pillars undergo alteration, either in their financing or in their organizational and operational dimensions. There is no doubt that these changes imply transformations and express more profound restructuring trends. The difficulty lies in being able, during the process itself, to identify the direction, characteristics and, if you like, the future profile that these changes project.

Since the end of the 1970s, but basically during the 1980s, the Welfare State in Brazil has been subject to change. Without a doubt the economic crisis accelerated this process, given the more general restrictions that it imposed on employment and income plans, as well as its implications for the financing of the public sector in general and of social policies in particular. In addition, the conservative management of the crisis at the beginning of the decade certainly helped to exacerbate the process. But, it was primarily the crisis of the authoritarian régime and the process of democratization which had the most decisive influence on the changes.

As mentioned earlier, the social sphere had already seen some restructuring attempts at the end of the previous decade. Despite this fact, there was no radical modification in the guiding principles of welfare (some proposals for changes in health policy; measures for financing social security in 1981, etc.). Certain opposition state governments elected in 1982 promoted with some success certain innovative practices, mainly in the areas of health, food and nutrition programmes, low-income housing, etc.

After 1985, with the Government of the New Republic, some attempts were made to alter the social policy model, but without much success.[11] More recently, the Constituent Assembly has taken decisions that imply qualitative

[11] With respect to the project and strategy of restructuring of the system of social policies in the New Republic, its objectives, plans, successes and failures, see Sonia M. Draibe, *Notas (desanimadas) sobre a política social da Nova República*, paper presented at the Tenth Annual Meeting of ANPOCS, Campos do Jordão Brazil, 1986, *mimeo.*

changes, and under the new constitution new principles for a fairer social policy may possibly be adopted.

Although there may not be any radical changes or sufficiently important modifications as to suggest a new model of social policy, certain alterations have been made, both in the system's conception and in its institutional and operating plans. The immediate reasons behind the changes are many and diverse. In terms of ideology, moreover, the ways of considering and implementing changes are quite different, although the arguments may apparently be common to conservatives, liberals or progressives. If we look at what has happened over the decade, nevertheless, we can identify new features emerging in social policy which, in our view, express trends towards even deeper changes, possibly the ones which the set of options and prospects of the Welfare State in Brazil will actually rest. In turn, these new trends in Brazil are also more general and are found, in one form or another, in the majority of the Welfare States of the Western world.

These already familiar innovations that we are discussing, are coming in at three basic levels: a) political-institutional; b) social or rather forms of joint social action implicit in social policies, and c) relations between the State, the profit-based private sector and the non-profit sector. We shall examine each of them in relation to the production and supply of social goods and services.

a) At the political-institutional level there is a strong trend towards political-administrative decentralization, with important strains of "municipalism" and "localism". The local, municipal and decentralized ways of perceiving the political-institutional role of social policies constitute perhaps one of the most solid propositions of pogressive thought and have usually been associated with democratization. Mainly in Brazil, but also in many other Latin American countries in which authoritarian régimes that are centralizing by nature have reached their end, the decentralizing theses seem to have been combined with diverse and profound expectations: from traditional arguments for the democratization of political life to, with regard to social policies, a closer proximity between the decision-making organs and the demands and those who make them. The truth is that these arguments for and trends towards decentralization have emerged virtually throughout the world; they have even prompted particular doubts about the future of the Welfare State: whether in fact "municipalization" of the Welfare State is occurring.

It is true that decentralizing, municipalizing or "localizing" do not always mean immediate democratization. It is not just that democratizing processes do not have a monopoly on decentralization, but also that decentralizing processes can open the way for other forms of arbitrariness or authoritarian political behaviour. In addition, of course, the decentralization of responsibilities and powers, unless accompanied by the corresponding resources, is nothing more than just another arbitrary way of reducing spending, despite euphemistic talk of "dismantling". On the other hand, although the combination of strong political centralism and a high degree of democracy is rare enough, is not completely non-existent, as the case of France confirms. Decentralization, in these cases, must respond to other demands, in addition to the demand for more democracy. It is undeniable, however, that at the political-institutional level decentralization is perhaps the strongest factor in the reorganization of social policies. In Brazil, besides having been an important demand of reformers (radical or moderate), it also indicates the direction of the process of change that is already under way, for example in health policies, school-meal programmes and in welfare and other programmes recently approved by the Constituent Assembly.

b) At the level of what we call basic social effects of social policies, one noteworthy innovation is the increase in the degree of popular participation at the different levels of the adoption, elaboration, and implementation of policy. A typical emerging characteristic is the participation of collective and community bodies, which is increasing not only in the decision-making and control process particularly in some forms of the production and distribution of social goods and services, which are discussed below. The nature and role of *social movements* has already been studied thoroughly from this angle. Here it is sufficient to note that, ideologized or not, they constitute an expression of new forms of social action, the more general significance of which we wish to emphasize in this paper, both in Brazil and everywhere else. It cannot be overemphasized that the authorities did not cede the centralized forms of decision-making to local forums and the forms of popular participation have never equalled the role of the State. Nevertheless, the intensification of the action and participation of the "clients" in social welfare policies seems to constitute a move towards reduction of the passivity with which these policies were received before, and more than merely "dynamizing" social rights, it reformulates the sphere and the social structure within which these policies operate: the associations of neighbours and shantytown dwellers, community bodies and volunteer organizations of all types that are formed *in* and *for* social policies express a more profound social movement, a continual reorganization of the social fabric, although this has been ripped apart by existing political and economic forms, chiefly during the current crisis.

c) Finally, there are the modifications that have realigned the relations of equilibrium between the State and the private sector, profit or non-profit, in the field of social policies, and also the role of the State in the provision and functioning of social services. If we examine as a whole the series of innovations in this area, we find in fact a tendency for change in the means of production and distribution of social goods and services. In other words, there are currently certain social processes under way that are tending to modify the relations between the State and the market, between the public and the private, and between both the production systems and the consumption systems, of social services and goods.In Brazil, the so-called "alternative form" —i.e., volunteer community works and self-construction, the many mutual-assistance experiments, the community and neighbourhood initiatives (in child care, nutrition and refuse collection and processing)— are just a few of many examples that reflect developments throughout the world. These experiments involve the participation of the beneficiaries and the commitment of volunteer associations and networks of non-governmental organizations in the implementation of social policies. This situation, as noted, exhibits new forms of social action and a realignment of the relations of these sectors of society with the State and with the economy. Where the State or the market (or their various interactions) dominated before, these new forms of "social solidarity" are coming to play a role.

On the other hand, changes are taking place, although still very slowly, in the way that the State's action is determined and implemented. The undeniable predominance of collective public facilities, above all in education, health and urban public transport, has been weakened by the introduction of other mechanisms. By this, we mean tickets, coupons and cash transfers. These are mechanisms that, although remaining the State's responsibility in respect of provision of social services, reduce its level of activity in terms of its typical centralized and bureaucratic methods of carrying out policies. The methods which in the past were the monopoly of the liberal approach have been incorporated, defended and disseminated in the most diverse political-ideological contexts, even among socialists and social democrats. They have been justified by invoking a determination to reduce the level of bureaucratic and State control of policy and to increase the user's options and freedom; economic reasons are also invoked: the monetarization of these relations will heighten the level of personal demand backed by cash and thus stimulate the economy. In Brazil, meal tickets or transportation passes, milk coupons, cash assistance for families (for example, to educate their children at home, instead of boarding them in public institutions (Febem) as before), subsidies and philanthropic institutions that provide social services are all examples of these trends, although they are quite different from each other. And the justifications that accompany them are practically all of the same kind.

Another of the changes that should be noted is the above-mentioned more than proportional growth of the Government's social-assistance programmes. This growth is not based on contributions, particularly in the case of the programmes for the free distribution of benefits in kind to the poor, as well as the innumerable assistance and social-promotion programmes in practically all spheres. Nevertheless, the social-assistance bias that has characterized the Brazilian welfare system is not exclusive to the country, since it is currently found everywhere.

Finally, it is worth considering another trend that has begun to manifest itself in Brazil: the guarantee of a minimum income for all citizens —a social wage. As seen in the first part of this work, the idea of minimum social standards, justified by the equality of results, is not new. It is a constituent feature of some welfare systems and has taken the form of a negative income tax in residual-selective systems, or of cash income in institutional-redistributive models. Nowadays the argument used most frequently to justify the introduction of a minimum social standard is based in fact on the general premise of the guarantee of basic social rights for all citizens. But more specific reference is made to the recognition of forms of poverty, marginality and lack of integration (in the traditional sense and also as a new form of poverty that today means being excluded from the market) which have not been and will hardly be corrected and eliminated by traditional social-policy mechanisms. The second argument, a Keynesian one, is that the minimum social standard in a market economy will reinforce the demand-stimulating mechanisms already described.

In Brazil there is no formal definition of a guaranteed minimum social income for all citizens. Nevertheless, the lifetime monthly income paid by the urban social-security system to senior citizens who have not made contributions in the past —a benefit extended in the new constitution to cover all senior citizens and the handicapped— comes close to the idea of a minimum social wage as conceived here. Accordingly, a recent work termed it "the people's wage", predicting that, in accordance with the typical dynamics of social benefits, it will tend to be extended to the entire population.[12]

All these characteristics —it almost goes without saying— are developing in step with a gradual reinforcement of the "traditional" structures of Brazilian welfare, at least in its central point, the social-security system. This reinforcement is expressed through familiar processes such as extension, universalization, etc.

III

The future of social protection

The time has arrived to look at the future of social security in Brazil for the remainder of this century. The previous discussion has the merit of indicating the more deepseated trends that have changed the world of labour relations and related social relations; these are general trends of capitalist society which affect countries like Brazil in a specific way. Although they are obviously insufficient to give a full account of Brazil's specific case, they do at least help to sketch in the most probable alternative frameworks for the development of our welfare system in the immediate future.

We do not intend to apply or develop the classic scenarios methodology in this work and will limit ourselves to describing the possible contexts for the economic development/social equality equation, taking into consideration the existing demographic parameters, the current model of social protection, the general trends for change mentioned above and the variables that can have a more indirect effect on social policies: at the economic level, the growth rates of the economy, employment and wages; at the institutional level, the degree of efficacy of economic and social-policy mechanisms, the profile of public-sector financing and the general performance of the State apparatus; and finally, at the political level, the political-ideological orientation and definition of government strategies and priorities relating to poverty, destitution and social exclusion.

Obviously, the rates of growth of the economy, and particularly of employment and wages,

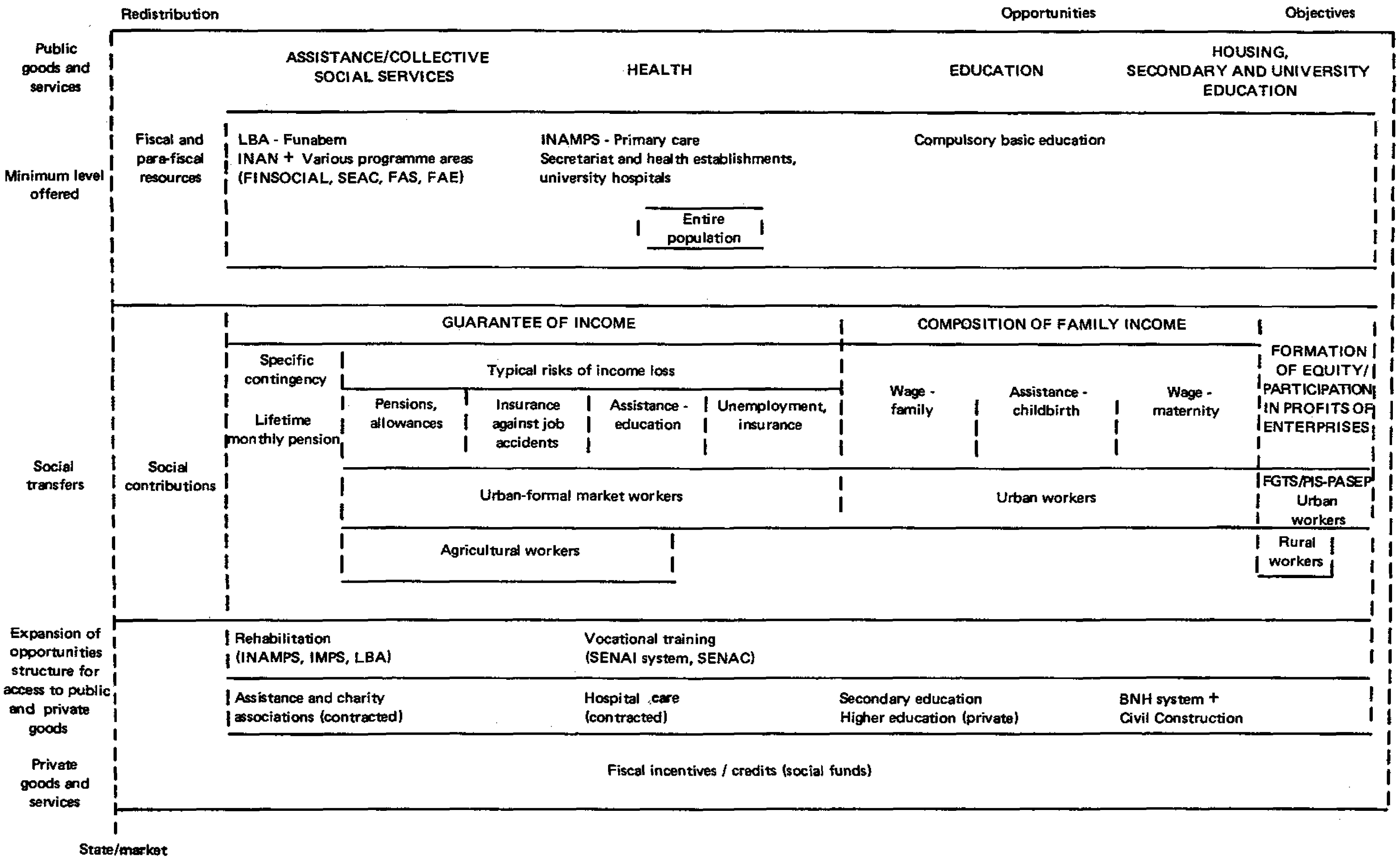
[12]See Sulamis Dain, *Crise fiscal e dilema redistributivo*, degree dissertation Department of Economics, Federal University of Rio de Janeiro (UFRJ), 1988.

will play a crucial role in the future performance of social protection in the country. According to forecasts of economic analysts, it will be difficult for Brazil to return to the high growth rates of the past decade. However, an economic policy committed to development will undoubtedly be able to deliver less mediocre achievements than the current ones and will raise the employment rates to the extent that it incorporates coherent sectoral policies in addition to jobs and manpower-training policies, with the goal of reducing the rates of unemployment, underemployment and informal labour market activities, all of which will tend to reduce the pressure on social policies. However, an effective mitigation of such pressure can only be achieved if, in fact, there is a significant increase in wages, something which is possible given a higher level of economic growth, although it will not automatically result therefrom. There is no doubt that the premise of any more optimistic oulook for social protection in Brazil is a wage increase sufficient to break, once and for all, the vicious circle that inevitably makes even wage-earners employed in the formal labour market clients of social assistance, as described earlier.

On the other hand, reform of the State is a necessary condition for growth with equity; without this, it is impossible to project more than mediocre and negative scenarios for social protection. A brief reference may be made to the conditions of this *reform* which could correct, in the medium term, the current failures of State management: restoration of the efficacy of the mechanisms of financing the public-sector in general and social policies in particular; and administrative reform that truly decentralizes and makes decision-making powers less rigid, democratizing the State while at the same time restoring its capacity to co-ordinate and plan. In other words, what we are saying is that either the mechanisms of public management are updatd and modernized and adjusted to the direction of social changes and demands, or it will be necessary to make do with a State that is increasingly less capable of fulfilling its general functions, becoming yet another victim destroyed by the crisis.

Annex

MORPHOLOGY OF THE WELFARE STATE IN BRAZIL



CEPAL REVIEW No. 39

Integration trends in the Brazilian labour market

*Cláudio Salm**
*Luiz C. Eichenberg**

During the 30 years after the war Brazilian capitalism performed very favourably in terms of the creation of productive job opportunities and was characterized more by integration of the labour market than by its exclusion. The persistence of the traditional inequality and poverty levels is not due, therefore, to a supposed lack of economic vigour.

The fact that the trend has been towards integration does not mean at all that the modernization of the labour market was automatically accompanied by a reduction in the dimensions of poverty. This would mean admitting, which is not the case, that poverty is an attribute peculiar to the "backward" section of the market.

Accordingly, it is argued that, as an adequate growth rate is maintained, the volume of employment generated by Brazil's development could also produce improved general living standards. If this hypothesis is accepted, the emphasis placed on the formulation of "alternative" employment policies could be reduced and it would be realized that the satisfactory creation of jobs does not exhaust the social issue.

Given the requirements established of the new technical-economic model, the labour market is decisively affected by the educational level of the population. The current state of public education, which in several regions of the country is barely able to fulfil its minimum functions in the basic cycle, could become a serious obstacle in the intended path of modernization.

*The authors are officials of the Institute of Industrial Economics of the Federal University of Rio de Janeiro.

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During the 30 years after the war Brazilian capitalism performed very favourably in terms of creating productive job opportunities and was characterized more by integration of the labour market than by its exclusion. The persistence of the traditional inequality and poverty levels is not due, therefore, to a supposed lack of economic vigour.

The assertion that Brazil's industrialization has integrated the labour market makes it necessary to define what we mean by integration.

We can define the concept of integration as the combined result of the following phenomena:

a) The growth in productivity resulting from the expansion of modern activities must be accompanied by a decrease in sectoral and regional disparities in levels of labour productivity;
b) This process must produce a multiplication of sectoral interrelations and be reflected in the creation of new activities, the absorption of low-productivity activities and the incorporation of manpower in the various regions of the country; a region's performance thus comes to depend less on its natural aptitudes and more on the overall process of accumulation;
c) This leads to the formation of a national waged-labour market which, in Brazil's case, has a legal-institutional aspect that guarantees a special status to workers possessing a registered labour book.[1] In saying this, we do not deny the capitalist nature of informal paid labour or of other forms of labour employment. We only say that most of the people working on such terms —vestiges of backwardness— are not integrated.[2]

In short, an integrated labour market, in our opinion, is one in which the employment level is defined basically by the level of aggregate demand, in contrast to what happens in dualistic

[1]See Wanderley Guilherme dos Santos, *Cidadania e justiça*, Editora Campus, 1980.

[2]In the seminar of the National Association of Postgraduate Economics Centres (ANPEC), where some of these ideas were discussed, Leonardo Guimarães suggested the concept of *heterogeneous integration* to sum up the evolution of the labour market in recent decades. This concept correctly expresses the puzzle of that phase of Brazilian development —mature capitalism with "unnecessary" poverty.

labour markets where the "modern" section can be functioning at full capacity without any important repercussions on employment or the incomes of people working in the "backward" section.

The fact that the trend has been towards integration does not in any way mean that the modernization of the labour market was automatically accompanied by a reduction in the dimensions of poverty. This would mean admitting, which is not the case, that poverty is an attribute peculiar to the "backward" section.

On the contrary, the installation phase of modern industry (1955-1980) took place under circumstances favourable to the growth of poverty; a demographic explosion[3] with intense rural-urban migration; political-institutional restrictions on the organization of the workers and a series of wage-control policies, especially in respect of the minimum wage.

Accordingly, it is assumed as a more general hypothesis that, as the trend of those factors is reversed and an adequate growth rate is maintained, the volume of employment generated by Brazil's development could also result in improved general living standards.

If this hypothesis is accepted, we could help to reduce the emphasis given to the formulation of "alternative" employment policies and realize that the satisfactory creation of jobs does not exhaust the social issue. The result of taking such a view is a considerable underestimate of the positive effects of economic growth in recent decades with respect to the labour market.

Given this framework, it is not surprising that formulations of "employment policy" incompatible with the size of Brazil's economy continue to proliferate, and they have very little chance of influencing poverty levels. What happens is that development plans, by confusing the struggle against poverty and inequalities with the employment issue, include proposals that are inconsistent with the rest. They range from radical alterations in the spheres of activity that must be stimulated to measures that echo in many respects the slogan "small is beautiful" in the shape of support for the "informal sector", community experiments to create jobs, or the installation of man in rural areas by means of integrated rural development programmes, settlements, etc.

The predominating view in national development plans is that the country's industrial growth is unable to solve the deferred issue of the labour supply. In this sense, nearly all the plans include the proposal that agriculture's share in the generation of job opportunities should increase. Although information on the recent past showed a deficient performance by agriculture in terms of employment, projects to colonize unpopulated regions were implemented —generally with unsatisfactory results— with a view to reducing the migratory flows to the cities. As for industry, there was always the idea that the factors were poorly adapted, giving rise to proposals to penalize the intensive use of capital with the goal of increasing the supply of urban jobs and curbing underemployment.

The understanding of the problem did not change substantially until the first national development plan of the New Republic. On the basis of the diagnosis that the country had a modern, competitive industrial capacity, capable of reacting to the promptings of demand but with its strength eroded by a large-scale recession, the prime objective was to devise a policy of growth, understood as the main generator of productive jobs. Moreover, the plan did not overlook the unacceptable degree of inequality in Brazil's wages structure, the consequence of an insufficient basic-wage rate produced by the prolonged squeeze on the minimum wage. The quantitative side of the employment issue was then made directly dependent on the growth rate, i.e., on investment and the incorporation of technology, which increased the degree of economic integration and the accumulation of wealth and would gradually help to eliminate underemployment. On the other hand, the emphasis on the issue of poverty, the levels of which were incompatible with the existing strength of the economy, recognized the inadequacy of traditional social-policy instruments, which had been unable to meet the minimum needs of the poorer population groups. A policy of growth was therefore fundamental for guaranteeing an adequate supply of job opportuni-

[3]The decline in fertility, which intensified in the 1970s, would not have an impact on the supply of labour until nearly 15 years later.

ties, along with an increase in basic wages, trade-union organization and wage negotiations, all of which can create greater equality in the distribution of the profits of productivity increases.

At least three factors explain the difficulty of detecting the integration effects of industrialization on the labour market. The first is the bias itself in the analyses of the employment situation, which remains permeated by the static view that denounced high capital-intensity to the detriment of labour in industrialization. The second is the persistence of high levels of poverty and inquality. The third was linked to the crisis of the early 1980s, whose effects jeopardized the very continuity of Brazil's development.

Until now, the most salient of the critical analyses of industrialization, especially of the import-substitution process, have reached the conclusion that the correct alternative would have been to stimulate the expansion of industries processing raw materials from the farming sector.[4]

In the first place, there is something tautological in this conclusion, since millions of people who were vegetating in agriculture, with extremely low productivity, were classified as "employed" in the sector. With a lax definition of employment, it is not surprising that agriculture and its "related" branches appear to be the ones that employ most labour.

In the second place, even if it is accepted that the sectors "related" to agriculture have high total labour requirements per unit of final demand, it might still be asked which components would provide the stimulus. It is evident that these arguments lead to recommendations for the enlistment of comparative advantages in order to stimulate commodity exports, which are labour-intensive. But, it just so happens that knowing that labour requirements for commodity exports were higher than in import-substitution manufacturing is not worth much, if that option never existed. On the contrary, underlying the import-substitution process are found precisely the external limitations imposed by the weakness of exports. It was the increase in investment and domestic consumption that generated, although in a concentrated way, the larger part of the income that fueled final demand.

Finally, it is necessary to consider other aspects of that static type of analysis. The propagating effects of employment, its indirect effects, are proportional to the complexity of the intersectoral network. In an underdeveloped and undiversified economy production increases tend to be absorbed almost exclusively in the direct effects. It is evident that as new sectors emerge the indirect "backward" and "forward" effects acquire more importance. As long as the manufacture of intermediate goods and, in final demand, of capital goods is not established to any significant extent the policy of "product-mix" makes sense, at least from a short-term perspective. In other words, in an economy with an incomplete technical base, it is necessary to formulate an employment strategy by comparing the relative effects of several activities, since the reciprocal linkages are tenuous or, depending on the activity, may flow to the exterior through imports. The economic backwardness lies in the inability to propagate, through an intersectoral market, an income stimulus, for it is absorbed in the final-goods market. These considerations are unimportant in an integrated economy. In this case, where total employment requirements are concerned, it does not matter which sector is "driving" the economy. And if the complexity of the sectoral network is reflected in the exports pattern, it does not matter either, in terms of employment, to know which component of final demand produced the initial stimulus. In this case, what counts is the overall expenditure and not its components.

Consequently, in evaluating the Brazil's industrialization experience on the basis of the 1970 model (or any earlier one) knowing whether the differentiated growth of the various sectors helped to structure an integrated intersectoral network will be just as or more important than calculating manpower requirements on the basis of the technical coefficients of that time.

From that standpoint, it seems undeniable that imports substitution, primarily, and the

[4]Ronaldo Locatelli, *Industrialização, crescimento e emprego: uma avaliação da experiência brasileira*, Rio de Janeiro, Brazil, Instituto de Pesquisa (INPES)/Instituto de Planejamento Economico e Social (IPEA), p. 140.

intensification of industrialization in the direction of producer goods in the past decade contributed decisively to establishing intersectoral links capable of making the Brazilian labour market more elastic to the income stimulus. There is no other reason for the increase in product-employment elasticity in the industrial sector itself decade after decade.

The performance of the Brazilian economy until the mid-1960s seemed to support those who argued in favour of a "product-mix" that was suppposedly unsuited to the set of factors. In fact, up till then there had been low employment elasticity in relation to the industrial product. The data from the past decade, in which the industrial branches that grew most were those producing durable goods, capital goods and basic inputs, without which it makes no sense to talk about a sectoral network, deny such conclusions.

The second factor that obscures the changes in the labour market is the volume of poverty that accompanied the industrialization process, even and mainly in its growing urban aspect, which makes it difficult to visualize any trend towards integration.

The expulsion of labour from rural properties threw millions of workers onto the urban and rural labour markets. If, on the one hand, the data do not support, as most analyses affirm, the idea that the process simply meant transferring poverty from the countryside to the town —since the absorption of a large part of this labour force by modern activities is undeniable— there are serious doubts as to the improvement in the living standards of these new proletarians in relation to the subsistence level of the settler, local inhabitant or tenant farmer.

Another controversial issue raised by this process of expulsion —an issue which we do not claim to "resolve" in this paper— involves the influence of this unlimited supply of labour in making the official policy of cutting the minimum wage viable, especially since the 1964 *coup d'état*. What must be stressed in this case is that the speed of the economic and demographic changes made it difficult to structure employment around specific labour markets —an important condition for effective trade-union action and the consequent increase in the negotiating power of the workers.[5] Consequently, Brazilian capitalism had, and still has, a broad base of poorly organized labour, whose earnings are largely determined by the official policy on the minimum wage.

By making it impossible to transfer large volumes of income that could raise the standard of living of the groups working in the informal market, the low wages of most of the working class mean that the entire process of growth is viewed as one of concentration, and exclusive into the bargain.

As a third factor, it is possible that the crisis of the first years of the present decade, through its effects on employment and wage levels, has helped to foster scepticism with respect to the economy's ability to absorb labour.

I
Evidence of integration

Since the publication of the results of the 1980 censuses evidence has been building up that the diversification and increased integration of the Brazilian economy has finally been reflected in significant changes in the labour market.[6]

[5]Paulo Baltar (1985), "Salários e Preços: esboço de uma abordagem teórica", São Paulo, State University of Campinas (UNICAMP), *mimeo.*

[6]The few studies that analysed these results and indicated the vigour of the Brazilian labour market include: Joseph Ramos, "Urbanization and labour market", *ECLAC Review*, No. 24 (LC/G.1324), Santiago, Chile, December 1984. United Nations publication, Sales No. E.84.II.G.5; Regional Employment Programme for Latin America and the Caribbean (PREALC), *La evolución del empleo formal e informal en el sector servicios latinoamericano*, Working Document Series, No. 279, Santiago, Chile, September 1986; Octávio Rodriguez, "Agricultura, subempleo y distribución del ingreso", Centro Brasileiro de Análise y Planejamento (CEBRAP), São Paulo, October 1973, *mimeo*; Vilmar Faria, "Mudanças na composição do emprego e na estrutura da ocupação", *Transição imcompleta*, Rio de Janeiro, Paz e Terra, 1986; ECLAC, *La transformación socio-ocupacional del Brasil, 1960-1980 y la crisis social de los '80* (LC/R.518), Santiago, Chile, 1986.

With respect to the effects of economic growth on the labour market in the long run, the most important fact that must be stressed is the substantial capacity to absorb productively a large part of the manpower that flowed into the urban labour market. And, yet more importantly, the growth of waged employment was significant in the so-called dynamic sectors of activity: basically, processing industries and the tertiary "functional" sector (here they are called dynamic in the sense of having high product growth rates). The absorption of labour in these sectors also meant a rise in the share of the most specialized occupations in the overall employment structure.

The modernization of labour relations in agriculture, in order to establish a more unified labour market, provides in a way another facet of this economic integration. The accelerated decline of low-productivity agricultural activities was a noticeable characteristic of recent decades. As a result, although total employment in agriculture did not rise, and indeed fell in certain regions, the waged segment of the agricultural labour force expanded at significant rates.[7]

The intense rural emigration did not simply lead to urban poverty, as is alleged. Even though for some time, that impression found some basis in the increased employment in those low-productivity sectors, during the 1970s modern activities in both industry and services showed sufficient vigour to absorb, at increasingly higher levels of productivity, a large part of the labour driven out of rural areas.

Processing industries had one of the highest employment growth rates during the last 30 years, increasing their workforce from 1.6 to 6.9 million between 1950 and 1980. This corresponds to an annual geometric growth rate of around 4.9%, as compared with 3.1% for the total labour force during the same period.

In the decade of the 1970s alone 3.6 million industrial jobs were generated —25.4% of total jobs created in Brazil in the same period. The average annual growth rate of industrial employment, which in the 1950s had been less than the annual global growth rate of the working population (2.0% and 2.9%, respectively), reached 5.2% in the 1960s and 7.8% in the 1970s.

The data indicate that urbanization increased much faster in the 1950s than industrial employment, a fact which serves as a basis for interpretations centred on excessive urban growth. Nevertheless, despite the fact that the rate of urbanization remained high in the 1960s, the growth rates of industrial employment remained close to the urbanization rate and surpassed it during the 1970s.

It cannot be denied that certain activities of the tertiary sector are clearly connected with the performance of the goods-producing sectors, particularly manufacturing. In these cases (industrial services of public utility, transport, communications, storage, part of trade and finance), increased production *demands*, in turn, increases in tertiary areas. For example, employment in the "functional" tertiary sector will be heavily influenced by the growth rate of the industrial product.[8] And despite the high growth rates of the economically active population in the tertiary sector, particularly in the last decade, the income generated in this sector was even greater, and average "productivity" rose significantly, at about 2.6% a year between 1960 and 1980.[9] This rise was spurred by the branches here called "functional", whose growth rates were higher than those of the global product.

In this context there are no signs of excessive development of the tertiary sector. Neither is it correct —although the rapid urbanization would so suggest— to attribute to the tertiary sector the responsibility for the massive incorporation of informal labour, which for many is synonymous with underemployment. On the contrary, a sample of eight Latin American countries shows that Brazil is the only country with a drop in the share of the tertiary sector in the economically active population in urban areas. Besides, owing to the significant growth of formal employment, Brazil is also the country where informal tertiary activities declined in relative terms.[10]

The widening of the gap between productivity and income among the diverse sectors of the

[7]Octávio Rodriguez, *op. cit.*, chapter 8.

[8]Joseph Ramos, *op. cit.*

[9]This performance of the tertiary sector differentiates Brazil from most other Latin American economies. See PREALC, *op. cit.*

[10]PREALC, *op. cit.*

economy is a characteristic peculiar to underdevelopment. In the 1970s, an intense rural exodus coincided with the moneterization of labour relations in the countryside and the gradual alignment of rural and urban wages.

To sum up, the employment of labour in economic activities, in all sectors, was due much more to demand than to the accommodation of surpluses.[11]

II

The instability of the 1980s

Between 1979 and 1983 industrial employment dropped by nearly 18%, and for the first time open unemployment emerged a serious problem in Brazil. In 1979 65.7% of the economically active population of Greater São Paulo consisted of wage-earners with formal ties (registered book), but in 1983 the proportion was only 56%. As compared to 1979, by 1983 308 000 "registered book" jobs had been eliminated in industry, and 20 000 employers had disappeared from the market.[12] In combination with an incoming economically active population of 448 000 in the metropolitan region of São Paulo this meant an additional 710 000 workers between 1979 and 1983. They were "accommodated" in the following ways: nearly half (43.9%) swelled the ranks of informal wage-earners; more than one-third (38.2%) remained in a situation of open unemployment; and 14.5% became own-account workers with low incomes.

Although the decline in average labour incomes has been general and pronounced, the most unprotected groups experienced the greatest losses. Registered wage-earners and independent workers who contributed to social security experienced a 30% drop in real incomes between 1979 and 1983, while their total earnings fell by 35%. Thus, the average income of workers without formal ties —wage-earners without a registered book and independent workers without social-security protection— whose numbers rose in the period by 42%, dropped by 40% confirming the hypothesis (for those working in the informal sector) that their earnings depend on the room created by the generation of income in the formal sector and on the number of people competing for that room.[13]

Given this situation, pessimism naturally prevailed and until recently dominated the analyses and projections. The low employment-product elasticities would demand high growth rates in order to adjust employment levels, and this would be difficult to achieve in view of the severe restrictions imposed by the balance of payments. Consequently, it would only be possible to tackle the issue of unemployment by altering the composition of the product, through specific policies.[14]

In order to understand the speed with which the employment level recovered after 1984, we must examine the behaviour of employment over a longer period. The available data series on industrial employment in Greater São Paulo, which are quite compatible, show the true depth of the crisis and the speed of the recovery. In the first four months of 1984 employment reached its lowest level and then until May 1987 it increased every month, except for December

[11] The general phenomenon of integration is not homogeneous. Although it can even be identified in the North-East, its rate there is so slow, even slower than the growth of integration with the rest of the country, that many analysts refuse to include this region in the process. See João Saboia (1988), "Dualismo ou integração do mercado de trabalho? Experiencia recente da economia brasileira", TD, No. 173, IEI/Federal University of Rio de Janeiro, August 1988.

[12] These data come from sampling of national household survey in 1979 and 1983 by the Brazilian Geographical and Statistical Institute (IBGE).

[13] P.R. Souza, "A determinação dos salários e do emprego nas economias atrasadas", São Paulo, State University of Campinas (UNICAMP), 1988.

[14] IPEA (Institute of Applied Socio-economic Research), "Perspectivas de longo prazo da economia brasileira", January 1985, pp. 40 and 256-257, *mimeo.*

1984. Analysis of the data of the annual social-information report (RAIS) and the "4923" shows that by July 1986 the level of formal employment in the metropolitan region of São Paulo had exceeded that of December 1980.

At the end of 1986 the average unemployment rate in the main metropolitan regions (according to the monthly employment survey conducted by the Brazilian Institute of Geography and Statistics (PME/IBGE)) fell below 3%, a level that can be regarded as frictional unemployment in view of the high job-turnover rates in Brazil.

The recovery of the labour market in 1985 and 1986 was connected with the utilization of idle capacity, and the recovery in two years of the jobs eliminated by the crisis came as a surprise to most analysts. The speed of the return to the pre-crisis employment level is an undeniable fact, but the evaluation of the behaviour of wages in this recovery deserves further comment.

The behaviour of the average wage during the crisis and the recovery reflects alterations in the wage levels of existing jobs and variations in the composition of total employment by type of work, classified in terms of the various markets. Given the magnitude of the decline in employment during the crisis and the speed of the recovery, pronounced alterations in the distribution of employment by wage level must have taken place, and they help to explain not only the magnitude of the drop in real wages during the crisis but also the speed with which they rose again during the recovery stage.

For the moment, it is enough to recall that both in the crisis and in the recovery the repercussions on employment were concentrated in the branches of activity where average earnings were clearly relatively higher. Since in the crisis the dismissals affected most seriously the least-specialized workers in those branches, the average wage therefore went up in those sectors, although the general wage level fell, for the dismissals occurred in the markets where lower wages predominated.

The increase in total wages in 1985 and 1986 was not due so much to the effect of wage increases for persons who continued working in the organized sector as to the fact that the expansion of employment occurred mainly through a rise in the number of better-quality jobs in the formal labour markets. In fact, according to the monthly employment survey conducted by the Brazilian Institute of Geography and Statistics (PME/IBGE), while the economically active population of the metropolitan region of São Paulo rose by 16.4% between October 1983 and October 1986, the employees with registered books increased by 26.8%.

The increase in employees with registered books between September 1984 and September 1986 (19.6%) was much greater than that of the total employed (11.6%) and occurred mainly in processing industries, whose workforce increased by 26.9%. However, during the same period the average income of employees with books rose much less than the incomes of employees without books and own-account workers.

The combined effect of growth in employment and wages boosted the income of the organized sector (employees with books) by approximately 65% from September 1984 to September 1986, and this caused more than proportionate rises in incomes not regulated by wages policy, chiefly after the *Plan Cruzado*, which especially benefitted independent workers; they of course are less subject to any type of scale or control. In contrast to what happened in the period of recession, the sectors that received the greatest benefits were workers without books and own-account workers. They even overtook in October 1986 the average earnings of wage-earners with books, which was the first time that had happened in the period covered by the PME/IBGE survey. Probably as a reflection of the labour shortage, rural workers also had substantial earnings during 1986. And, as a result of the generally higher wages in relation to the minimum wage, the percentage of workers below the minimum wage level dropped sharply.

Analysis of this expansionary situation and of long-term changes indicates that in a diversified economy, such as Brazil's today, growth pure and simple is the best policy where employment is concerned. This is not to ignore the low wages that our capitalism still pays. Nor is it to deny that, whatever the growth rates and product composition, there will still be groups excluded from any integration by the impossibility of finding a job. For them, essentially the need is not to formulate employment policies but to seek a way to meet their basic needs through social-welfare policies designed specifically for them. In that respect, there is an abundance of analyses that demonstrate that most of the existing social policies, since they aspire to universality, in the end do not reach the people at which they were originally aimed, the people whose needs are greatest.

III
Prospects

Despite the clear meaning of integration with respect both to the production structure and to the labour market, it is important to emphasize that the entire industrialization process of recent decades was based predominantly on the metalworking technological model, on the widespread adoption of the methods of Taylor and Ford. This fostered the growth of manufacturing jobs, with the numbers of semi-skilled workers rising much faster than the need for skilled labour. Only on this basis is it possible to understand how the great mass of the working population, most of them with barely third-grade education, could be turned into industrial workers. Moreover, the wage structure created in this way helps to explain the low basic wages in industry, as well as the wide range of the wage scale, a characteristic feature of Brazil's economy. Lastly, and no less important, although in the initial phase the high degree of protection of Brazilian industry was decisive in shaping its current industrial capacity, it did not foster incentives for higher productivity.

However, the significant increase in exports of manufactured goods in the trade pattern is undeniable. While the export thrust at the beginning of the 1970s was based on a generous scheme of incentives of different types, the aggravation of the external problems at the end of that decade finally prompted the adoption of macroeconomic adjustment policies that acted mainly on the ratio between the exchange rate and wages. Thus, as the adjustment in the 1980s involved basically a substantial drop in real wages and major exchange-rate devaluations, there are serious doubts as to the real competitiveness of Brazilian manufactured goods. There are, evidently, exceptions; some sectors, in the struggle to obtain positions in the external market, ended up by incorporating new technologies and even new production processes. But there seems to be no doubt that, in general terms, productivity is low and that the profits obtained from exports are due mainly to the relative decline in the prices of Brazil's raw materials and labour.

It just so happens that these factors are less important in the new international division of labour that is developing. From now on, comparative advantages will not be based so much on cheap raw materials and labour. Moreover, if account is taken of the burden of debt servicing and the increasing tendency for Latin America to be excluded from trade and capital flows, an additional effort is needed to enhance Brazil's share in those flows, and this effort can no longer be based exclusively on the abundance of raw materials and cheap labour. On the contrary, the factors that affect capital movements and exports of manufactured goods are now much more complex.[15]

Thus, these are two possible ways to redefine the earlier model of the country's international economic role. The first is rooted in initiatives such as exports processing zones, which have few stimulating effects on the rest of the production system and little impact on Brazil's technological independence. We do not regard this option as suited to the dimensions already achieved by the Brazilian economy, although it may be an option for small countries with undi-

[15]See Pedro Motta Veiga, "A inserção internacional da economia brasileira: condicionamentos e perspectivas", Centre for Foreign Trade Studies Foundation (FUNCEX), October 1988, *mimeo*.

versified industrial structures. The second consists of increasing the system's overall productivity in accordance with a strategy outlined in the specific documents on industrial and technological policy.[16] In any event, this productivity increase will clearly depend on the widespread adoption of new technologies and the new processes of the organization of production, which must lead to the abandonment of the model based on Taylor and Ford, to which reference was made earlier.[17] Moreover, these new technologies will allow an increase in basic wages in Brazil's economy, which in turn will provide an additional stimulus for higher productivity and contribute to the expansion of the domestic market.[18]

On the assumption of product growth of around 6% a year there seems to be no reason to fear that technological modernization will have greater negative effects on the general employment level, for the reasons given at the beginning of this paper. This is not to ignore the employment implications of the obsolescence of job skills entailed by such modernization.[19]

To the extent that the new technologies are accompanied by higher basic wages they will encourage a change in the wages model which must be extended to the sectors that are at a technological standstill.

What does a rupture with the model based on Taylor and Ford mean for labour? The new forms of the organization of production require a much more intense participation by workers in the production process and a substantial alteration in the relations between management and employees, with the elimination of middle management and the assignment of more responsibility and independence to the workers. They also imply the establishment of close relations of trust between management —which becomes less remote from the factory floor— and workers, who acquire a more active role in the entire production process. All of this, however, also implies different forms of wage negotiation that truly transfer the profits of higher productivity to the workforce.

In the case of Brazil, given that most of the labour force is not structured around specific labour markets (which results in weak negotiating power)[20] and that the entire process proceedes slowly the responsibility for establishing the lower wage-limit, which will have to rise in view of the objectives of improving income distribution and securing growth of the domestic market, will still rest with the State. For those groups linked to the modern or most organized sectors, it is feasible for the State to withdraw from negotiations and collective agreements regarding real wage increases. However, in a context of high inflation levels, it is not realistic to propose that there should be no general readjustment rules with the status of law.[21]

If the objective of gradually increasing the general lower wage-limit is attained, it is inevitable that in certain labour-intensive sectors of extremely low productivity the employment of labour will be adversely affected. This factor could contribute to raising the level of open unemployment. Currently, the level remains relatively low, owing largely to a vicious circle of low productivity and low wages. When this is combined with the effect of the obsolescence of job skills described earlier, the new situation means that it will be necessary to rethink the compensation schemes in the struggle against unemployment.

In view of skill obsolescence and technological modernization, the need to update workers' skills will tend to acquire more importance,

[16]See Gilberto Dupas and Wilson Suzigan, "A nova articulação da economia mundial e as opções para o Brasil: estratégia industrial e modernização tecnológica", October 1988, *mimeo*, and Pedro Motta Veiga, *ibid.*

[17]The abandonment of this form of organization of production is not merely the result of introducing new technologies; it can even precede them in the sense of creating a favourable setting for those technologies to produce really significant increases in productivity.

[18]Most certainly there is also the possibility of even less openness, which would imply a trade, financial and technological gap and the gradual deterioration of Brazil's industrial plant.

[19]It is important to note that the introduction of the new technologies, including those based on microelectronics, is occurring at a slow rate. Moreover, the introduction of this equipment takes place in many cases only at certain stages of the production process, without the total substitution of traditional automation systems. Thus the effect on the obsolescence of job skills is not a radical process; this makes substitution of labour much less intense than might have been assumed at the outset.

[20]P. Baltar, *op. cit.*

[21]For an opposing view, with less stress on rules, see José Pastore, "Política salarial, negociação e inflação", October 1988, *mimeo.*

although it still does not figure as a priority issue in the pattern of negotiations. As these negotiations always include demands for greater stability and as the costs associated with dismissals are rising, it is to be expected that enterprises will show more interest in retraining their workers. Moreover, publications are constantly pointing out that, in the case of Japan and the recently industrialized countries of Asia, increased stability of the labour force has been an important factor in boosting productivity and technological innovation. Nevertheless, the State will still have to play an important role in providing assistance to the unemployed, either by maintaining an efficient unemployment-insurance system or by guaranteeing access to training programmes.

The rupture with the system based on Taylor and Ford also produces a greater need for labour specialization, previously limited to a small minority of workers. The markedly hierarchical system typical of the earlier model —technicians and supervisors, skilled and non-skilled workers— tends to be watered down and replaced by a training profile with emphasis on reduction of the numbers of semi-skilled workers. In short, the overall outcome will be a need to improve manpower training.[22]

In these circumstances, and in contrast to what happened in the previous industrialization cycle, the educational level of the population becomes a decisive element, given the requirements of the new model. The current state of public education, which in any regions of the country is barely able to fulfil its minimum functions in the basic cycle —reading, writing, and arithmetic— could become a serious obstacle in the path of modernization that is to be followed.

[22]On the other hand, it is true that in the branches producing microelectronic equipment new opportunities are opening up for semi-skilled labour. However, they are predominantly for women and have relatively high formal-education requirements. In this regard see Martin Carnoy, "High technology and its impact on the international economy: An Agenda for Research", New Delhi, March 1988, *mimeo*, and Cheywa Spindel, "Formação de um novo proletariado: as operárias do distrito industrial de Manaus", *Revista Brasileira de Estudos da População*, Vol. 4, No. 2, July/December 1987.

CEPAL REVIEW No. 39

The United States government's Caribbean Basin Initiative

*Wilfred Whittingham**

The objective of the paper is to provide a better understanding of the CBI Programme and examine its achievements in the light of the objectives and expectations. To put the discussion in perspective, a brief economic and socio-political background is given, followed by a statement of the programme's objectives and a brief description of its main plans: legislation, administrative action and technical assistance. Data on foreign trade, direct investment and development assistance point to the conclusion that most of the indicators have declined. Despite a higher level of official financial aid since the programme started in 1984, the overall achievement has been negligible. Some countries have fared better than others and there are some signs of increasing diversification of exports and better performance of newer exports than of traditionals.

This outcome is not surprising in view of the limitations of the package, not to mention several constraints affecting the economies of beneficiary countries. United States legislation cannot remove most of these constraints; moreover, in light of the economic and political uncertainties, an enhanced CBI programme can only offer help, or perhaps buy time. Therefore the burden of grasping what opportunities exist to develop the economies of the area must rest squarely with the beneficiary countries.

*Economic Affairs Officer, Economic Development Division.

Introduction

Geographically, the Caribbean Basin incorporates all the countries bordering on the Caribbean Sea. This definition includes the United States (at least part of the State of Florida), Mexico, Central America, Colombia, Venezuela, Suriname and the Guyanas, as well as the Bahamas and the archipelago stretching from Cuba in the north-west to Barbados and Trinidad and Tobago in the south-east and the scattered islands of the Netherlands Antilles and Aruba. Of the Central American countries only El Salvador, which has no Caribbean coastline, is excluded.

For the purposes of the Caribbean Basin Initiative (CBI) a different definition was used, as will be explained later.

Although the CBI countries are fairly contiguous in geographical terms, historical factors have resulted in diversities in the subregion, so that, for example, there are four international languages in addition to several creole languages. There is also considerable heterogeneity of ethnic origins and social, political and economic systems and a relatively low level of interaction that has impeded integration even among some of the more homogeneous sub-groupings. Thus, intraregional traffic and trade and even social relations are fairly underdeveloped. There are, of course, many reasons for this state of affairs but they lie outside the scope of this paper. All that is intended here is a brief outline of part of the exising situation onto which the Caribbean Basin Initiative has been superimposed.

It may be useful to observe in passing that some countries are members of the Central American Common Market while others are members of the Caribbean Community. A number of countries are unaffiliated to any major economic grouping and a few have still to achieve complete political independence. All, however, are members or associate members of ECLAC.

The data given in table 1 will facilitate a clearer undertanding of the structural situation. It will be seen that 22 countries were included in the CBI as of late 1988. They vary considerably in land area and population size but have in common high, though generally declining, population growth rates relative to those of the developed countries. This factor translates into a young population with high levels of economic dependence. As currently defined, the area included in the Caribbean Basin Initiative programme does not possess an abundance of natural resources. Bauxite is mined in five countries, petroleum commercially extracted in two, and small quantities of coal, copper, iron and zinc have been exploited in some Central American countries.

Despite some progress in diversifying into manufacturing, tourism, and financial and transportation services, all the countries can still be described as producers of commodities, which

Table 1

CBI COUNTRIES - SELECTED DATA, 1987

Country	Area[a]	Population[b] 1987	Population growth rate 1980-1985[c]	Per capita GDP current prices[d]	External debt[e]	Exports of goods and services as percentage of GDP	Imports of goods and services as percentage of GDP
Netherlands Antilles	0.80	186	...	...	...	...	...
Antigua and Barbuda	0.44	83	1.3	2 788	119.3[f g]	77.3[f]	102.7[f]
Aruba	0.19	60[f]	...	...	199.0	...	...
Bahamas	13.90	240	1.8	11 767	211.2	71.2[f]	57.4[f]
Barbados	0.43	256	0.3	5 535	353.0	46.5	45.3
Belize	22.96	170	2.3	1 269	103.3[f]	54.8[f]	62.1[f]
Costa Rica	50.70	2 791	2.9	1 628	3 914.0	31.4[f]	35.0[f]
Dominica	0.75	78	0.7	1 314[h]	53.2[f g]	55.0[f]	75.2[f]
El Salvador	21.04	4 934	1.1	954	1 876.0	18.7	25.1
Grenada	0.34	98	1.0	1 128[h]	43.2[f g]	58.1[f]	101.1[f]
Guatemala	108.89	8 434	2.9	834	2 718.0	15.9	22.4
Haiti	27.75	6 147	1.8	394	741.0[g]	11.5[i]	18.6[i]
Honduras	112.09	4 679	3.6	860	3 101.0	23.7	27.1
British Virgin Islands	0.15	13	...	...	6.6[f]	...	...
Jamaica	10.99	2 409	1.5	1 188	4 013.0	54.8	54.5
Montserrat	0.10	12	...	3 833	...	12.5[f]	66.2[f]
Panama	77.08	2 274	2.2	2 338	3 950.0[g]	32.8	31.0
Dominican Republic	48.73	6 716	2.4	621	3 680.0	34.5[f]	38.1[f]
Saint Kitts and Nevis	0.27	48	0.8	1 794	22.0[f g]	61.3	93.2
Saint Lucia	0.62	131	1.6	1 260[g]	48.2[f g]	48.2[j]	94.1[j]
Saint Vincent and the Grenadines	0.34	106	1.0	1 283	38.0[f g]	66.1	77.2
Trinidad and Tobago	5.13	1 224	1.6	3 856	1 248.0	35.8	40.9

Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and ECLAC Subregional Headquarters for the Caribbean; *Review by the Economic Commission for Latin America and the Caribbean/Caribbean Development and Co-operation Committee of Economic Performance of Caribbean Countries for 1987* (LC/CAR/G.245), Port of Spain, 12 February 1988. Selected data on the Caribbean Islands were also derived from the *Annual Report 1987* of the Caribbean Development Bank and national government sources.

NB: Guyana was declared eligible in 1988.

[a] Thousands of km².
[b] Thousands of inhabitants.
[c] Percentages.
[d] US dollars.
[e] Millions of dollars.
[f] Data for 1986.
[g] At factor cost.
[h] Public debt only.
[i] Fiscal year data.
[j] Exports and imports exclude services.

account for an overwhelming share of their exports. Consequently, they all suffer from the difficulties resulting from the long-term decline in the terms of trade for commodities. In addition, the migration from rural to urban areas continues in most countries, accentuated by the unfavourable terms of trade and by the high levels of unemployment and underemployment.

By 1983 the economic situation confronting the countries of the Caribbean Basin Initiative immediately prior to the launching of the programme was not very bright. During this pre-CBI period adjustments to the earlier petroleum price increases were still working themselves through the economies, economic recession or stagnation affected several of the developed economies, the international financial crisis had affected many countries, world trade had stagnated and both interest rates and external debt were high and rising. Notwithstanding the large increases in the prices of petroleum and other commodities in the 1970s, most CBI countries had shown positive GDP growth rates for the period 1975-1980. By comparison, the average GDP growth rates in nearly all the major countries for 1980-1983 (including the crisis years) turned negative (see tables 2 and 3). During the same period unemployment rates increased virtually everywhere and very significantly in the case of Guatemala. Inflation, however, was not a very serious problem for most of the countries. Price increases, measured by changes in average levels of consumer price indexes, were moderate, except in the case of Costa Rica, and price rises during the period 1980-1983 were similar to those of the 1970s.

The countries participating in the Caribbean Basin Initiative programme are characterized by a significant degree of openness. This is particularly true of the island economies, as shown in table 1, where in some cases import coefficients exceed 100. This reflects the type and nature of the resources and technology base, the production structure and consumption patterns. It implies that export initiatives such as the CBI programme may lead to rising imports of raw materials and capital goods especially where there is a thrust toward increasing the production of manufactured goods.

By and large, the countries were running current account deficits during the second half of the 1970s, with Trinidad and Tobago a notable exception (see table 2). The size of the deficits increased considerably during 1980-1983 as compared to 1975-1979, except in Panama. In the case of Trinidad and Tobago the sizeable surplus was converted into a deficit. As an integral part of the trade balance situation, the merchandise terms of trade deteriorated for all countries between 1980 and 1983 and most sharply (by more than one-third) in the case of Haiti. Overall balance-of-payments data also reflect this picture. The patterns were more varied, however, and some countries actually showed surpluses resulting from net inflows of foreign capital. Nevertheless, serious deterioration was the norm.

A corollary to these trends in the external sector during the pre-CBI period was the sharp rise in the growth of external indebtedness. Table 3 shows increases of more than 100% between 1980 and 1983 in some instances. Costa Rica, already with a relatively large per capita debt in 1980 of approximately US$1 400, resisted the trend to some degree, managing to keep the growth of its debt to 11% between 1980 and 1983. It must be noted that the external debt of most of these countries has increased substantially since 1983.

This scenario would be incomplete without a brief reference to the socio-political dimension. Taking the Basin as a whole, the political situation had been turbulent for some considerable time. As recently as 1969 two neighbouring countries were at war. More frequently there have been border incidents, and relations have worsened between several countries.

At the beginning of the 1980s there was greater ideological heterogeneity resulting from the emergence of a new political dynamics and the reaction to both internal an external social and economic situations. By this time, too, "ideological pluralism" had gained considerable credibility in the Caribbean. In the Basin area there existed "right-wing" régimes and military and other kinds of dictatorships as well as Marxist and socialist States. Wars, civil wars, guerilla insurgencies and foreign intervention caused heavy loss of human life and destruction of property and infrastructure. According to one estimate made at the beginning of 1984 (*Inter-American Dialogue*, 1984), during the

Table 2

MACROECONOMIC AGGREGATES SELECTED CBI COUNTRIES

Country	Average annual rates of change (in real GDP)		Balance on current account B.O.P. (millions of dollars)		Overall B.O.P. balance (averages) (millions of dollars)	
	1975-1980	1980-1983	1975	Averages 1980-1983	1975-1979	1980-1983
Bahamas	1.9[a]	...	38.5	-66.6	4.7	10.0
Barbados	5.2	-2.4	-41.9	-56.5	6.5	7.4
Haiti	5.6	-1.9	-40.4	-193.6	7.7	3.9
Jamaica	-3.8	1.5	-287.8	-323.5	-92.0	-97.9
Dominican Republic	4.8	3.4	-77.6	-504.9	4.2	-52.6
Trinidad and Tobago	5.0	-4.5	342.0	-206.3	356.7	34.2
Costa Rica	5.1	-2.3	-217.8	-417.5	11.9	53.5
El Salvador	0.8	-4.5	-95.2	-188.9	15.2	-32.3
Guatemala	5.8	-1.7	-65.2	-340.9	105.9	-136.6
Honduras	7.2	-0.3	-124.9	-288.9	37.4	-68.1
Panama	6.2	2.9	-189.4	-60.2	9.2	-22.8

Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1988 (LC/G.1550-P), Santiago, Chile. United Nations publications, Sales No. E.89.II.G.1.

[a] 1977-1980.

Table 3

SELECTED ECONOMIC INDICATORS - PRE-CBI PERIOD

Country	Consumer prices average annual rates		External debt disbursed		Merchandise terms of trade[a]	Urban unemployment Average annual rates	
	1975-1980	1980-1983	End 1983 millions dollars	Percentages growth 1980-1983	1980=100 1983	1980	1983
Bahamas	6.8	7.1	234	138.7	...	...	...
Barbados	10.0	10.1	174	112.3	84.9	12.6	15.0
Haiti	8.0	9.5	551[b]	90.0	64.5	...	...
Jamaica	22.0	10.5	2 920	68.4	...	13.8	13.1
Dominican Republic	9.9	6.6	3 313	60.9	85.1	...	...
Trinidad and Tobago	17.5	14.2	646	48.0	95.2	9.9	11.1
Costa Rica	8.1	53.2	3 532	11.0	84.3	6.0	8.5
El Salvador	13.0	13.3	1 890	60.7	81.5	...	...
Guatemala	10.7	5.4	2 149	121.1	84.0	2.2	9.9
Honduras	9.7	8.9	2 162	43.2	91.6	8.8	9.5
Panama	6.8	4.6	3 392[b]	45.4[b c]	93.9	10.4	11.7

Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1985 (LC/G.1420), Santiago, Chile. United Nations publication, Sales No. E.S.86.II.G.1; *ibid*, 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and ECLAC Subregional Headquarters for the Caribbean, *Review by the Economic Commission for Latin America and the Caribbean/Caribbean Development and Co-operation Committee of the Economic Performance of Caribbean Countries for 1987* (LC/CAR/G.245), Port of Spain, 12 February 1988.

[a] FOB/CIF.

[b] Public debt.

[c] 1981-1983.

previous five years approximately 150 000 people had lost their lives and some 1.5 million had been displaced. Displacement also took the form of legal and illegal migration and created the refugee situations in neighbouring countries and in the United States. These situations created additional tensions in the temporary host countries, adversely affected their scarce social services and financial resources, and exacerbated border conflicts.

Not to be overlooked in all of this is the brain drain from the region, the effects of which will be felt for many years.

The Inter-American Dialogue, after study and discussion of the situation in Latin America and the Caribbean, concluded with respect to the Caribbean Basin area that the violence arose from persistent economic deprivation, social injustice and political repression (*Inter-American Dialogue*, 1984), and it recommended social and economic reforms, political dialogue and special help for displaced persons and refugees. This report no doubt helped to influence action in favour of a CBI programme.

This then is part of the background to the CBI: modest resources, relatively low level of economic and social interaction (given the geographical location), wars, political incursions and destructive rivalries, external and internal economic and social exploitation, and, in addition, adverse effects of the international financial and economic crises. The CBI is a response to these factors as well as to wider geopolitical concerns. The pertinent question is whether the response is sufficiently timely and adequate.

This paper is the result of several studies designed to improve the understanding of the present situation and the prospects for an improved CBI programme in the context of the current and future situations.

I

What is the Caribbean Basin Initiative?

The much publicized campaign launched in 1981 (at least in its earliest stages) created the hope that perhaps a mini-Marshall Plan operation might result. This was not to be. Indeed, even the oiginal proposals outlined by the President of the United States at a meeting of the Organization of American States (OAS) in early 1982 fell far short of being a Marshall Plan. This original proposal would have created a one-way free trade régime for exports (with the exception of textiles and clothing) from the Caribbean countries to the United States for a period of 12 years. In addition, an allocation of US$350 million was to be provided to countries which were "particularly hard-hit economically". Significant tax incentives were to be offered also to United States firms investing in Caribbean Basin countries, and a programme of technical assistance and training was to be provided for the private sector in these countries.

The programme as finally launched fell far short even of the reduced expectations, as described in the following section, and has generated much unfavourable comment, dissatisfaction and disappointment.

The CBI is essentially a programme of legislative and administrative measures devised by the Government of the United States of America to stimulate economic development in Central America and the Caribbean mainly through private sector initiatives. The more immediate goals are to expand foreign and domestic investment, particularly in the non-traditional sectors of beneficiary countries, thereby diversifying the economies, and to expand exports (mainly to the United States). While trade is the programme's main plank, based on laws enacted by the United States Congress, a number of supporting legislative and administrative measures are utilized to facilitate the programme.

The Caribbean Basin Economic Recovery Act (CBERA) of 1983 (United States Congress, 1983), which entered into force in 1984, provides for the duty-free entry of certain articles and materials (products) from specific Caribbean and Central American countries into the United States from January 1984 for a period of 12 years ending in December 1995.

1. *Eligible countries*

Despite its name, not all countries of the Caribbean Basin, or indeed all "Caribbean" countries, are included in the programme. The Act defines the Caribbean Basin by designating beneficiary countries on the basis of mandatory and discretionary criteria of the Executive. These criteria are broad, ranging from ineligibility on the grounds of being a communist country to the degree to which a country has assisted in preventing narcotic drugs from entering the United States and to violations of intellectual property rights. Many criteria are thus based on essentially non-economic considerations, but many strictly economic considerations also apply. For example, the granting of preferential treatment to the exports of a developed country, when such treatment is considered to affect United States trade adversely, may be a ground for excluding a country. Other criteria relate more to economic factors in the potential beneficiary country; for example, provision of reasonable access for United States exporters to its home market, existence of export-subsidy schemes, internal industrial relations and its own economic development efforts. Taking all these criteria into consideration, the countries listed in table 4 were eligible as of early 1988.

Table 4

REAL GROWTH RATES IN CBI DESIGNATED COUNTRIES

(Averages 1984-1987)

Country	Total GDP	Agriculture	Manufacturing
Netherlands Antilles	...	...	...
Antigua and Barbuda[ab]	7.2	-3.8	3.6
Aruba	...	...	...
Bahamas	4.6	...	...
Barbados	3.0	0.6	-2.3
Belize[a]	4.4	2.1	5.7
Costa Rica[c]	4.4	1.6	6.3[d]
Dominica	3.7	...	...
El Salvador[c]	1.8	0.4	1.4
Grenada	4.0	...	...
Guatemala[c]	0.6	0.7	0.5
Haiti[c]	0.2	1.8	-3.7
Honduras[c]	2.7	3.3	2.7
British Virgin Islands	1.8	...	...
Jamaica	0.5	1.7	1.3
Montserrat	3.2[a]	...	...
Panama[c]	2.6	3.2	2.2
Dominican Republic[c]	2.0	-0.7	1.6
Saint Kitts and Nevis[ab]	5.8	-	4.1
Saint Lucia[a]	4.7	7.1	1.3
Saint Vincent and the Grenadines	3.1	...	...
Trinidad and Tobago	-4.2	3.3	-6.0[e]

Source: ECLAC, on the basis of official data. See: *Estudio Económico de América Latina y el Caribe,* 1988 (LC/G.1577-P), Santiago, Chile. United Nations publications, Sales No. S.89.II.G.2; *Anuario Estadístico de América Latina y el Caribe,* 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and *World Bank Country Reports for Antigua and Barbuda,* Saint Kitts and Nevis and Saint Lucia.

[a] At constant factor cost.
[b] 1984-1986.
[c] Data do not necessarily agree with official constant price estimates.
[d] Includes mining and quarrying.
[e] Excludes oil refining and petrochemicals.

As far as ECLAC members are concerned, it will be seen that Guyana, Nicaragua and Suriname were excluded. Anguilla, the Cayman Islands and the Turks and Caicos Islands were also excluded, but it must be assumed that this was due to their non-independent status.

Puerto Rico and the United States Virgin Islands have a special relationship with the United States and are granted certain protective advantages in terms of articles eligible for duty-free treatment under CBERA.

2. *Eligible products*

While the range of eligible products defined on the basis of the United States Tariff Schedule is very broad, there are many specific exclusions. Moreover, all United States laws and restrictions as well as the requirements of various regulatory agencies are applicable. Similarly, there are "rules-of-origin", "new and different" and "substantial transformation" criteria to be met.

The list of products specifically excluded from duty-free entry includes: textiles and apparel (with some exceptions), canned tuna; petroleum and petroleum products; footwear (with minor exceptions); work gloves made of leather, rubber or plastic; luggage; handbags and "flat-goods"; certain leather apparel; watch and watch parts (if any constituent material originated in a "communist" country). Sugar, syrups and molasses, beef and veal are also excluded unless a "stable food-production plan" is submitted by each country concerned.

Basically, the rules of origin criteria require that:

a) an article must be grown, produced or manufactured in a beneficiary country;
b) at least 35% of the value must be the cost of direct processing in one or more CBI-eligible country;
c) United States materials may comprise up to 15 percentage points of the 35% mentioned in b) above.

Moreover, if the article contains materials from non-CBI countries, there must be substantial processing of the original materials so that the article produced is "new and different" from the original materials.

Articles meeting all the eligibility and rules of origin criteria are still subject to the provisions of United States tax laws and the regulations of various agencies. Thus a number of standards have to be met, such as standards of quality and safety, and environmental and general public safety; and the United States Customs Service co-operates in the enforcement of these regulations and standards. It should be noted also that the Act (section 213) provides that the President of the United States can withdraw duty-free treatment for imports that cause or threaten to cause injury to domestic agriculture, industry or employment. For example, the United States Secretary of Agriculture can request the President to take emergency action when it is considered that imports of perishable farm goods have increased to the point where they are "a substantial cause of serious injury" or even a threat to a domestic industry producing the same perishable goods.

3. *Legislative supervision*

The United States International Trade Commission (ITC) is responsible for reporting periodically to the Congress on the Act's economic impact on domestic industry (including United States possessions and territories). These reports cover not only the actual effects on industries producing similar or directly competitive articles, but also the probable future effects for the duration of the Act. In this process the ITC is required to analyse output, trade and consumption of products affected by the Act, taking into account economic variables such as investment, employment, profit levels, utilization of production facilities, prices, wages, and patterns of demand, among others.

Likewise, the Department of Labor is required to undertake a continuing review and analysis of the Act's impact on the United States workforce and to report thereon to Congress.

4. *Other aspects of the programme*

In addition to the duty-free provisions of CBERA, other measures have been introduced in order to facilitate the broad objectives of the programme:

a) a tax-exemption provision amending section 274 of the Internal Revenue Code of 1954, ostensibly to assist tourism in CBI countries, whereby expenditures incurred in attending business meetings and coventions in CBI-approved countries are allowable as deductions in computing tax liabilities;
b) promotional programmes established by a number of United States federal and state agencies and private-sector organizations to facilitate investment and increase production capacity in beneficiary countries;
c) what has been described as increased United States economic assistance to CBI countries to aid private-sector development.

If a CBI beneficiary country enters into a Tax Information Exhange Agreement (TIEA) with the United States, that country may host conventions of United States business-tax payers who may then legitimately deduct, for tax purposes, business expenses incurred in attending such conventions. Also the country becomes an eligible location for the head office of a foreign sales corporation. In addition, the country will qualify for investment funding under section 936 of the Puerto Rico programme (see below).

Another aspect of the programme is the activities of various agencies of the United States government created specifically for the programme or restructured or otherwise utilized to assist in achieving CBI objectives. Chief among these are the United States Department of Commerce and the United States Agency for International Development (USAID), to which special responsibilities have been assigned. There are also the Overseas Private Investment Corporation (OPIC), the CBI Business Promotion Council and various bodies created before the CBI progamme which provide several important services for the attainment of CBI objectives. The activities of these bodies range from the direct financing of projects to feasibility studies, the provision of training and advisory assistance in many fields, credit and credit insurance, marketing services, the hosting of trade fairs and other events and the preparation of advertising material.

The strong emphasis on private-sector development is reflected in the work of the official agencies and the private-sector organization. Financing, advisory and other services are offered by both types of agency directly to private sector firms or groups in the United States and in CBI beneficiary countries.

5. *Relationship to certain United States laws*

There are other United States laws and regulations which, in effect, complement the Caribbean Basin Economic Recovery Act. Two important ones are the Tariff Schedules of the United States (TSUS) and the Internal Revenue Service (IRS) Code, section 936.

The TSUS programme 806 and 807 provides for reduced valuation for customs purposes of products assembled or processed outside the United States from United States materials or parts. Duty is chargeable only on the value added in the beneficiary country to the United States-produced components and not on the total value. The rate of duty however remains the same as for the imported finished article. This is expected to reduce the cost to the United States consumer, stimulate demand for the product and increase foreign-exchange earnings and employment in CBI countries. Caribbean countries have benefitted with respect to the assembly of metal articles, and garments and other textile products.

The "section 936 programme" is somewhat complicated and is linked to the signing of Tax Information Exchange Agreements. Income derived from the Puerto Rican operations of United States businesses (and recently also businesses in the United States Virgin Islands) are effectively exempt from United States taxation as long as the funds remain in those countries. A significant pool of funds has therefore been accumulating in Puerto Rico. For reasons unrelated to the CBI, the United States government amended section 936 of the Internal Revenue Service Code which now authorizes the State Development Bank of Puerto Rico to make loans on concessionary terms to qualifying projects in CBI beneficiary countries from the accumulated funds. This criterion is also applicable to the existing twin-plant programme of Puerto Rico, and both twin-plants and complementary plants may qualify for use of the concessionary funds held by the Puerto Rico Development Bank.

II

The achievements

Total economic growth in the 22 CBI designated countries during the period 1984-1987 has been limited. While most countries had a positive growth rate, only six showed real GDP growth of 4% or more on average for the four years and, with the exception of Costa Rica, they were all small countries with relatively low aggregate GDP.[1] On the other hand, the larger countries tended to have the lowest growth rates, thus dampening the overall regional growth. However, the 1987 growth rate was better in almost two-thirds of the countries than the rates in the years 1984-1986.

The evidence to hand suggests that credit for the improvement in GDP during these four years cannot be attributed to CBERA. In the first place, there is no consistency between the trends of the GDP data and either the trends of exports of all commodities or exports of CBI-eligible commodities to the United States. Indeed, as pointed out in the next section, total exports to the United States showed a downward trend in the 1984-1987 period. Secondly, though the export coefficients of some countries are high, the larger countries have smaller coefficients, so that the impact of exports on total GDP is lower than would otherwise be the case. This means that, while the United States is the largest export trading partner of most of these countries, the growth rate of exports to the United States would have to be fairly high to make a noticeable impact on GDP. It would seem, therefore, that the stimulus provided by the programme was not sufficient to make a major difference at the level of the total economy.

Given the fact that the Caribbean Basin Economic Recovery Act covered mainly trade in goods, the appropriate sectors on which to focus attention are agriculture and manufacturing. Here, too, the impact has not been visibly significant to date, but the trends in United States imports from Basin countries would affect the performance of these sectors in some countries.

[1]See table 4.

Some growth has been recorded in these two sectors for most countries (see table 4). An average growth rate of 7% was achieved in the agriculture sector by Saint Lucia and 3% increases were recorded in Honduras, Panama and Trinidad and Tobago, but growth was negligible in the other countries. For manufacturing the picture was quite varied. The 6.3% average growth in Costa Rica was more than offset by the 6% average decline in Trinidad and Tobago (at constant prices). Two other countries experienced declines in their manufacturing sectors, but in two smaller countries manufacturing grew by more than 4% on average during the period. It appears that there was a favourable impact in some countries; for example, the increases in exports of Honduras is consistent with the moderate increases in the growth of agricultural and manufacturing GDP in that country.

1. *Foreign trade*

The trend of foreign trade with the United States has been generally unfavourable to the subregion as a whole. On the basis of United States Department of Commerce statistics (see table 5), total imports from the designated countries decreased every year between 1983, the year before that Act entered into force, and 1987. On the other hand, United States exports to these countries have increased steadily and a 1983 *surplus* of some US$3.7 billion in favour of CBI countries was converted into a *deficit* of approximately US$151 million in 1987.

In respect of CBI-eligible goods (see table 6), imports into the United States from designated countries grew by 16% in 1984. However, there were decreases in 1985 and 1987 and imports in the latter year were only 5% higher than in 1983, clearly a situation at odds with general expectations.

Obviously, the situation varies from country to country. On a subregional basis, CARICOM countries have fared worse than Central American countries. With regard both to total United States imports and to CBI-eligible goods, the trade of CARICOM countries increased in the first year of CBERA but moved downwards in each of the subsequent years. By 1987 the decline was approximately 25% compared with 1983. In the CARICOM subregion the smaller islands have increased their trade, having started from very low levels, while those countries with larger volumes of trade have generally experienced declines. Jamaica is the sole exception among the major CARICOM countries —showing higher volumes of total imports into the United States since the programme began— but this is due solely to higher levels of trade in non-CBI-eligible goods. On the other hand, the producers of petroleum products (Trinidad and Tobago and the Bahamas) have seen their exports to the United States decline drastically. The main reasons for these declines are unrelated to the CBI except, however, that petroleum products were specifically exempted from the Caribbean Basin Economic Recovery Act.

Data for the Central American subregion show that both total trade and United States imports of CBI-eligible items increased. In both cases, values have increased virtually without interruption, except in 1987, and in that year total imports into the United States were 28% higher and CBI-eligible imports 11% higher than in 1983. Costa Rica had the largest increases, followed by Honduras and Guatemala. However, most of the countries in this subregion saw their trade decline in 1987, with El Salvador falling off particularly sharply in respect of CBI-eligible goods.

Aside from these two subregions, the performance of the Dominican Republic has been outstanding, mainly in exports of textiles and apparel to the United States, although its trade in CBI-eligible items has also increased. A country's export structure reflects its production structure, and changes in the latter will have an impact on the former, often with a time-lag. One major difficulty with CBERA is that some items excluded from eligibility are among those in which many countries have productive capacity and expertise. They include textiles and garments, petroleum, petroleum products and sugar. While United States imports of textiles and garments from CBI countries have been stimulated, as mentioned earlier, by TSUS 807, its imports of petroleum and petroleum products, sugar and some other goods have also been discouraged directly by legislation and non-tariff barriers. The countries are finding it difficult to accomplish rapidly the major changes in production structures which are necessary to make maximum use of the export incentives.

Many CBI-eligible products already benefit from special entry privileges into the United States under other legislation, including most-

Table 5

U.S. IMPORTS FROM AND EXPORTS TO CBI DESIGNATED COUNTRIES 1983-1987

(Millions of dollars)

	1983	1984	1985	1986	1987
	Imports (CIF)				
CARICOM countries[a]	1 926.4	2 193.6	1 930.2	1 397.7	1 452.3
Central American countries[b]	2 028.8	2 214.6	2 283.1	2 656.2	2 519.9
Other	5 286.7	4 726.0	2 901.6	2 445.7	2 545.5
Total	**9 241.9**	**9 134.2**	**7 114.9**	**6 499.6**	**6 517.7**
	Exports (FAS)				
CARICOM countries[a]	1 538.0	1 560.0	1 307.0	1 385.0	1 363.0
Central American countries[b]	2 038.0	2 202.0	2 152.0	2 291.0	2 483.0
Other	1 956.0	2 191.0	2 284.0	2 389.0	2 822.0
Total	**5 532.0**	**5 953.0**	**5 743.0**	**6 065.0**	**6 668.0**

Source: SELA, *The Caribbean Basin Initiative: Current Situation and Outlook* (SP/CL/XIV.O/Di No. 2), Caracas, June, vol. 2.
Note: Guyana *is* a founding member of CARICOM, but up to 1988 it was ineligible to benefit from CBI.
[a]Caribbean Common Market, excluding Guyana.
[b]Excludes Nicaragua.

Table 6

U.S. IMPORTS OF CBI-ELIGIBLE COMMODITIES FROM DESIGNATED COUNTRIES[a b]

	1983	1984	1985	1986	1987
CARICOM (excl. Guyana)					
Antigua and Barbuda	0.9	2.4	7.0	7.5	3.6
Barbados	179.8	238.5	174.6	90.2	46.5
Belize	22.4	30.4	34.3	38.8	30.5
Dominica	0.1	0.1	14.5	15.9	10.4
Grenada	0.2	0.8	1.1	2.9	3.3
Jamaica	274.4	403.2	222.6	202.8	229.8
Montserrat	0.9	1.0	3.4	3.5	2.3
Saint Kitts and Nevis	14.2	15.7	10.4	14.5	15.4
Saint Lucia	1.9	3.2	5.5	4.9	5.0
Saint Vincent and the Grenadines	2.8	1.7	7.0	6.2	6.3
Trinidad and Tobago	137.6	206.6	153.5	122.8	130.3
Total	**635.3**	**903.7**	**633.9**	**510.1**	**483.5**
CACM (excl. Nicaragua)					
Costa Rica	379.8	451.0	450.8	562.9	552.9
El Salvador	358.0	377.5	392.6	357.9	243.7
Guatemala	354.3	436.5	403.1	614.6	453.3
Total	**1 092.1**	**1 265.0**	**1 246.4**	**1 535.4**	**1 249.9**
Other designated					
Netherlands Antilles	91.9	65.2	86.4	56.7	70.4
Aruba	-	-	-	1.9	0.5
Bahamas	144.0	159.9	168.3	208.0	167.8
Haiti	244.7	279.2	260.1	240.5	231.7
Honduras	398.1	428.1	400.3	450.9	513.1
British Virgin Islands	0.9	1.4	2.7	0.7	0.8
Panama	347.0	287.2	387.9	358.2	327.4
Dominican Republic	693.9	846.7	773.7	799.6	783.5
Total	**1 920.5**	**2 067.8**	**2 079.5**	**2 116.6**	**2 095.2**
Total designated	**3 647.9**	**4 236.4**	**3 959.8**	**4 162.1**	**3 828.5**

Source: SELA, *The Caribbean Basin Initiative: Current Situation and Outlook* (SP/CL/XIV.O/Di No. 2), Caracas, June, vol. 2. compiled from official statistics of the U.S. Department of Commerce.

[a]CIF values.

[b]Millions of dollars.

[c]Central American Common Market.

favoured nation (MFN) treatment under the GATT rules and the Generalized System of Preferences (GSP), already mentioned. In other words, the existence of these other arrangements in which all CBI countries are eligible to participate limits the real potential benefits of CBERA.

An analysis of 1987 data made by the Latin American Economic System (SELA, 1988) indicates that only about 10% of all CBI exports to the United States in that year were exclusively CBI-beneficiary products. The growth of these products has amounted to about 38% since 1984. Included in this group are fruits and fruit juices, organic chemicals and related products, and meat, which have shown excellent growth rates. Other items showing excellent/good growth rates, not exclusively due to CBERA, include textiles and textile products, garments, leather and leather products, fish and shellfish, wood products (including furniture) and jewelry. Many of these however started from relatively small bases in 1984. On the other hand, exports of some items, including iron and steel products and tobacco, have declined.

In order to provide some ideaof the contribution by country to items playing a leading role in trade, table 7 has been abstracted from detailed data and included in the statistical appendix. Costa Rica features prominently in nearly all of the items shown, which is consistent with its share of around 12% of total trade in 1987 and with its apparently more diversified production base. The table also reflects the still dominant role of agriculture and fisheries products; however, the growing importance of manufactures can be seen from the high growth rates of some countries in organic chemicals, furniture,

Table 7

GROWTH OF TRADE IN SELECTED ITEMS BY MAJOR EXPORTERS

SITC No.	Description	Countries	Values 1987 (millions of dollars)	Growth rate 1984-1987
011	Meat, fresh, chilled or frozen	Total of which:	134.2	37.4
		Costa Rica	69.5	43
		Honduras	20.1	-15
		Dominican Republic	24.7	909
034	Fish, fresh, chilled or frozen	Total of which:	50.4	83.3
		Costa Rica	19.0	158
		Panama	20.9	36
		Trinidad and Tobago	2.2	285
		Dominican Republic	2.0	-17
036	Shell fish, fresh, frozen or salted	Total of which:	274.4	29.3
		Costa Rica	16.6	24
		El Salvador	26.6	5
		Honduras	64.6	32
		Bahamas	21.6	37
		Haiti	4.6	68
		Jamaica	2.0	694
		Belize	6.2	45
		Panama	97.9	53
054	Fresh and preserved vegetables	Total of which:	67.9	29.3
		Costa Rica	8.4	56
		El Salvador	3.8	113
		Guatemala	24.2	83
		Dominican Republic	21.0	-17
		Jamaica	8.2	46
057.3	Bananas and plantains	Total of which:	617.4	27.4
		Costa Rica	185.7	-6
		Guatemala	70.4	125
		Honduras	260.9	43
		Panama	99.7	42
821	Furniture and parts	Total of which:	24.6	173.3
		Costa Rica	7.3	297
		Honduras	3.9	50
		Dominican Republic	5.7	442
		Jamaica	2.4	467
897	Jewelry and related articles	Total of which:	117.1	394.1
		Costa Rica	8.6	2 619
		Dominican Republic	80.7	350
		Haiti	25.5	448
		Panama	0.6	573

Source: Unite States Department of Commerce, *U.S. General Imports and Imports for Consumption* (FT 135), Washington D.C., and data furnished by the ECLAC Division of Statistics.

jewelry, etc. Exports of some traditional commodities have been declining or stagnating; they include coffee, bauxite, cocoa, tobacco and tobacco products (though only coffee is shown in the table). Not reflected in the table is the growing importance of non-traditional items in the fast-growing trade of the smaller countries of the Caribbean Basin.

On balance, the existence of the Caribbean Basin Economic Reovery Act has conferred limited trade benefits on the region as a whole; and the large trade surplus of the Basin countries with the United States in 1983 had shrunk drastically (by 96%) by 1987. Some individual countries have fared better than average and have even increased their total exports. By contrast, the trade in CBI-eligible goods has increased. Perhaps the most important contribution of the Act is that it has helped the region to offset, if only minimally, the broader decline in trade Moreover, many countries have participated in the increase in the trade in eligible goods. In this way a more diversified structure of United States imports from the CBI-designated countries has emerged and the potential for further increases remains.

2. *Investment*

This important area is included rather obliquely in CBERA by way of an amendment to section 294 of the United States Internal Revenue Code of 1954, as mentioned earlier, perhaps reflecting the assumption that the increased export opportunities provided by CBERA would be sufficient to stimulate both local and foreign investment.

Certain United States agencies operating in the CBI region either execute or facilitate direct investment projects. These include the United States Export/Import Bank, the Agency for International Development (USAID), the Overseas Private Investment Corporation (OPIC) and the Caribbean Project Development Facility (CPDF). It is reported that much co-ordination of activities is effected among these agencies in order to facilitate the attainment of the CBI objectives.

Definitive data are not readily obtainable on investment resulting from the CBI and some reports must indeed be viewed with scepticisms in the light of a United States General Accounting Office report which stated that a United States Department of Commerce study "attributing a large number of investments in the Caribbean and Central American countries to CBI was unsubstantiated and incorrect" (see GAO/USAID-88-77). There is no shortage of comment, however, to the effect that inflows of investment, like other areas of the CBI, have been disappointing. These opinions are supported by the available statistics (see table 8) which show recent downward trends for most countries in a comparison of the pre- and post-CBI periods.

During the post-1983 period gross fixed capital formation at constant prices declined overall, although the trends varied by country. There were increases in three countries (Costa Rica, Dominican Republic and Honduras), but for the other six countries shown in the table the levels of gross capital formation stagnated or declined. Direct foreign long-term investment fell in the period 1984-1987 mainly as a result of the severe drop in inflows to Trinidad and Tobago. However, foreign capital inflows to three countries, Dominican Republic, Costa Rica and Honduras, increased during this same period. Interestingly, these three countries are the leading exporters of CBI-eligible goods to the United States.

The outstanding features of United States direct investment are the large volume of investment in the Bahamas and Panama, the higher level of investment in Barbados after 1983 (contrary to the main trend and the negative investment situation in the Netherlands Antilles). However, this negative situation has eased since 1984 as a result of positive capital outflows, mainly in the form of inter-company debt payments and reinvested profits. United States equity capital outflows to CBI countries decreased during this latter period. It is worth noting that the declines in United States investment in Costa Rica, Dominican Republic and Honduras after 1983 were relatively small.

It would thus appear very probable that investment flowed into at least some of the countries of the CBI area to take advantage of the export opportunities offered under the programme. It is also known that some of these countries have benefitted from the "807" programme described earlier and that a few investment projects have been financed under the Puerto Rico section 936 programme.

Table 8

INVESTMENT IN SELECTED CBI COUNTRIES

(Annual averages)

Country	U.S. Direct investment position[a]		Direct foreign investment[ab]		Gross fixed capital formation[c]	
	1982-1983	1984-1987	1980-1983	1984-1987	1980-1983	1984-1987
Netherlands Antilles	-21 356.0	-18 547.5	...	...	...	...
Bahamas	3 441.5	3 113.5	8.8	9.1	...	...
Barbados	56.5	139.3	3.4	-0.6[d]	113.8	102.3
Belize	-21.5	-9.0[d]	...	...	...	...
Costa Rica	154.0	131.3	49.1	64.4	1 745.6	1 987.5
El Salvador	98.0	72.6[e]	6.8	6.2	362.8	366.4
Guatemala	223.5	193.3	90.0	79.6	347.5	236.5
Haiti	18.0	27.8	9.2	4.7	919.0	1 022.3[f]
Honduras	231.5	207.3	9.3	23.4	794.0	818.0
Jamaica	348.0	144.0	-4.6	-0.4	252.2	234.1
Panama	4 625.0	4 376.5	8.4	-2.3	388.5	342.5
Dominican Republic	223.0	201.3	54.8	60.9	619.9	703.1
Trinidad and Tobago	896.5	468.8	190.1	-27.0[d]	1 550.0	1 051.1[f]

Source: ECLAC *Statistical Yearbook for Latin America and the Caribbean,* 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and United States Department of Commerce, *Survey of Current Business,* Washington, D.C. August 1986, 1987 and 1988.

[a] Millions of dollars.

[b] Long term.

[c] Millions of national currency units (at constant prices).

[d] Data for 1984-1986 only.

[e] Data for 1984-1985 only.

[f] Data for 1986 unavailable.

There are data relating to investments in CBI countries insured by OPIC,[2] but the important question of whether some of these investments would have been made if the insurance facility had not been available remains unanswered. Available data for projects promoted by the Jamaica National Investment Promotion (JNIP) since the inception of the CBI programme in 1984 are very positive, but here again it is impossible to say to what extent the CBI was responsible for investment in these projects.

Where the project was already viable and profitability assured, CBI benefits provide a bonus to the firm. It is also possible that CBI benefits made the difference in some cases of marginal viability where the investment might not otherwise have been made. Also, to the extent that increased co-ordination has reduced duplication and overlapping and has focused on CBI objectives, the available funding may have had greater effectiveness.

Notwithstanding the lack of major investment incentives in the relevant legislation, the programme appears to have stimulated interest in investment in the CBI region. Moreover, the CBI does provide some benefits for the firms involved and an inflow of foreign exchange, investment and jobs for at least some of the participating countries. It is possible also that the foreign investment inflow and gross capital formation of those countries experiencing declines may have been worse but for the programme.

[2] For example, during the three-year period from September 1983 to November 1986, OPIC provided US$168 million in financial support for 59 projects and insured 129 investments totalling US$193 million (United States Department of Commerce: *Guidebook for Caribbean Basin Exporters, 1988*).

Table 9

U.S. ECONOMIC ASSISTANCE TO CARIBBEAN BASIN INITIATIVE COUNTRIES[a]

	1981	1982	1983	1984	1985	1986	1987	1988[b]
Belize	-	-	17	15	10	9	10	9
Costa Rica	13	51	212	175	195	147	173	118
El Salvador	114	182	246	323	314	311	430	317
Guatemala	17	14	28	32	80	106	176	137
Honduras	34	78	106	170	131	123	188	155
Panama	11	13	7	46	35	24	19	30
Regional	11	13	19	53	122	97	53	61
Central America	**200**	**351**	**635**	**814**	**887**	**817**	**1 049**	**827**
East Caribbean	27	87	58	106	54	49	49	46
Haiti	34	34	46	45	53	74	97	88
Jamaica	71	137	102	108	155	119	78	94
Dominican Republic	36	79	60	143	117	81	63	76
Caribbean	**168**	**337**	**265**	**352**	**379**	**323**	**287**	**304**
Total	**368**	**688**	**900**	**1 166**	**1 266**	**1 140**	**1 336**	**1 131**

Source: SELA, *The Caribbean Basin Initiative: Current Situation, and Outlook* (SP/CL/XIV.O/Di No. 2), Caracas, June, vol. 2, quoting United States Department of State.
[a] Millions of dollars - fiscal years.
[b] Provisional.

3. *Development assistance*

Financial and technical assistance is the third major area of the CBI programme, as indicated earlier. SELA (1988) quots figures from the United States Department of State which show that United States economic assistance to the CBI region in 1987 was some 48% higher than in 1983 (see table 9). The largest percentage increase was in 1984, the first year of CBERA, and a decline of some 15% was projected for 1988. Official assistance of various kinds is being given to stimulate, promote and encourage private-sector organizations to invest and otherwise facilitate business contacts, activities, etc., in CBI countries. The possibility of further declines in the level of United States financial assistance to the Basin countries is very great owing to the annual reductions provided for in the United States budget deficit.

Central American countries get the bulk of these funds —as much as 79% in 1987, although generally the share is closer to 72%, with the remainder going to Caribbean countries. Generally, the Caribbean's share is getting smaller. The level and trend of the assistance to individual countries is interesting to note but the reasons for these movements need not detain us here.

In summary, in the light of the available data, the achievements of the CBI programme have been disappointing, although United States economic assistance to the region has increased fairly substantially. On the other hand investment, a necessary prerequisite for production increases to take advantage of the trade opportunities, has declined. Total exports to the United States have declined drastically, although this has been offset to some extent by smaller increases in goods benefitting from CBERA eligibility. It must be stressed, however, that some countries have obviously benefitted directly. The overall lack of dynamism of investment and foreign trade in the Basin as a whole means that the impact on regional GDP has been minuscule. There is evidence, however, that at the country level some impact has been made on the agricultural and manufacturing sectors, and a more diversified pattern of trade has emerged.

III
Achievements and expectations

Expectations ran high, for the most part, following the original announcement, and the accompanying wave of publicity, of a major initiative to assist the Caribbean Basin countries to overcome their current economic problems and to promote self-sustaining economic growth. Talk of a Caribbean "Marshall Plan" or "Alliance for Progress" was commonplace, and the remarkable post-World War II recovery of Europe and Japan fired expectations. Investments were expected to flood into the Caribbean and Central America from the United States and elsewhere, subject only to the limits of absorptive capacity. Exports from CBI countries would move into the United States freely once the tariff barriers had been lowered, and the productivity of dynamic private enterprise would create a demonstration effect which would substantially improve the economic situation in the Basin in the short to medium term. As it turned out, the few sceptical voices were right and in retrospect there are a number of reasons —political, institutional and economic— why the great expectations proved unjustified.

It may be useful to note in passing that the main justifications for the programme were geopolitical, not economic. The United States Secretary of State said in a statement before the Senate Finance Committee on 13 April 1983 that the security and economic well-being of the Caribbean and Central America had a direct impact on the United States own strategic and economic interests, and that the region was a vital strategic and commercial artery for the United States (U.S. Department of State, 1983).

The Reagan Administration surged to power in 1980-1981 on a rising tide of "conservative" and nationalist political and economic ideologies: a super-Power status must not only exist but must be seen to exist; the Monroe doctrine must be invoked to protect against alien encroachments in the region. In economic affairs the primacy of the market-place must be reasserted as the only means of lasting economic progress; hence the rhetoric of balanced budgets, reduced State sectors and monetarist approaches to solving economic problems.

However, this new Administration, despite its large majority in the general election of 1980, had to work with a Congress not fully in accord with its views, so that the usual post-election "honeymoon" period was rather brief. In the circumstances, even with the best will in the world the President would have had great difficulty in securing all the support he needed on most issues, including geopolitical ones. Moreover, the Executive Branch of the Government represents national interests while Congressmen represent sectoral interests. Furthermore, the existing laws, the rules and regulations of executive departments, and state and municipal government authorities with their own legal status under the United States Constitution often have an impact on the outcome of national laws, of the economic and other kinds. In short, the political-legal system and the prevailing ideological tide constituted major constraints on the fortunes of the CBI proposals.

The initial proposals of the United States government were sufficient cause for doubts to be cast on the notion of a strong stimulus to self-propelled growth in Central America and the Caribbean in the medium term. (It is of course easier to be wise after the event; certainly in the period after the Grenada expedition[3] some euphoria and optimism seemed justifiable.) The proposal for one-way duty-free access is clearly of limited usefulness *unless* a number of other laws, rules and regulations are also revised. The provision of US$350 million to meet balance-of-payments shortfalls was a drop in the bucket given the existing situation.[4] The proposed investment tax credit (10%) would have been an added inducement to investors, but the Congress rejected the proposal.

As pointed out before, the final law passed by the Congress included restrictive clauses and

[3] In 1983 United States troops landed on the Caribbean island of Grenada following a violent *coup d'état.*

[4] Moreover, the protectionist and nationalistic philosophy then prevailing, coupled with strident calls for a balanced budget (including reductions in non-military aid) were enough to suggest that the volume of aid funds would not be increased indefinitely.

related almost exclusively to trade. It has been observed that a very large part of the trade was already available to CBI countries duty-free and the rest was subject to very low duties in the range of 5% to 7%. What it was important to remove was at least some of the more restrictive non-tariff barriers.

Nor did much of the economic scene make for any great optimism. In 1981 and 1982 the world economic situation was not very buoyant. For example, industrial production in the OECD countries had declined between the third quarter of 1981 and the end of 1982; the prices of products had fallen and so had the level of consumer prices. The United States itself was in a recessionary phase during 1982; industrial production had been declining since the middle of 1981, real interest rates were high, and business failures in 1982 were more than three times higher than in 1979. Of course, there was a spirited recovery of that economy during 1983 which perhaps helped ease the passage of the CBI legislation through the Congress.

In addition to all these factors, there were other factors within the Caribbean Basin economies that ought to have at least tempered expectations. They included the factors of size, resource base, production capacity and productivity and the existing economic situation, as outlined above in the introduction. Of all the CBI countries only Guatemala had a population of more than five million in 1982, and none can *truly* be said to have abundant resources: this is particularly true of the economies of the Caribbean islands. Also, speaking specifically of the Caribbean countries, while some capacity may have existed for immediate expansion of production and sales of items such as sugar, rum, bauxite, some agricultural products, garments, and petroleum products, the same could not be said for most other goods.

One consideration of overwhelming importance is the dynamics of producing for and successfully selling in the United States market. Quite apart from the legal and institutional obstacles, such as health requirements, environmental considerations, strictures against subsidies and suspected underpricing of goods in order to gain a market share, the difficulties would still have been formidable. They included the production of articles in the right sizes and quantities at competitive prices, appropriately packaged for the various markets or markets segments and delivered at the right time. Meeting these challenges requires modern production facilities, high productivity, adequate physical and institutional domestic infrastructure, strict quality controls, comprehensive knowledge of the market and large advertising budgets, among other things. Added to all of this is the burden of relatively high transportation costs. However, it would be reasonable to expect transportation costs to decline as volume of trade increased.

This brief analysis brings into sharp focus the realities of the foreign market-place and shows that the task was never going to be easy; radical changes in domestic attitudes, practices, strategies, etc., would therefore have been required. This prospect ought to have been enough to temper over-optimistic expectations of short-term success.

IV

Some recent initiatives

The limitations of CBERA and even of the complementary administrative actions as means of achieving the programme's stated objectives were soon realized by many people, including members of the United States Congress and the Administration. Following representations by Caribbean governments and concerned oranizations various measures to improve the programme have been proposed.

These measures have culminated in a bill which, after various bodies had considered it and commented on it, was approved on 20 June 1989 by the Ways and Means Committee of the House of Representatives as "H.R. 1233 Caribbean

Basin Economic Recovery Expansion Act of 1989". This bill is expected to be presented shortly for consideration by the full House of Representatives. It appears to have the support, in general if not in all its details, of the Administration and several private-sector interests.

Some major features of the new bill are:

— The 1989 CBERA will have no termination date, so that it will become a permanent feature of United States trade policy.

— In respect of textiles and apparel (not eligible for duty-free treatment under the 1983 CBERA, the existing Guaranteed Access Level (GAL) programme negotiated by the government, under which products assembled from United States materials in CBI countries enter the United States subject to duty only on the value added to these materials, will become a statutory programme. In addition, GAL will apply to products assembled from foreign materials which are in "critical short supply". *Duty-free treatment will be accorded to the total value of GAL imports* manufactured from United States materials or from imported materials named in a statutory list.

— In the case of products previously not exempted from payment of duty (see page 11), the duty will be reduced by 50%, *except* for leather footwear, petroleum, petroleum products and canned tuna. The value added in the Caribbean on these articles assembled or processed entirely from United States materials or ingredients will be entitled to duty-free treatment.

— A minimum floor for the sugar imports quota will be established at the 1989 quota level of 371 449 net tons.

— Ethanol produced in full-fermentation plants will continue to receive duty-free treatment, but imports of ethanol distilled but not fermented in CBI-eligible countries will be subject to certain quantity limitations.

— New rules of origin will be announced for imports from CBI countries as of January 1991 based on changes in the Harmonized System of Tariff Classification.

— The duty-free allowance for United States residents returning from CBI countries will be increased from US$400 to US$600.

The obvious question is: Will the new bill, once it becomes law, enable countries to achieve the aims of the CBI? Considered in isolation this result seems doubtful, although the new bill is an improvement on the existing Act. Firstly, passage of the new bill in its present form is not an absolute certainty since special-interest groups may raise objections. Secondly, the new bill like the old one does not affect investments, except indirectly by improving market access. But is the access sufficient to attract foreign or United States investment? Time alone will tell, but other factors in the domestic economies may be more important. Thirdly, the "permanency" feature of the bill is a clear advantage, although it could act as a brake on the sense of urgency that a fixed termination date can evoke. Fourthly, the bill is virtually silent on non-tariff barriers, with the important exception of the sugar imports quota and the modification of the accumulation procedure in measures against "unfair trade practices". In the case of sugar several countries are in the process of rationalizing the industry, but the reductions in their United States quotas have been too drastic. The 1989 quota level will furnish a reasonable base for an industry which provides jobs for so many. The accumulation clause will apparently be of immediate benefit to at least one small heavy industry. Finally, the 50% duty reductions will probably not be much of an incentive since many rates of duty are already quite low.

V

Comments

The CBI programme involves the United States, a super-Power donor, a number of sovereign States and a few non-independent territories in the Caribbean. It will be clear from the earlier discussion that the programme is essentially a unilateral one operated from the donor's side, even though some recipients were able to explain their situation in order to secure increased assistance for the region.

The programme has not been the success expected and CBERA, which bears the legislative stamp of the United States Congress, has many shortcomings (exceptions and restrictive clauses) which limit its ability to facilitate the attainement of the stated objectives. Also, when the final provisions were signed, the opportunity was not taken to remove or ameliorate some of the hindrances of other legislative or executive decisions (including quota requirements and special protective measures of various kinds). Therefore, it is quite understandable that beneficiary countries should want to pursue eagerly the efforts to have the programme modified so as to be able to achieve its stated objectives, which coincide with the objectives of the Caribbean Basin countries. Recently there has been increased publicity and mounting pressure for concerted action to gain more concessions. Such efforts have a good chance of succeeding, as indicated in the preceding section.

There are some other considerations that ought to be taken into account in the context of the objectives of the CBI programme. They include: a) the essentially temporary nature of financial and technical assistane; and b) contemporary world and national economic realities.

Almost by definition, financial and technical assistance is temporary in nature, for it is motivated by the need to solve some temporary problem or difficulty. Thus, aside from the limitations on the donor's ability or willingness to furnish this assistance indefinitely, there is the implied expectation of a solution to the problem for which the assistance was sought in the short to medium term. The extension of this term cannot be expected to continue indefinitely and we may be approaching the limit.

World and national economic realities obviously can affect the present situation by altering political priorities or the ability to pay, even where there is the will to do so. The trend of phenomena such as production cycles, technology changes, and international competitiveness can make a significant impact on fragile economies and may even affect previously secure economic arrangements. The burden is clearly, therefore, on the national governments (of the Caribbean Basin countries) to create the necessary conditions to cope with the effects of any changes on the national economies.

While striving to gain maximum benefit from existing concessionary arrangements, the burden of effort ought to be concentrated on social and economic activities in order to adapt and adjust to the realities in a manner consistent with increasing the capacity to produce efficiently and increase total output.

The predictions for the next decade on the basis of current trends are ominous. In this connection, a recent publication (Commonwealth Secretariat, 1988) is particularly appropriate when it says that long-run development will depend more upon the sustained hard work, ingenuity, productivity and thrift of individuals and enterprises within the framework of sensibly supportive and facilitatory government policies than upon any grandiose schemes and projects.

The CBI programme must therefore be viewed as simply buying time, creating a breathing-space while major adjustments are undertaken and new structures put in place in beneficiary countries. Therefore, the pertinent question is whether the countries are doing enough to ensure that by 1997 (or 2007) they can produce efficiently for domestic consumption and exports in a dynamic world economy. Efforts need to be made to create a new outlook with respect to production, marketing and international realities. But complementary activities must also be undetaken in order to promote domestic savings, investment, research and development, and training. But much more important is the need to formulate suitable supportive macroeconomic policies to facilitate the process and to provide for the economic welfare of all the citizens of the Basin countries.

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CEPAL REVIEW No. 39

The technological potential of the primary export sector

*Mikio Kuwayama**

This study makes an appraisal of the impact of technological change on the Latin American commodity sector, especially with regard to demand. It examines the factors underlying the apparently declining raw materials demand in developed countries and threatening to affect demand in developing countries as well. In this context, the process of materials substitution and the relationship between commodity demand and economic development are analysed from the standpoint of use-intensity, and the hypothesis is put forward that the threat posed by a reduction in materials demand in the North via "de-materialization", economies and substitution could perhaps be mitigated by increasing materials requirements in the South by means of population increase, infrastructure works, consumerism and appropriate government policies. The region still has areas not fully exploited with the existing technologies whose potential could be substantially enlarged by changing or improving the prevailing production structure. This proposition is tested in four strategic areas (increasing the technological content of exports, intensification of local processing, redirection of commodity trade inwards to the region itself and strengthening of marketing and product promotion infrastructures).

*Staff member of the ECLAC International Trade and Development Division.

Introduction*

One of the major issues on the international commodity sector relates to the proposition that there has been a significant downward trend in the prices of primary goods, at least in the period since the Second World War. This virtually established proposition[1] is now overshadowed by the recently growing concern that raw materials demand in the developed market economy countries (DMECs) has been slowing down considerably and that the very factors responsible for this would soon begin to affect the developing countries' demand to such a degree that the world consumption of materials and thus the future prospects of commodity-producing countries would be seriously restricted.

The reasons for believing in a long-term deterioration in commodity prices from the Third World perspective are well known. They include low prices and poor income-elasticity of the demand for commodities as compared with manufactures, and the asymmetric impact of trade-union power in developed countries and labour surplus in developing countries on the division of the benefits of increased productivity. In addition to these familiar factors, other structural elements have gained increasing importance in recent years.

Deep in the process of structural transformation in commodity demand there are said to be at least three factors at work: i) the general shift of GDP towards the service sector, which commonly consumes a smaller volume of raw materials than the manufacturing sector; ii) the "de-materialization" of production processes which consists of a shift in the composition of demand away from the products of industrial activities which consume more raw materials; and iii) the reduction or eventual elimination of the raw materials consumed in the manufacture of existing or emerging products through *substitution* of other materials in those products and

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[1]Recent studies (Sapford, 1985; Grilli and Yang, 1988), though not necessarily agreeing on the magnitude of the decline, support the proposition originally advanced by Prebisch (1950) and Singer (1950 a) of the longstanding price deterioration.

through more intensive or more economical use of the materials: *materials saving* or *materials economy*. Reduced growth in the demand for traditional metals and some agricultural products result from the interaction of these factors. On the supply side, the most remarkable developments have been the accelerated production of a number of commodities, particularly agricultural ones, and continuous improvements in productivity, both in developed and in developing countries, through the use of new production technologies.[2]

The emergence and spread of new technologies have a strong bearing on the export prospects of developing countries. While the competitive advantages deriving from the abundance of natural resources and manpower in these countries may be eroded by these technological changes, they also offer new production and export opportunities if they are developed in time and properly exploited. Which of the two scenarios is more probable is a question of great socioeconomic importance, particularly for Latin America and the Caribbean, whose exports consist mainly of commodities and whose manufacturing sector has a strong commodity-based bias.

The scope of the term "new technologies" is diverse and encompasses a broad range of activities (see UNCTAD, 1984). The new developments most often cited are microelectronics, biotechnology and materials technology. The use of microelectronics in a great variety of activities reflects its penetration capacity and its main use in the commodity sector has been in agriculture (for example, irrigation, livestock supervision and crop control). With microelectronics, production processes have become highly automated, and in most cases more capital-intensive, producing an impact on demand and supply, not only in production itself but also in efficiency gains in stock management and other administrative reorganization procedures.

The so-called information revolution has also had a strong impact on the financial aspects of the commodity sector. High-speed and cheaper data processing has facilitated portfolio selection among a variety of financial products and commodities. It also has facilitated the introduction of "programme trading". The world-wide round-the-clock trading system organized for gold, petroleum, bonds, stocks and commodities has encouraged institutional investors to try to make profits by revolving their funds in a very short time, making commodity prices more volatile.

In biotechnology, besides the traditional biological processes (bread, cheese, beer, wine, etc.), the latest advances in molecular biology, biochemistry and microbiological genetics have found extensive laboratory applications, some of them on a commercial scale. The most decisive impact of biotechnology development should be in agriculture, with crop farming alone accounting for more than 60% of the potential market, estimated at US$50 billion a year (Ahmed, 1988). In agriculture, in almost every aspect of cash crops, there are tantalizing prospects of improving the yields, the production based on renewable resources, and human welfare. Bioprocessing in the areas of synthetic fuels, materials recovery (for example, minerals recovery in mining by "bacterial leaching") and elsewhere has a broad range of actual and potential applications.

Materials technologies, such as those used in fine ceramics, optical fibres, plastics[3] and composite materials, have led to improvements in the quality of many products and to lower manufacturing costs by saving energy and material inputs, reduced weights, increased scope for manufacturing activities in small and medium-

[2]It is important to note that the factors which seem to have gained importance in recent years did not escape the critical eyes of Prebisch (1951) and H.W. Singer (1950 b). As early as 35 years ago, they pointed to a possible decline in demand for commodities due to technological changes leading to a reduction in the raw materials intensity of certain production processes and to competition from synthetics and substitutes.

[3]A most notable product replacing traditional non-fuel materials is plastics. On a volume basis, the United States consumption of plastics now exceeds that of steel, copper and aluminium combind. It is known that at least one-fourth of all plastics and resins produced in this country displace non-fuel mineral materials. Polymer materials have already replaced about 7% to 9% of the steel consumed in domestic motor vehicle production and may displace more than double that amount by 2000. In the construction industry, it is estimated that polymers have replaced slightly less than 10% of the steel consumed and by 2000 could displace as much as 13%. (Fraser and others, 1987.)

sized markets, and, most importantly, increased invention of new products. These new materials technologies are believed to encourage the displacement of traditional materials (for example, optical fibres vs. copper in telecommunications,[4] fine ceramics, plastics and composites vs. steel and aluminium in car manufacturing), but they also create a new demand for certain commodities.

As some studies (Pérez, 1986, UNCTAD, 1986 c) suggest, the socioeconomic impact of new technologies will differ according to the extent to which the technology in question influences the existing "techno-economic" system. Allowing for the danger of oversimplification and their possible interrelation, there are at least three distinct categories of technological change: i) *gradual innovation*, entailing small improvements in the existing array of processes and products in different industries; ii) *radical innovation*, entailing the development of fundamental new materials such as polyethylene or completely new products such as optical fibres, fine ceramics, etc.; and iii) *technological revolution*, such as the introduction of steam power, internal combustion engines, electricity, Bessemer steel production, mass-production assembly lines, microelectronics, and possibly superconductivity, which have all entailed or are expected to entail profound and far-reaching production changes throughout the economy. The present study focuses mainly on the first two categories, which have had a pervasive impact so far on the raw materials exports of developing countries, but it by no means underestimates the significance of the third category of technological development for the prospects of the international commodities sector.

I

Nature and characteristics of world technological change and its impact on commodity demand and supply

This paper focuses mainly on technological changes affecting the demand for commodity exports from developing countries. This approach to the subject therefore leaves out a wide range of changes on the supply side. Although such issues as the impact of technological change on production through improved productivity or the creation of new products or production methods are complex in nature and too many in number to be fully documented here, some illustrative cases are still worth mentioning.

1. *Technological developments on the supply side of commodities*

a) *Minerals and metals*

In the mining and metal-working sectors, apart from the advances in mineral exploration, most of the new technologies currently in use have emerged or have been improved during the last decade, after the first oil price increase, in order to save energy, reduce operating costs and improve quality. These innovations, in turn, have had two major effects: on the one hand, they have made metals more competitive, thereby resisting the loss of segments of their traditional markets threatened by economic recession and the growth of substitutes; and on the other, they have achieved savings raw materials in the production and manufacturing stages.

Developments in the iron and steel industry are instructive. The technology of the processing

[4]Some experts predict that the displacement of the copper market by optical fibres in the six DMECs (United States, United Kingdom, Federal Republic of Germany, France, Italy and Japan) by about 230 000 tons by 1990 and a little over 300 000 tons by 1995, is equivalent to 4.3% and 5.6% respectively of the total copper consumption that would have been projected for these six countries for the two years, assuming no technological "leap-frogging" in fibre optics (Takeuchi and others, 1986).

and beneficiation of iron ore has enabled the industry to lower its production costs for primary iron by reducing the ore input required per unit of primary iron output. Owing to improved furnace technology and stricter market requirements regarding use and quality of ore, the average ratio between the iron ore feed and the pig iron produced declined from 1.95 in 1955 to 1.88 in 1975 and to 1.81 in 1985. The rise in the average grade of iron ore worldwide (average percentage Fe content) was from 48% in 1955 to 59% in 1985 (UNCTAD, 1986 b). A series of coincidental developments, such as the emergence of "new mini-steel works" and the widespread adoption of electric-arc furnaces and continuous casting, have adversely affected iron ore demand in recent years through the minimization of inputs, while at the same time improving product range and quality.

With regard to other metals (for aluminium and copper, see UNIDO, 1989; Brown and McKern, 1987; ECLAC, 1989), though the available mining and processing technologies are in a process of continuous evolution, current developments are in most cases modifications of established techniques rather than entirely new processes. In view of this, the main constraints on the adoption of new technologies, at least in the primary stage of metal processing may be due not so much to their complexity and unavailability as to the large capital outlays which they entail.

b) *Agricultural products*

In agriculture the most remarkable changes centered around the "Green Revolution". This was manly concentrated in some developing countries of South and South-east Asia and Latin America and was based on the development, spread and adoption of modern high-yielding varieties, particularly of rice, wheat and maize, combined with increased use of inorganic fertilizers and irrigation. Various studies (a summary is provided in IDB, 1986) on Latin American agriculture support the view that during the last two decades the use of non-traditional inputs and technological change have played a much more important role than other factors such as acreage and manpower increases.

Now the Green Revolution seems to have run its course, and the yield-enhancing potential of mechanical and chemical inputs may be largely exhausted. Fears of inability to sustain a high growth rate in agriculture and of continued population growth, coupled with falling productivity have shifted attention increasingly to support for agricultural research on biotechnology, in the hope of an upsurge in productivity in both developed and developing countries.

Even though the routine cultivation of biotechnologically transformed plants is not expected before the mid-1990s, now is the time to evaluate its possible socioeconomic impacts, in order to implement appropriate measures before structural rigidities are firmly established. The new biorevolution must be harnessed and properly directed because it harbours not only certain unfavourable possibilities such as the displacement of the labour force and a more "closed" scientific circuit,[5] [6] but also positive potential for the poor of the Third World. This includes reduced dependence on agrochemical inputs, with substantial cost reductions, general gains in productivity and a wider variety of food products more in keeping with local tastes and

[5]As pointed out by some (Buttel and others, 1985; Ahmed 1988), a feature of the Biorevolution, which differentiates it sharply from the Green Revolution, is its predominantly private character. Major actors in biotechnology are transnational corporations which have managed to combine their in-house research capabilities, equity interests in genetic engineering venture firms, seed company ownership and access to university research via funding arrangements. The Green Revolution was, on the other hand, conceived and implemented within an institutional structure consisting mainly of public and quasi-public organizations, where the governments of developing countries and their national genetic programmes participated as clients.

[6]According to UNIDO, there exists a wide North-South gap in biotechnological research capacity. Recent surveys of companies involved in biotechnology show that only 20 out of a world total of 1 036 companies are in the Third World. A characteristic trend in recent years has been the acquisition of a large number of seed companies by transnational firms, particularly pharmaceutical and petrochemical companies. Because biotechnology involves the ability to link new varieties of seed to the use of specific fertilizers and pesticides, their supply of such seeds is claimed to enable the transnationals to expand a market for other agricultural inputs. A lop-sided research capacity is also reflected in Ahmed's assertion (1988) that there has been an outflow of genetic resources from the "gene-rich" South to the "gene-poor" North. It is estimated that 90% of all germplasm (total genetic variety available to a species) came from the Third World, because the temperate zones have lost almost all of their phytogenetic resources under the weight of the glaciers. Some 40% of that germplasm ended up in the gene banks of Europe and North America, while another 40% was stored by international agricultural research centres (IARCs). Only 15% was stored directly in the gene banks of developing countries.

conditions and a shorter time-lag in the adoption of biotechnology by small farmers than in the case of the Green Revolution.

2. *Structural changes influencing commodity consumption patterns*

a) *Sectoral changes*

For a broad range of raw materials exported by developing countries the growth of demand in the DMECs in recent years has been either stagnant or falling. In the 1960s, for instance, when GDP of the DMECs grew at 4.3% annually, consumption of many commodities, in particular minerals and metals, increased faster than GDP. In the following decade, in contrast, while the average economic growth rate of these countries dropped to about one-half the 1960s level, the consumption growth rate fell even more sharply. During the 1970s many commodities even recorded negative growth rates. The decline in commodity demand seems to have intensified in the 1980s, after the record rises for petroleum and most metals which resulted in the more rapid development and adaptation of materials-saving technologies and materials substitution.

In addition to the increased services-sector orientation of industrial economies which is believed to be at least partially responsible for the declining trend in demand,[7] the change in GDP patterns has been accompanied by marked changes within the manufacturing sector. An examination of the growth of domestic demand in volume terms by industries in selected DMECs for the period 1972-1982, as shown in table 1, sheds light on this aspect. Strong-demand industries include electrical equipment, electronics, information technology, automated office equipment, precision instruments, chemicals and pharmaceuticals. Demand for this group of products grew on average by 6.7% during the period. In contrast, moderate-demand industries, such as rubber, plastics and transport equipment, had a growth rate of 2.5%, and weak-demand industries, such as textiles and metal products, grew by 1.1%. This observation endorses the generally accepted view that, at least for the DMECs, growth has been poor in raw materials-intensive industries, and that a high level of performance has been found in high-technology industries with a low materials to value-added ratio.

Meanwhile, developing countries as a whole have faired substantially better in those industrial areas where the DMECs have seemingly been losing their comparative advantage. A comparison of the estimated percentage changes in value-added for the 28 branches of industry in the ISIC for 1976-1985 and 1985-1988, shows that the raw materials-intensive industries such as food, beverages, wearing apparel, wood and wood products, paper and paper products, rubber products, iron and steel, and non-ferrous metals, have shown relatively high growth rates for the Third World as a whole. In most cases these rates are significantly higher than the rates of countries in the North (UNIDO, 1987, p. 8). This phenomenon certainly reflects the changing structure of international trade and production, as well as the structural adjustment processes under way, especially in the DMECs.

The intrasectoral transformation in manufacturing has been facilitated by the steady progress made in information technologies and automation. In turn, the general tendency towards more automated and continuous, and more diversified, production processes increases the demand for most metals in the high-technology and special steels and alloys categories, owing to the high strength and low weight of their alloys and superalloys, and because they are used in high-speed, hot-work special machine tools or in special anti-corrosion applications.

A good example of the unimpressive recent demand for major traditional non-ferrous metals of general uses, compared to that of high-tech metals, is the United States domestic consumption pattern of 12 metals between 1972 and 1982. Only four of them exhibited positive con-

[7]As a reflection on the issue, Duncan (1988) points out that the share of services in GNP of the DMECs has been increasing for some time, in some of them reaching a high percentage before 1973. He explains that the relationship between industrial production and GNP is non-linear, and that an industrial economy grows rapidly —above a GNP growth rate of 2-2.5% — when its manufacturing sector is booming, and conversely, at low GDP growth rates services grow more quickly.

sumption growth: aluminium, the platinum-group metals (including iridium, palladium and platinum only), titanium and tungsten. Consumption of the remaining eight metals decreased at average annual rates varying from 1% (copper) to 5% (manganese, tin and zinc). Two of the four metals with growth in consumption derived it primarily from single markets: aluminium for metal cans, and platinum for catalytic converters. Only titanium and tungsten showed increased consumption in a variety of end-uses during this period (United States Bureau of Mines, 1986 a). The same data also confirm that total consumption and consumption per unit of output decreased for all metals except titanium, tungsten and the platinum-group metals.

In sum, the older non-ferrous metals have been affected to a greater extent and this category of metals has also been the most affected by substitutions in favour of light and specialty metals. Major substitutions among metals in favour of the older ones have been less frequent, as light and specialty metals usually find metal substitutes within their own category.

It is worth noting that Latin America's share in world reserves of new and other minerals such as chromite, cobalt, tantalum, vanadium, tungsten, zirconium and platinum metals is negligible and that only molybdenum (26%), columbium (78%) and silver (29%) held substantial shares in these reserves in 1985-1986 (Kürsten and others, 1988). In this sense, a strategy based on the exploitation of these non-traditional materials and the exercise of possible bargaining power due to concentration of supplies is not likely to be a viable development route for the region.

Table 1

GROWTH OF DOMESTIC DEMAND IN VOLUME TERMS BY INDUSTRIES IN SELECTED EEC COUNTRIES, THE UNITED STATES AND JAPAN, 1972-1982

(Percentages)

Industry	EEC[a]	United States	Japan	EEC,[a] United States and Japan
Strong-demand industries	**5.2**	**4.8**	**13.5**	**6.7**
Electrical equipment and electronics	3.7	5.5	5.1	7.7
Information technology, automated office equipment and precision instruments	8.9	5.7	6.8	7.0
Chemicals and pharmaceuticals	5.5	3.7	11.8	6.4
Moderate-demand industries	**1.0**	**2.3**	**4.8**	**2.5**
Rubber and plastics	3.2	5.0	1.2	3.5
Transport equipment	3.2	1.4	7.1	2.9
Paper pulp, packaging and printing	1.8	2.9	3.7	2.6
Food, drink and tobacco	2.0	1.7	3.8	2.2
Industrial machinery	0.2	3.2	3.6	2.0
Weak-demand industries	**0.2**	**0.5**	**3.0**	**1.1**
Miscellaneous products	1.3	1.8	1.4	1.5
Textiles, leather and clothing	0.2	1.5	2.7	1.2
Steel and metal ores	0.7	-0.7	3.7	1.3
Metal goods	-0.5	0.0	4.2	1.2
Construction materials, non-metallic minerals	0.9	0.3	1.8	1.0
Total manufactured products	**1.9**	**2.3**	**6.4**	**3.1**

Source: *Eurostatistics* and Commission departments.

Note: Based on United States dollars and at 1975 prices and exchange rates. The average annual growth rate is calculated on the basis of data smoothed over two years: average for 1981-1982 compared with average for 1972-1973.

[a]Belgium, Denmark, France, Germany, Federal Republic of, Italy, Netherlands and United Kingdom.
Cited in UNIDO (1987).

b) *Materials substitution*

The process of substitution in commodities embraces different types of phenomena, and its complexity is well documented in Tilton (1983). In some cases, although the competing materials perform essentially the same function (for example, the use of an aluminium beer can instead of a glass bottle), the selection is made on the basis of cost-effectiveness, efficiency or specific properties. In some substitution processes consumption is reduced (increased) by augmenting (reducing) non-material inputs such as labour, capital and energy. A clear example is the hand-soldering of household electrical goods, which requires less solder than more automated production using printed circuit boards. Producers of these products, however, have favoured the latter despite their higher materials intensity because they cut labour costs. In some substitutions what is changed is not the manufacturing process or the materials used in production but rather the use of the materials as a result of changes in the composition of the goods and services which they provide (for example, satellites vs. underground cables for long-distance communication).

And in other cases, substitution takes place when a technological innovation allows a product to be made with less material, perhaps adding new properties to it or improving the existing ones. This series of substitutions thus produces *materials-saving* effects, as mentioned earlier, and *quality alterations.* In the United States, thinwall casting, coupled with the downsizing of automobiles, has brought the weight of zinc diecastings used in American-manufactured cars down from 51 pounds in 1975 to 23 pounds per vehicle in 1983 (United States Bureau of Mines, 1986 a). The technological innovations in the zinc diecasting industry which made thinwall casting possible enabled zinc to gain an increasing share of the metal-casting market, but at the same time it brought about a much more efficient use of the metal with the result that less zinc is used in the process.

The behaviour of commodity markets tends to raise doubts about the assumption of conventional thinking that the functional relationship between price and demand is automatically reversible. In these markets, if a material loses a particular market, even temporarily, that market might be gone forever. It is quite possible that an industry will not recapture a market lost when it raises prices even if it subsequently lowers them to the previous level. The assessment of this reversibility becomes much more difficult for the medium or long term, during which the demand for plant, equipment and technology can change significantly. Even in the short run, when the cost of a particular material input contributes little to the production cost of many finished products, changes in materials prices alone do not usually generally produce major shifts in the output of final goods or services. It is more likely in the short run that relative price changes affect the degree of utilization of secondary markets (scrap) when this option exists.[8]

A material's demand curve is generally assumed to be continuous and smooth. However, given the nature of materials substitution, this assumption may not be very realistic, particularly for those materials which do not have diversified uses in their applications. Prices may rise within certain limits with little effect on demand, but once a particular threshold is crossed, demand may fall dramatically and make the use of a competitive substitute more attractive. Such sharp variations can occur in the short- and medium-term demand curves and they would be much more pronounced in the long run where technological innovation by its very nature, exerts its influence, in a highly unpredictable manner.

Therefore, changes in relative prices of competing materials alone may trigger little immediate shift in demand. It is more likely that the cost not only of materials but also of other factor inputs, and the specific properties of materials, performance and quality considerations, etc., are taken into account. In other words, the only relevant cost in materials substitution today is the so-called "total package cost".[9] Many new

[8]In the case of the United States, scrap accounted in 1986 for 25% and 45% of the primary production of aluminium and copper, respectively. Depending on production costs/prices of primary and secondary origins, producers change from one procurement source to the other or a mix of the two.

[9]As an example, the major advantage of aluminium over copper in the stringing of overhead power cables is the former's lighter weight, thus requiring fewer pylons per unit length than would be needed in the case of copper (Dresher, 1986). Therefore,

materials are priced higher than the traditional ones they displace. However, these new materials may be preferred because they ofer the opportunity to reduce manufacturing costs sufficiently to offset their higher prices (Fraser and others, 1987). These factors work in conjunction with other demand/supply factors such as domestic natural resource endowment, government industrial promotion programmes and cultural and traditional factors, as well as the country's per capita income level.

3. *Effects on comparative advantages and the international division of labour*

The preceding examination gives the impression that the demand prospects for commodities in which the countries of the Third World have been supposed to hold clear comparative advantages are uncertain and that this advantage seems to have been badly eroded by the current restructuring of commodity demand propelled by new technologies. Moreover, presumably highly labour-intensive sectors, such as textiles, clothing and assembly of electric goods, are slowly increasing their capital intensity, thanks to the incorporation of a higher technology content in production processes (ECLAC, 1988).

The consequences of the energy- and materials-saving efforts in the developed world are manifold. Since basic processing activities are energy-intensive and there is a limit to the capacity to recycle wastes, a natural sequence of events has been the relocation of the production of traditional industrial materials to developing regions. The chief aims are to obtain raw materials and energy at lower cost, save on the transport of raw materials, and take advantage of less rigorous environmental restrictions and the flexibility inherent in geographical proximity to raw material production sites. In spite of diminishing materials intensity, access to cheaper supplies gives companies a competitive edge as long as the require these inputs. It is also possible to create or strengthen comparative advantage: Latin America has been able substantially to transform its basket of export goods in the present decade by accelerated introduction of non-traditional products such as oilseeds and vegetable oils, fruits and fruit juices, shellfish, fish and fish products, wood and pulp, and poultry, the production of which is basically resource and labour intensive.

Another consequence might point in a different direction: style and quality specialization by developing countries in the production of certain commodity groups or components which are simpler and relatively less expensive and more labour intensive. Developing countries will probably continue to identify and exploit trade and production opportunities in such products. In the case of steel, for instance, a particular kind of division of labour has developed in recent decades with most developing countries producing ordinary steels and some industrialized or newly industrialized countries (NIEs) competing among themselves for the special steels market. While exports of footwear from developing countries will continue to be most successful in high-volume, low-cost markets, producers in developed and a few developing countries compete fully in the fashion market. The new textile machinery introduced in developed countries allows enterprises to be more flexible in production which is of higher quality with greater emphasis on styling and design, and to shift from the mass production of fabrics, common in developing countries, to shorter runs of high-quality fabrics. The types of finer yarns and lightweight fabrics increasingly sought in the apparel trade are produced by highly automated textile plants.

It is worth noting the following observations by Duncan (1988): i) the Third World's share of world production/exports of raw materials has increased for almost all products and is projected to continue increasing in the future; and ii) the shift of production/exports to the Third World has been accompanied by an increase in the latter's share in processing. In other words, the

in this application the relative cost of the materials is of secondary importance to the economy realized in the installed system. A similar example is found in the beverage packaging industry: the cost of producing an aluminium two-piece beverage container is substantially higher than the cost of a tinplate counterpart, but aluminium cans are less than half of the weight of tinplate cans, putting the former in a much more favoured position with respect to transport costs. In addition, aluminium cans do not rust or alter the taste of beverages, as tinplate cans are alleged to do, and they are easier and cheaper to recycle (Delmer, 1983).

production/exports of these products have shifted and will continue to shift in favour of developing countries, partly offsetting the declining growth trend at the global level. The most likely outcome of the spread of new technologies seems to be therefore that production will continue to relocate to the South in the search for comparative advantage, and that there will be neither a massive return of manufacturing production to the North or a dramatic deterioration of the export prospects of Latin America as a whole.

II

The use-intensity hypothesis: its usefulness and persuasiveness for the Third World

1. *The use-intensity hypothesis: its concept and implications*

There has been a fair amount of literature on the so-called use-intensity concept. It is generally defined as consumption of the product in question per unit of economic activity at constant prices. Its purpose is to isolate the impact on demand of factors other than the size and growth of the national macroeconomy. It is usually expressed in tons (or kilos) per million constant dollars of GDP.

It postulates that use-intensity is closely correlated with the level of economic development, as measured for instance by per capita GDP, and that the intensity rises up to a certain threshold and then starts to fall as the economy matures. The reason for this inverted U-shaped relationship is that after the materials-intensive stages, during infrastructure building and the development of manufacturing and metalworking, markets for industrial products reach a certain degree of saturation and technologically more sophisticated industries and services come to represent a more rapidly growing share of GDP than the traditional materials-intensive activities. In addition, over time technological progress makes it possible to produce a given set of products with ever-decreasing inputs of materials. This effect might permit late-comers to development to leapfrog over the materials-intensive stages of the pioneers and adopt the most up-to-date materials-saving technologies.

In short, the hypothesis suggests that: i) use-intensity *at a given level of economic development* will be lower in countries which are late-comers; and ii) use-intensity *at a given point in time* will be higher for middle-income countries than for low-income ones, whose intensity will rise over time up to a certain threshold. This means, on the one hand, that even though many developing countries may continue to increase their share in the world product or in movements of capital and consumer durables, their future materials demand and use-intensity will not necessarily reach the levels achieved in the past by the DMECs at comparable income levels. But, on the other, it also means that developing regions, with a substantially lower level of intensity or consumption per capita, should be regarded as untapped markets for many raw materials and semi-processed products for some time to come, pointing to the importance of domestic, intraregional and interregional market expansion in the Third World.

The examination of use-intensity in the DMECs gives certain substance to the often-raised concern that reduced demand is due to the changes in the composition of GDP and in the material composition of products. The use-intensity in these countries for petroleum, steel, copper, tin and to a lesser degree, lead and zinc (the case of aluminium is more ambiguous) has consistently declined during the last 15 years (for a detailed analysis, see ECLAC, 1989). In steel, for instance, Japan, the country with the highest intensity among the DMECs, reduced its level from 114.5 tons/million (in 1980 dollars of GDP) in 1973 to 55.7 tons in 1984. France, a low-intensity country, also reduced it from 55.9

tons in 1962 to 22.1 tons in 1984, without ever reaching a level comparable to the other DMECs. The most striking reduction has been in the case of tin whose use-intensity in recent years in the DMECs has been approximately one-third of the levels of the 1960s. Tin consumption in the United States, for example, dropped from a high of 59 100 tons in 1973 to 38 000 tons in 1986.

In spite of the spottiness of consumption data, it is possible to construct a similar intensity series for developing countries as a whole (Murray, 1988) and for Latin America in particular (ECLAC, 1989). This series seems to suggest that the countries of the Third World find themselves at a stage of increasing intensity —a process temporarily interrupted by the fall in investment caused mainly by the debt crisis.

It is equally important to recognize that the levels of per capita consumption of many commodities in Latin America are extremely low in relation to the leaders under this heading (see ECLAC, 1989). The world's highest per capita consumption in 1985 of 607 kg in Japan, 505 in the Federal Republic of Germany, and 440 in the United States stands in stark contrast to the region's top consumers: Mexico 96 kg, Brazil 88 kg, Argentina 72 kg, and Chile 47 kg. Per capita consumption in developing countries generally stands at 10-20 kg rather than in the 100-200 kg range of the Asian NIEs, such as Taiwan, Province of China, and the Republic of Korea. This huge gap in consumption, which is exhibited in other metals (see table 2), seems to suggest that there persists an extremely high potential for expanding production in developing countries. The rapid adjustment of industrial structure in the DMECs should further encourage this process.[10]

During the past quarter of a century the developing countries (including China) increased their share of non-CMEA GDP from 19% in 1960 to 24% in 1988. This modest change has brought with it a major increase in the developing countries' share of world metals demand. In 1985, for instance, their share of world metals consumption was 12.6% for primary aluminium, 12.3% for primary refined copper, 14.2% for lead, and 13.4% for primary tin (UNCTAD, 1987 c). These figures, which are not even adjusted for the metals contained in the net flow of semimanufactures and manufactures, clearly suggest that the developing countries do play an important role in determining the level of world metals demand (Murray, 1988). And these percentages should have been higher if the fall in investment as a proportion of GDP which took place after 1982 in the Third World had been taken into account. Therefore, the combination of rising use-intensity and rising industrial production could be a potential force in sustaining world demand for metals.

Examination of these industrial metals points to the conclusion that most developing countries find themselves at a development stage, where the unit input of materials and energy needed to produce an additional unit of GDP is likely to expand for some years to come. Any reductions in per capita materials requirements thanks to miniaturization, saving and substitution might be offset by increasing requirements for materials, mostly traditional, owing to rapid population increase, the need for infrastructure works, materialism and consumerism.[11]

The concept of use-intensity cannot properly be applied to agricultural products, owing to their low income-elasticity. It appears more useful to analyse instead their consumption growth pattern, especially for food and beverages. The effects of changes in income composition by product would be smaller in these cases.

Accordingly, table 3 shows the trend in annual growth rates of consumption of certain farm products in three different periods (1963-

[10]For instance, in Japan, the five largest steel mills have launched a programme to reduce by 1990 their combined capacity from 150 million to 90 million tons and to cut the work force by at least 25%. In this Asian country, primary aluminium production dropped from 1.2 million tons in 1977 to 0.23 million tons in 1985, while new projects tapped this metal in Brazil, Venezuela, India and Indonesia.

[11]The more dynamic elasticity of traditional metals against new substitutes is supported by Duncan (1988) who thinks that the decline of metals in the DMECs in the 1974-1985 period was largely cyclical rather than a reflection of a new downward trend in the rate of change in metal-saving technology or a change in output mix. The decline resulted mainly from the low rate of economic growth and the impact of high energy prices. In this view, recently resurgent capital investment in the DMECs and depressed energy prices, which are likelyto remain to some time, might reverse some of this dampening effect on materials demand.

Table 2

PER CAPITA CONSUMPTION OF METALS IN SELECTED COUNTRIES, 1985

Countries	Per capita (GDP) US$	Per capita consumption (kg)					
		Aluminium	Copper	Lead	Zinc	Tin	Crude steel
Austria	9 120	16.8	1.9	8.1	4.2	0.066	297.1
Belgium/Luxembourg	8 280	26.0	30.1	6.4	16.4	0.087	249.7
Denmark	11 200	4.3	0.3	2.6	2.4	0.020	353.5
Finland	10 890	3.4	14.7	4.9	5.3	0.020	360.8
France	9 540	10.6	7.2	3.8	4.5	0.125	267.3
Germany, Federal Republic of	10 940	19.0	12.4	5.7	6.7	0.272	504.7
Greece	3 550	8.9	3.9	2.3	1.5	0.040	156.9
Italy	6 520	8.2	6.3	4.0	3.8	0.088	381.7
Netherlands	9 290	6.1	1.2	3.1	3.5	0.352	290.4
Norway	14 370	30.8	3.1	3.3	5.0	0.095	340.2
Portugal	1 970	3.1	1.5	2.5	0.8	0.069	109.9
Spain	4 290	5.1	3.0	2.7	2.5	0.088	175.2
Sweden	11 890	11.1	13.1	3.2	3.8	0.048	392.0
Switzerland	16 370	22.0	1.4	1.6	4.0	0.123	350.8
Turkey	1 080	2.3	1.5	0.4	1.0	0.018	98.6
United Kingdom	8 460	6.2	6.1	4.9	3.4	0.166	257.2
Yugoslavia	2 070	9.1	6.4	5.1	4.6	0.061	220.0
India	270	0.4	0.1	0.1	0.2	0.003	18.1
Japan	11 300	15.1	10.2	3.3	6.5	0.262	607.4
Republic of Korea	2 150	3.5	5.0	2.0	2.9	0.063	243.2
Taiwan, Province of China	3 690	7.7	4.8	2.1	2.6	0.063	238.2
South Africa	2 010	2.4	2.1	1.5	2.6	0.059	165.0
Canada	13 680	13.5	8.8	4.6	6.2	0.150	524.3
United States of America	16 690	18.1	9.0	4.7	4.0	0.155	439.8
Argentina	2 130	2.7	1.3	0.9	0.8	0.026	71.8
Brazil	1 640	2.6	1.4	0.5	1.1	0.032	88.1
Chile	1 430	-	2.1	-	0.5	-	47.4
Mexico	2 080	1.0	1.5	1.1	1.3	0.013	95.8
Australia	10 830	17.9	7.8	3.7	5.2	0.171	363.3
New Zealand	7 010	10.5	0.6	3.0	7.5	0.030	223.9

Source: Federal Institute of Geosciences and Natural Resources, Hannover, Federal Republic of Germany. Cited in Rohatgi (1988).

1972, 1973-1984, 1980-1984), both in developed and in developing countries. In the food and beverages item, though the majority of its components registered a slowdown in their worldwide consumption between 1963-1972 and 1973-1984, some have achieved an increase in developing regions. In the cases of sugar, tea and palm oil, consumption growth in developing countries more than offset the decline in consumption in the DMECs. For the develoed world as a whole, only cocoa showed an upward trend between 1963-1972 and 1973-1984, for food consumption in these countries has been severely curbed. It is worth noting that even in the developed world some commodities —such as bovine meat, wheat, rice, coffee, cocoa, groundnuts, etc.— recorded an improvement in 1980-1984.

Among agricultural raw materials two products, unmanufactured tobacco and jute products managed to improve their consumption rates worldwide. Both of them, assumed to have been battered either by health campaigns or by competition from synthetic materials, also recorded an increasing rate in developing countries. In 1980-1984 the DMECs improved their consumption rate for raw cotton, rubber, sisal, wool, veneer sheets and plywood in comparison with 1973-1984. It should be stressed that this took place when the macroeconomic indicators of the DMECs had worsened substantially.

This analysis points to diversified consumption patterns among agricultural and metal products in different periods and regions. In addition to the level of economic development, other factors such as changes in consumer preferences, the level of supply and demand influenced by protectionism, and the pace of structural and technological change are having a strong effect on consumption patterns.

2. *Limitations of the concept, its applicability and factors responsible for varied consumption patterns among countries*

The concept of use-intensity is a useful instrument for predicting future consumption patterns of developed and developing countries. However, it is important to bear in mind several restrictions inherent in the concept itself.

Firstly, data on consumption at the country level reflect the measurement of consumption in manufacturing activities rather than "final' con-

Table 3

TREND ANNUAL GROWTH RATES OF CONSUMPTION OF INDIVIDUAL AGRICULTURAL COMMODITIES

(Percentages)

	World			Developed countries			Developing countries		
	1963 to 1972	1980 to 1984	1973 to 1984	1963 to 1972	1980 to 1984	1973 to 1984	1963 to 1972	1980 to 1984	1973 to 1984
Food and beverages									
Bovine meat	3.3	1.3	0.9	3.2	1.0	...	2.4	1.5	2.6
Wheat	4.0	2.7	2.4	2.7	5.1	2.5	4.5	4.3	4.1
Rice	3.1	2.9	2.7	-1.8	5.6	-1.2	2.9	2.6	3.0
Maize	4.2	-1.0	2.5	4.6	-2.5	1.4	3.5	0.9	3.9
Bananas	2.9	0.5	2.5	4.8	0.1	0.5	2.2	0.4	2.8
Sugar	1.7	2.7	2.7	2.7	-1.6	-1.4	6.5	4.1	4.7
Coffee	2.5	1.7	1.1	1.5	1.5	0.9	2.5	0.4	-0.1
Cocoa	2.3	3.4	0.9	1.3	4.5	1.8	18.9	-0.9	2.8
Tea	2.4	3.4	3.5	0.7	-0.5	-0.7	3.7	4.2	4.5
Soyabeans	7.7	0.3	5.1	6.8	-1.1	2.8	16.2	4.9	13.1
Groundnuts	1.1	2.7	0.1	-0.4	4.5	-2.4	1.5	2.5	0.6
Copra	2.1	-4.1	0.4	-2.2	-11.7	-13.8	3.9	-3.6	2.5
Palm oil	6.8	6.2	9.3	8.3	-0.5	-1.5	5.9	7.3	13.1
Agricultural raw materials									
Tobacco unmanufactured	0.3	2.3	2.0	-0.6	-1.9	-0.4	1.0	1.3	1.8
Cotton raw	2.4	1.6	1.5	-1.2	0.9	-1.0	4.0	2.5	1.9
Rubber	4.0	3.1	1.5	3.6	2.2	0.2	16.9	5.4	5.4
Sisal	-0.2	-5.3	-5.0	-2.6	-3.3	-10.3	5.2	-7.6	-3.0
Jute products	-0.8	-2.6	1.1	-2.7	-5.9	-5.7	0.1	-3.9	3.8
Wool	1.1	1.9	0.7	-0.6	0.6	-1.5	3.8	4.2	2.8
Sawlogs non-conifer	3.5	-1.8	0.3	2.2	-5.1	-2.5	8.0	1.7	4.0
Sawwood non-conifer	2.9	-1.3	0.8	2.6	-4.3	-2.3	6.0	1.0	5.6
Veneer sheets	9.2	-2.3	1.4	6.9	2.2	-0.1	13.0	-8.9	6.5
Plywood	7.5	2.4	0.3	7.7	1.7	-0.9	11.2	6.1	9.9

Source: UNSO statistics; UNCTAD, *Commodity Yearbook* 1986; International Commodity Organization and FAO data. Taken from UNCTAD (1987a).

sumption. The handling of imports and exports becomes problematic when they occur not only in the primary stages but also further along in the production process, since there is a high probability that many imported/exported products will contain raw materials. Copper estimates, for instance, take no account of imports/exports of semimanufactures or, more importantly, of manufactured goods containing copper, as in automobiles. While it is usually impossible to quantify the trade in goods containing copper, the international volume is substantial. The degree of underestimation of the processing of primary non-ferrous metals in the United States according to one study (United States Bureau of Mines, 1986a), can be considerable: the metals contained in imported intermediate manufactured goods are believed to have constituted 21% of imports in 1978, 21.5% in 1979 and 25.2% in 1980.

The applicability of the hypothesis is also somewhat reduced by the fact that technological progress which influences demand takes place in a discontinuous and irregular manner, and that the consumption pattern of materials have been strongly affected by big demand spurts as new markets open up for individual products. Well-known cases are the introduction of the Bessemer process late in the last century which made possible the large-scale production of steel, and the emergence of the electrical industry which created a new huge market for copper. Problems arise when a similar level of per capita GDP at constant prices is achieved between countries so many years apart for during the gap it is highly possible for a series of demand augmenting/reducing technologies to emerge. Extreme examples are the United States and Brazil, which attained a level of per capita GDP in constant 1980 dollars of US$1 500 at points in time roughly 100 years apart, and the United States and Mexico of US$2 580 roughly 75 years apart. The study by Radetzki (1987) reveals that the use-intensity hypothesis —a lower intensity at the same level of income for a late-comer— is vindicated only in the case of lead in a United States-Brazil comparison, and for the United States and Mexico the hypothesis holds for copper, lead and zinc, but not for aluminium, nickel and steel.

As the Radetzki analysis asserts, there are additional factors which distort the predictions of the hypothesis. His study of India points first to the role of government policies that affect the consumption levels of materials. A high use-intensity in three metal-intensive sectors (i.e., manufacturing, railways and electricity, gas and water) reflected India's option for heavy industry and infrastructure in its 1955-1965 development plans. Secondly, regardless of the supply of natural resources, a foreign-exchange shortage might encourage the government to pursue substitution of materials highly dependent on imports, with the aim of achieving greater self-sufficiency. For a long time, India's domestic output has met a very high proportion of its aluminium and steel needs, while a half or more of the consumption requirements for copper, lead and zinc have to be imported. Therefore, the government's encouragement of the consumption of the former and discouragement of the latter resulted in a consumption pattern quite different from what was expected.[12] Government promotion of some selected products, as in India, would lead to changes in relative prices, with import duties commonly used for this purpose. Supply shortages due to production rigidities or inefficient import planning and, last but not least, cultural factors also affect materials demand in patterns appreciably different from those postulated by the hypothesis.

This suggests that it is possible to create a number of final demands leading to intensive use of available natural resources of national or regional importance. It is also possible to identify some end-uses (for example, the electrical and electronics sector for copper) which are expanding faster than industrial production both in the industrial world and in the developing countries. The fact that the intensity of some end-uses has shown major improvement, even for products whose overall consumption growth is negative, points to the differentiated performance of each product which is usually hidden by the overall trend. This, in turn, reconfirms the importance of systematic research and development as a means of finding new uses and products.

[12]The government decree to use only aluminium in electricity transmission and domestic wiring increased the use-intensity of aluminium and decreased that of copper from the late 1960s.

III

Some strategic area for improvement and co-operation

1. *Technological competitiveness of Latin America in international trade*

A fundamental condition for successful and sustained technological innovation that generates new or improved products, processes or services is that financial and human resources should be directed to that end. Though it is true that there is no one-to-one correspondence between the available volume of resources and the desired result, countries which make large investmens in R&D have generally secured much better market opportunities than those which do not. One estimate (UNCTAD, 1987 e) suggests that in 1983 the world's R&D expenditure exceeded US$265 billion, and that of this total the DMECs and the socialist countries of Eastern Europe accounted for US$192 billion and US$64 billion respectively, leaving about US$9 billion for the Third World. In terms of total R&D expenditure as a percentage of GNP, the figure for the DMECs as a whole in the first half of the 1980s was around 2.4% whereas for Latin America it was at 0.5% (UNESCO, 1987). This R&D indicator coupled with others such as the number of scientists and engineers engaged in R&D, professionals and technicians as a percentage of the economically active population, literacy rate and education standards, however, puts Latin America in a better position than Asia and Africa (Teitel, 1986; UNCTAD, 1987 e). Nonetheless, the absolute amount is important from the point of view of the potential capacity to innovate, and in this respect the region is entirely deficient: for instance, the volume of technological resources available for Brazil, Argentina and Mexico taken together at the beginning of the 1980s was similar to that of General Motors in the United States (ECLAC/UNIDO, 1985). The absolute and relative paucity of the region's R&D expenditure implies a need for selectivity.

It then follows that developed countries are and will be specializing increasingly in high-technology producion, which requires a high level of human capital and extensive R&D, and that it is in these high-technology industries that they are seeking to maintain or strengthen their international competitiveness in production and trade. Nevertheless, it should also be recognized that in recent years the high-technology exports of developing countries have become an integral part of international trade (UNCTAD, 1987 e).

To define and calculate the technology intensity or content of a product is a complicated task. Despite a number of inherent difficulties and ambiguities, it is still useful to examine, as UNCTAD (1987 e) has done, the region's basic competitive positions in international trade according to levels of technological sophistication. The criterion for the classification is the relative importance of R&D activities as measured by the ratio of R&D expenditure to production.[13] All products are assessed in terms of five SITC (Standardized International Trade Classification) digits. They are classified according to the above-mentioned R&D intensity into three main categories —high, medium and low technology.[14] It is important to point out that most products in the low group and some in the medium group are naturally resource-intensive and that most of them are products which undergo little processing and can thus be considered as commodities as generically defined.

[13] Obviously, there are certain limitations to a measure of this kind. A list of such products will change over time as new products are developed and as the production technologies of existing products become more widely disseminated and standardized. Moreover, this measure does not fully measure the technology content of the products manufactured by an industry, since industries may differ in the degree to which they rely on their own R&D efforts, as distinct from utilizing technology from other industries or imported from abroad.

[14] *High* R&D intensity industries are aerospace, office machines and computers, electronics and components, drugs, instruments and electrical machinery. *Medium* R&D intensity industries include automobiles, chemicals, other manufacturing industries, non-electrical machinery, rubber and plastics and nonferrous metals. *Low* R&D intensity industries are stone, clay and glass, food and beverages, tobacco, shipbuilding, petroleum refineries, ferrous metals, processed metal products, paper and printing, wood, cork and furniture, and textiles, footwear and leather.

Table 4

MANUFACTURES IMPORTS OF DEVELOPED MARKET ECONOMIES BY R & D INTENSITY CATEGORY AND MAJOR REGION OF ORIGIN

Country or region of origin	Market share (percentages)				Value (millions of dollars)	Annual growth rate (percentages)		
	1970	1975	1980	1985	1965	1970-1975	1975-1980	1980-1985
A. High R & D intensity								
World	100.00	100.00	100.00	100.00	158 196	19.7	21.9	5.5
Developed market-economy countries	89.30	86.91	79.86	77.57	122 712	19.0	19.9	4.9
Socialist countries of Eastern Europe	.61	.97	1.18	.55	863	31.5	26.7	-9.5
Developing countries	2.89	6.92	9.82	13.20	20 887	42.5	30.8	12.0
Latin America	1.02	2.18	2.08	3.36	5 315	39.4	20.7	16.2
Africa	.12	.18	.62	.33	525	29.8	56.2	-7.0
Asia	1.49	4.29	6.90	9.31	14 721	47.8	34.0	12.1
Oceania	.00	.00	.01	.00	5		47.6	-6.5
B. Medium R & D intensity								
World	100.00	100.00	100.00	100.00	371 717	18.4	19.8	3.0
Developed market-economy countries	80.80	81.89	80.89	77.75	288 994	18.7	19.6	2.2
Socialist countries of Eastern Europe	1.22	1.54	1.44	1.10	4 083	24.1	18.3	-2.4
Developing countries	4.80	5.03	6.72	8.95	33 276	19.5	27.0	9.1
Latin America	1.43	1.42	1.57	2.14	7 970	18.2	22.3	9.7
Africa	.43	.26	.26	.27	1 015	7.3	19.4	4.1
Asia	2.46	2.81	4.42	6.16	22 886	21.6	31.2	10.1
Oceania	.30	.34	.23	.10	372	21.3	11.0	-13.0
C. Low R & D intensity								
World	100.00	100.00	100.00	100.00	380 955	19.2	17.0	.01
Developed market-economy countries	69.89	67.99	64.77	59.36	226 137	18.5	15.9	-1.8
Socialist countries of Eastern Europe	3.66	4.4	4.69	4.48	17 053	23.9	18.3	-1.0
Developing countries	15.80	18.83	21.21	25.13	95 751	23.5	19.8	3.3
Latin America	6.33	7.01	6.81	6.55	24 957	21.6	16.3	-0.9
Africa	1.76	1.68	2.07	2.33	8 887	18.2	22.0	2.3
Asia	6.80	9.24	11.48	15.31	58 316	26.7	22.2	5.8
Oceania	.18	.26	.17	.13	505	27.9	8.0	-5.3

Source: UNCTAD secretariat calculations based on United Nations Statistical Office trade data (Comtrade). For the methodology of classification into R & D intensity category see *UNCTAD Trade and Development Report 1987.*

Statistical data on the composition of the imports of manufactures of the DMECs by category of R&D intensity and major region of origin (see table 4) reveal the changing competitiveness of developing countries in these markets. The table suggests first that although they still account for a relatively small proportion of total manufactures trade, the products of high R&D intensity industries have tended to be among the relatively more rapidly growing exports for all groups of coutries. Also, industries with high and medium R&D intensity have been increasing their relative contribution to total exports, whereas that of the low R&D intensity group has been falling. Although the growth rate of these exports declined steadily over the period, the deceleration was less pronounced for the developing countries as a whole than for the rest of the world. In 1985 the DMECs accounted for more than three-quarters of the market share of imports of manufactures of the high- and medium-intensity industries. In sectors with low R&D intensity, these countries still maintained a market share close to 60%. What is noticeable, however, is the significant inroads made by developing countries.

Among the developing regions, the market shares of Latin America rose slightly throughout the 15-year period in both the high- and medium-intensity industries. It is important to note that the performance of Latin America, in comparison with Asia[15] during the same period, has been much less impressive in terms of absolute trade values and of growth, for *all* three R&D categories. This is a result, on the one hand, of the Asian countries' efforts to promote high-tech exports, especially of electronic components, telecommunications equipment, and non-electrical and electrical machinery, and on the other, of their serious efforts to improve their position in manufactures with low R&D intensity, mainly through the processing of raw materials.

In general, the use of new technologies does not seem up to now to have prevented developing countries —including both the leading NIEs and the others— from increasing the growth of their exports and generally enlarging their shares in total DMEC imports of a large range of manufactures. An outward-looking trade policy, as practiced in the majority of Asian countries and in parts of Latin America, offers dynamic potential benefits for exports expansion based primarily on natural resources and low labour costs. Admittedly, those developing countries with sufficient technological capacity to absorb these innovations will be in a position to maintain or even improve their export shares, while those countries lacking the necessary skills, know-how, institutional flexibility and a basic capital goods industry are more likely to fall behind. Enhanced export competitiveness requires greater diversification and integration of production structures, especially development of linkages with input-producing home industries and other input-supplying economic sectors.

2. *Processing*

The interest in local processing as an economic objective for developing countries arises from a variety of reasons. They include: i) increase in the product's value-added; ii) reduction in export earnings fluctuation; iii) promotion of economic "linkages" in the national economy; iv) control over marketing and pricing and the possibility of obtaining monopoly and resource profits; and v) the potential for enhancing information about the industry and the market.

Examination of Latin American trade in commodities reveals a typical structure in which the countries in the region export goods in a primary state and then import the same goods from outside the region once they have been processed. An ECLAC (1986 a) study, which reviews Latin American exports to and from the OECD countries of 20 major commodities at three different processing levels (i.e., primary, semi-processed and processed), accords with this conclusion. The study shows that although in 1984 the value of the region's exports of these commodities to OECD was six times higher than that of its imports, most of the commodities were exported with minimum processing. Meanwhile, the region imported these same products for further processing.[16] It should be stressed that the term "processed products" refers only to commodities and excludes the subsequent phases of advanced manufacturing and industrial processing.

Over the years the proportion of developing countries' commodity production which is locally processed has increased. Local processing

[15]Asia consists of South, South-East and East Asia and the Middle East. Latin America includes the countries of the Caribbean.

[16]In agricultural products, the processing-level shares of the region's exports to OECD were as follows: primary, 64%; semi-processed, 16%; and processed, 20%. The respective percentages for OECD commodity exports were 41%, 31% and 28%. A high proportion of semi-processed and processed products imported from OECD was noticed, but the regional imports of commodities was important as well. In the minerals and metals sector, the situation was more dramatic: only 22% of regional exports consisted of processed products, whereas 77% of the imports from OECD involved processed products.

and the relative importance of processed imports by the DMECs from developing countries grew fairly rapidly in the 1960s and 1970s, but in a majority of cases it has been slowing down ever since. Moreover, in recent times a significant portion of imports by developed countries of certain processed commodities, such as those based on iron ore, cotton and wood, have originated *not* from the developing countries producing the raw materials *but* from the ones importing and processing them, notably the NIEs of Asia. Some statistical estimates (UNCTAD, 1987 a and c) of the degree of processing among different developing regions tend to accord with the view that Latin America as a whole processes a smaller proportion of the same products exported to developed countries than does its Asian counterpart.

The great processing potential of the Latin American region can be easily illustrated by looking at its shares in world mineral reserves and world ores and metals production. Table 5 makes it clear that in spite of being more favourably endowed with mineral reserves and having a greater mine production than Asia in bauxite, copper, lead, zinc and iron ore, the region's share in these products at the refined metal stages are not significantly different or even lower. A most striking case is iron ore, where both reserves and mine production appreciably exceed those of Asia, but raw steel production is 75% below Asia's. This low rate of processing of traditional metals is partly due to the fact that the region's share in world consumption for each of the seven metals is substantially lower. Though not shown in the table, the region's participation in semimanufactures production from these metals is also negligible (see World Bureau of Metal Statistics).

The expansion of downstream activities in this sector means, therefore, strengthening of sectoral policies in favour of local processing and generating a series of final demands which involves intensive and rational use of abundant natural resources. The production of semimanufactures and finished products offers greater flexibility in scaling down plant sizes and many opportunities to increase horizontal integration at the national and regional levels (UNIDO, 1989). This process should favour the selective expansion of activities which will bring with them sustained technological progress, as well as the generation and adequate incorporation of the so-called high technologies in selected areas.

3. *Redirection of commodities trade*

One potential line of action with the *present* technological capabilities of Latin America is to redirect its trade inwards. Despite what the available studies indicate (ECLAC, 1986 b; Sanz Guerrero, 1986; INTAL, 1986) —that the region possesses a high potential for increasing its intraregional trade in commodities— this trade amounts to little in practice and it has greatly diminished during the 1980s. In 1983-1985, total intraregional trade in non-fuel commodities stood at 8%: during this period, the region directed more than 62% of its commodity exports to the DMECs, while roughly 20% and 10% were absorbed by the socialist countries and the other developing regions respectively. Asian markets alone took 6% of its commodity exports. Intra-Latin American trade in commodities is believed to be substantially lower than its trade in manufactured exports.

It is interesting to observe that the ratio of intraregional commodities trade is not only at a low level but is also of minor importance when compared with other developing regions. During the last two decades Asia managed to increase its intraregional trade in non-fuel commodities by a substantial margin: from 22.5% (1966-1970) to 27.9% (1975-1979) and to 34.0% (1983-1985). Asia has been able to increase this ratio in a consistent manner in each of the major categories of product: foodstuffs, agricultural raw materials, and minerals and ores. To a lesser degree the African region has managed to increase this ratio, also in each of the three categories (UNCTAD, 1987 c).

An ECLAC study (1986 b) which analyses the region's commodity trade structure by origin and destination at a more disaggregated level (five SITC digits), shows clearly the magnitude of the potential to displace extraregional sources in favour of internal sources. As far as foodstuffs and agricultural raw materials are concerned, the potential for redirecting trade is particularly rich for such products as maize, wheat, sugar, soybean and its by-products, and other oilseeds and oils. The most salient minerals and metals are

Table 5

LATIN AMERICA'S SHARES IN WORLD RESERVES OF MINERALS, AND IN ORES AND METALS PRODUCTION AND CONSUMPTION, BY REGION, 1985

(Percentages)

Commodity	World (thousands of tons)	Europe	North[a] America	Latin America	Africa	Asia	Australia/ Oceania	Central-economy countries	Western industrial countries	Developing countries
A. World reserves of minerals (1985-1986)										
Bauxite	21 034 000	5	0	28	33	9	21	4	26	70
Copper	337 000	1	22	33	18	5	4	17	26	57
Lead	86 500	12	35	6	6	3	17	21	67	12
Zinc	147 600	15	29	12	8	11	11	14	64	22
Tin	3 240	4	2	8	5	65	6	10	13	77
Iron	65 502 000	4	12	18	5	7	14	40	34	26
Nickel	44 400	7	17	5	7	13	27	24	34	42
B. World mine production										
Bauxite	88 019	8	1	21	18	4	35	13	44	43
Copper	8 436	5	22	23	16	6	5	23	32	45
Lead	3 548	12	20	14	6	4	14	29	50	21
Zinc	6 918	17	20	16	4	7	11	25	53	22
Tin	197	3	...	24	5	45	3	20	8	72
Iron	518 496	6	11	19	7	5	12	40	31	29
Nickel	789	4	23	7	7	10	19	30	42	28
C. World metal production (refined)										
Aluminium	15 430	24	31	8	3	7	7	20	64	16
Copper	9 714	17	20	14	9	13	2	25	49	26
Lead	5 616	29	23	7	3	9	4	25	62	13
Zinc	6 750	29	15	7	3	15	4	27	60	13
Tin	206	13	2	17	3	44	1	20	18	62
Raw steel	714 997	22	13	5	1	20	1	38	51	11
Nickel	767	14	19	6	5	15	10	31	53	16
D. World metal consumption (refined)										
Aluminium	16 253	25	29	5	1	17	2	21	67	12
Copper	9 613	29	22	5	1	18	1	24	65	11
Lead	5 421	30	22	5	2	13	1	27	61	12
Zinc	6 492	26	17	6	2	19	2	28	57	15
Tin	213	26	19	5	1	21	1	27	61	12
Raw steel (1983)	656 331	18	16	3	2	19	1	41	45	14
Nickel	787	28	20	2	1	21	1	27	67	6

Source: Kursten and others (1988).
[a] Includes the United States and Canada.

aluminium, iron and steel, and copper products. Petroleum and its by-products, with a high potential for regional self-sufficiency —regional exports to the rest of the world far exceed regional imports— have undoubtedly the highest potential. Using the trade figures of the mid-1980s, the study suggests that intraregional trade could be considerably expanded and that efforts to redirect trade in 40 products (five SITC digits) towards the region itself could increase regional trade in commodities by more than US$15 billion.

There are substantial obstacles to full exploitation of this potential. Tariffs are one of the major barriers and are usually applied indiscriminately, regardless of supply origin. The regional tariff preferences (PAR) system within the framework of ALADI is in many cases insignificant, and a large number of products is excluded from it. In addition, a series of para-tariff measures is applied, in most cases uniformly and without differentiation as to origin. A major non-tariff barrier is known to be transport costs, which clearly favour procurement from outside the region (INTAL,1986). Marketing services and financing, totally deficient in the region, are heavily dependent on the channels of TNCs or developed-country governments, which are hardly likely to increase regional trade.

Regional co-operation in this direction should be emphasized at times when, as is now the case, the region's commodity exports are facing growing protectionism in the markets of developed economies, whose demand for a number of commodities is becoming more saturated. The growth of regional trade should be encouraged not only in order to economize on the region's meagre external resources and promote regional food security, but also in order to exploit the differences in consumption levels between developed and developing regions. It should be stressed that the scope for regional trade should increase substantially once the countries of the region have achieved a higher volume of commodity processing.

4. *Marketing and promotion*

Medium- and long-term promotion of demand has to do with the industrial organization of the product. It is interesting to compare aluminium and copper in this respect, for their situation holds important lessons for other commodities. The high growth rate in aluminium consumption —over 8.5% a year in 1960-1979 compared with 3.5% to 4.0% for copper— can be attributed not only to the properties of aluminium itself and its comparatively recent introduction as an industrial material but also to the high degree of industrial integration prevailing in the bauxite/alumina/aluminium industry. The most outstanding features of this industry have been: a stable pricing system, at least up until recently; the orderly development of production capacity; a large volume of research aimed at and concentrated on expansion of use; and the ability of the major transnational producers to invest in manufacturing facilities to bring new products onto the markets. By contrast, the efforts to discover, develop and promote new uses for copper have not proven sufficient, rather, the industry has centered its efforts on expanding production (Kuczynski, 1982; Morales, 1987; Mardones and others, 1985-1986).

The gradual vertical "de-integration" of the copper industry since the Second World War has produced a situation in which copper passed increasingly through the final markets semimanufacturers, who are many in number and have no links, either formal or informal, with raw materials producers. These semimanufacturers, also producing items made of other metals, have no special interest in promoting copper over the others. Primary copper producers, on the other hand, do not have access to final consumption markets where demand is actually determined. The lack of market intelligence about the requirements of end-manufacturers has made it difficult for them to promote copper. The lack of an information feed-back system has to some degree prevented materials producers from progressively integrating themselves in more diversified product groups with greater processing. In this light, attempts at progressive integration made by the producers themselves or in joint ventures should receive a high priority.

Since copper has much higher price instability than aluminium, a factor which has adversely affected its use, any promotion strategy must involve the establishment of an appropriate pricing policy. This might result in renewed support for some price stabilization schemes either in the form of international agreements or other arrangements. If price fluctuation is reduced, the efforts to promote consumption, maintain competitiveness with other substitutes, or find new uses can be sustained. Progressive integration into more advanced manufacturing processes should also help to reduce price instability.

A fundamental strength of the aluminium industry in research and promotion is the large amount of funds which a company like ALCAN or ALCOA allocates to these objectives (major companies spend more than US$100 million annually) and the basic nature of these efforts. By contrast, some estimates suggest that in 1985 the copper industry as a whole spent about 0.1% of the total value of sales of refined copper on marketing and research. Taking into account the reiterated importance of R&D on new and traditional uses with sufficient financial backing, it might be beneficial to strengthen research capabilities through agreements and co-operation among producer governments and international research organizations.

In the case of agricultural raw materials, it is important to note that some natural products have maintained or regained their competitive edge in some end-uses owing mainly to their technical properties (for a summary on this topic, see ECLAC, 1989). As in cotton, product differentiation designed to change consumer preferences in favour of natural products by emphasizing their "natural" characteristics (their appearance and moisture absorbency, coupled with improvements in processing to make them harder-wearing), has played an important role in market promotion. The standardization of materials and use of appropriate brandnames, as in the case of "Woolmark" has enhanced uniformity in quality and secured better prices than synthetic blends. Leather, with the appeal of high-quality consumer goods, especially in the DMECs, has transformed itself from a utilitarian raw material into a fashion and prestige product. Natural rubber's share of the world elastomers market has declined only slightly, thanks to the gains achieved in the tire sectors of the DMECs, especially through the massive shift from cross-ply to radial tires and the increase in heavy-duty tire production.

On the other hand, for products which have no clear technical advantages over synthetics and must therefore compete mainly on the ground of price (as in the case of jute and sisal), priority should be given to production research. This is aimed at lowering costs and enabling production to be maintained at the price dictated by the synthetic competitor.

Marketing ability is closely associated with the role of trading agents in gathering/processing/disseminating market information (Kuwayama, 1988). Appropriate and timely decisions on production, marketing and investment require a correct understanding not only of the local conditions in trading partner countries but also of the international macroeconomic indicators (for example, movements of interest rates, currencies and prices of "financial" assets —all of which affect commodity prices). With the development of advanced technologies, particularly high-speed information processing, which has led to increasingly widespread "programme trading" and round-the-clock trading among commodity exchanges, commodity markets are now more than ever before an integral part of the overall financial operations of international investors. This feature implies in turn the need for developing countries to create a market intelligence infrastructure competent enough to assess the creditworthiness of clients and the desired prices and profit margins.

Furthermore, marketing, processing and increases in intraregional trade are intricately related, since the possibilities of pre-export processing depend on the ability to secure beforehand market outlets for the processed product. Prior assurance of market possibilities is often a requisite for raising the necessary investment funds. Levels of intraregional trade also depend on the capacity of regional bodies to take over the related services provided up to now mostly by TNCs. From this standpoint, the strengthening of the existing (national or regional) marketing bodies and/or the creation of new ones, with a much more consolidated information and financial base seems an urgent necessity.

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CEPAL REVIEW No. 39

On Argentine-Brazilian economic integration

*Daniel Chudnovsky**
*Fernando Porta***

This paper analyses the genesis and evolution of the integration agreements between Argentina and Brazil in the analytical context of the various options for integration in the international economy.

The transformation under way in the world economy, in particular those associated with technological changes which replace both the products and the production processes and the forms of provision of services, call into question the validity of the advantages of specialization based on the mere availability of natural resources and cheap labour. It is thus clear that the inward dynamics of a role of this kind in the international market is dubious, sine it tends to accentuate the current introversion of Latin American industrialization, and that the competitiveness achieved by this means is short-lived.

In this respect, it is argued that the regional dimension can acquire decisive importance for rethinking the process of industrial reconversion. An expanded market would permit a reduction in the levels of protection accorded to many activities that no longer need it and would eliminate frivolous protectionism. At the same time, concerted efforts in technological areas would increase the feasibility of genuinely protecting the activities that are at the technological frontier; this policy is very common in industrialized countries and in some newly industrialized ones, and it helps to create dynamic competitive advantages.

The agreement between Argentina and Brazil posits novel methods of regional integration which are discussed in this paper, which also offers an evaluation of the scope of this bilateral integration.

*Professor of Economic Development, University of Buenos Aires. Director of the International Economics Centre (CEI), Buenos Aires, co-ordinator of the project on Argentine-Brazilian integration in the capital-goods sector, and staff member of UNCTAD.

**Former researcher at the International Economics Centre (CEI), Buenos Aires, and at the Centre for Development Studies (CENDES), Caracas, and co-ordinator of the project on Argentine-Brazilian integration in the capital-goods sector.

Introduction*

In November 1988 the Governments of Argentina and Brazil signed a Treaty of Integration, Co-operation and Development that aims at the establishment of a free-trade area between the two countries. Enacted into law by their respective Congresses in August 1989, the Agreement establishes a period of 10 years for forming a common economic area by gradually dismantling reciprocal trade barriers. The immediate background to this decision was the signing by the two Governments in July 1986 of a series of sectoral and instrumental agreements within the framework of the Programme of Integration and Economic Co-operation (PICE) between the Argentine Republic and the Federal Republic of Brazil.

Undoubtedly, these institutional milestones are the most significant in the process of integration of the two countries. In fact, the establishment of the various protocols of integration in 1986 constituted, above all, a far-reaching political decision that put an end to a history of rivalries and discord in bilateral political and trade relations. The public formalization of the agreements came as a surprise, and their signature was not preceded by a broad debate in either country; on the contrary, it was the debate's starting point. However, it is evident that PICE is part of a rapidly unfolding political and economic process.

The relatively recent change of political régimes with the replacement of military Governments by democratically elected civil ones, basically altered the logic of the political decision. It lessened somewhat the importance of the military issue, easing the weight of the geopolitical assumptions of confrontation between the two countries. It restated the social issue, opening the way for neglected demands for greater equality and better living standards. It redefined the international issue in terms of the need for solid new alliances to tackle adverse external economic conditions.

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There were common situations and developments in the domestic economic scene as well. The simultaneous introduction of the heterodox anti-inflationary policies known as the *Plan Austral* and the *Plan Cruzado* is perhaps the clearest evidence of this. However, there were more profound similarities. The external constraints, manifested basically in the heavy burden of debt service, shaped a common scenario of serious imbalances. In addition to the differences in the evolution of macroeconomic variables and the priority given to short-term policy instruments, the profound crisis of the 1980s had already unleashed in both countries, as well as in the rest of Latin America, a debate on the options for growth and income distribution.

In recent years the region as a whole has been deeply affected by the stagnation of sharp falls in the level of activity due to inflation which in some cases ran out of control and to a persistent decline in the investment rate. In this context the social indicators of development, including real incomes, employment levels and income distribution, have deteriorated in comparison with the previous decade. These facts are not the only justification for the term "the lost decade" as a description of what the 1980s have meant for Latin America. The delay in adopting current technological changes and the deterioration of manufacturing capacities as a consequence of the recession have widened the development gap with the industrialized countries and, even more importantly, will restrict domestic room for manoeuvre in the immediate future.

The imbalances caused by financial transfers in connection with the foreign debt produced some structural changes. In fact, exports specialization, which is consistent with the chosen method of adjustment of the external sector, means in most cases the use of static comparative advantages and the release of exportable surpluses owing to declining domestic demand in industries producing intermediate goods by continuous production processes. The Latin American export boom in the 1980s was based on the availability of natural resources, cheap labour and high capital subsidies. In contrast, those goods that require skilled labour and incorporate technical progress suffered a systematic decline in the pattern of exports.

The transformations under way in the world economy, particularly the ones involving technological changes that replace both the products and the production processes and the forms of provision of services, call into questin the long-term validity of the advantages of specialization based merely on the availability of natural resources and cheap labour. It is thus clear not only that the inward dynamics of this kind of role in the international market is dubious, since it tends to accentuate the current introversion of Latin American industrialization, but also that the competitiveness achieved is short-lived.

The regional dimension can then acquire decisive importance for rethinking the process of industrial reconversion. An expanded market would permit a reduction in the levels of protection accorded to many activities that no longer need it and would eliminate frivolous protectionism in a more gradual and controlled manner than in schemes for unilateral deregulation. At the same time, concerted efforts in technological areas in the context of economic integration would make it less troublesome and more feasible genuinely to protect activities that are at the technological frontier; this policy is very common in industrialized countries and in some recently industrialized ones and it facilitates the creation of dynamic comparative advantages.

In this respect, the experience of 30 years of integration initiatives in Latin America offers some useful lessons. There is a consensus among specialists that the most serious shortcomings lay in the excessively comprehensive nature of the schemes attempted, the stress on trade-oriented aspects and mechanisms, and the lack of consideration given to the parallelism of national industrial structures. Another negative factor was the supposed lack of relevant agents interested in integration, which would be both a cause and an effect of the relative failure of these attempts.

In relation to these topics the Argentine-Brazilian Agreement introduces novel elements both in the general conception of the scheme and in its main instruments. Taking into account the current difficult economic situations of both countries and the unsuccessful atempts to enhance integration through essentially trade agreements —first in ALALC and then in

ALADI— the programme in question, although ambitious in its general goals, is essentially pragmatic. In fact, it is set out in gradual and flexible stages, with a small group of projects at each stage. The protocols cover a variety of subjects, ranging from a clearly sectoral focus in the approach to integration in the manufacturing sector (for example, capital goods) or in joint technological programes (biotechnology) to general criteria for the expansion of trade or investments (Investment Fund and Statute of Binational Enterprises).

To some extent the sectoral instruments were designed without considering the current industrial strategies prevailing in the two countries. In contrast to these strategies, the protocols include guidelines for a reindustrialization policy founded on the expansion of the market in order to generate new comparative advantages through technological modernization and intrasectoral specialization. According to this concept, criteria of selectivity and gradualism are included in the instruments of protection, in contrast to what happens in the model of indiscriminate openness. Those same criteria contrast, in turn, with the extensive and permanent nature of the protection structure of an excessively closed economy such as Brazil's. The agreement on the capital-goods sector, in particular, is an example of this new orientation.

This group of sujects is discussed throughout our paper with a view to evaluating the scope and evolution of the process of integration of Argentina and Brazil. The first section reviews and discusses the theoretical arguments about the establishment of areas of preferential protection and their potential advantages over unilateral trade deregulation. The conditions prevailing in the two countries as they undertake the project of setting up a free-trade area are examined in the second section. For this purpose, a comparative analysis is made of the production structure and its recent performance, the characteristics of bilateral trade are indicated, and the macroeconomic context of the integration programme is reviewed. The third section presents the main conclusions and indicates some necessary lines of research.

I
The theoretical foundations

1. *The received theories*

In the project on the economic integration of Argentina and Brazil the long-term objective is to create a common market —the most advanced form of economic integration— where the restrictions are removed both from trade in goods and services and from the movement of the factors of production. However, in the sectoral agreements, and even more so in the text of the Treaty on Integration, Co-operation and Development of November 1988, the fundamental frame of reference is that of a preferential trade agreement.[1]

In a recent study that examines the advances in the theory of preferential trade agreements, it is noticeable that the theory of international trade has lagged far behind the current situation with respect to this type of agreement and that there are few contributions on the economic causes that prompt countries to set up customs unions.

It should not be forgotten that few theoretical advances have been made in the orthodox tradition of international trade theory, with all its restrictive assumptions. Nevertheless, when account is taken not only of the arguments of that tradition but also of the most recent theoret-

[1]These agreements, which are called customs unions in the theoretical literature, are instruments through which the member countries establish a common tariff for non-member countries and facilitate mutual trade by eliminating tariff and semi-tariff restrictions among themselves. If, instead of a common external tariff, each country keeps its own tariffs with the rest of the world, a free-trade area exists.

ical contributions that have disregarded some of the basic assumptions of the orthodox literature, a set of theoretical elements emerges that sheds light on the advantages and disadvantages of customs unions (Pomfret, 1986).

Before looking at them, it will be useful to make some observations on the orthodox theory of international trade and the recent contributions that have modified it in fundamental aspects.

In an orthodox approach free trade is clearly the desideratum in terms of international resource allocation. Therefore, the primary concern of the theory of this tradition is to try to verify the degree to which customs unions, regarded as a second-best alternative to unilateral economic deregulation, provide greater benefits than protection and are thus instruments that lead to free trade or are substitutes for it.

The orthodox theory of international trade assumes very restrictive conditions, such as perfect competition and constant yields to scale, and tries to explain trade patterns in terms of tastes, availabe technologies and, above all, the factors of production and the natural resources that each country has.

A substantial part of international trade is effected among industrial countries that possess similar factor endowments, where companies operate in oligopolistic markets, and growing returns are seen in production and marketing. Accordingly, in recent years contributions have been made which try to take this situation into consideration.

The so-called "new" theory of international trade associated with various authors, especially Helpman and Krugman (1985), has made contributions that incorporate oligopolistic competition and economies of scale in differentiated products as key explanations of trade patterns, especially between industrial countries. Later we will see that, as economies of scale in differentiated products constitute a decisive argument in favour of customs unions, the recent contributions help to formalize them in the respective theoretical models.

The greater realism of the "new" theory does not mean the abandonment of free trade as a theoretical desideratum, although other authors provide at the same time strong arguments against it.

The incorporation of economies of scale and imperfect competition facilitates economies of specialization and therefore trade within industries, strengthening the arguments in favour of the benefits that free trade entails on the assumption that markets are efficient in allocating resources.

Nevertheless, other contributions to the "new theory" provide bases for government intervention in certain industries with a view to increasing national prosperity. In particular, the concept of "strategic trade policy" has been used to justify the need to protect certain companies or industries, such as those which are highly research and development intensive and which, through government intervention, can obtain monopolistic profits and thus increase the country's revenue. At the same time, the old concept of external economies has been reinstated and applied to cases in which companies with a large capacity for technological innovation are unable to take full advantage of the knowledge that they create and the significant external economies that they secure. Although on the basis of these arguments government intervention seems broadly justified and the advantages of free trade are diminished, according to Dosi, Tyson and Zysman (1989), the difficulties of devising effective government intervention and the unpredictable political consequences of unilateral intervention have prompted some of the main advocates of the "new theory" to conclude that, notwithstanding these arguments, free trade remains the desideratum (Krugman, 1987).

Leaving aside the discussion of the advantages and disadvantages of free trade, it is important to remember that the frame of reference for the new conceptual contributions and, more specifically, the orthodox theory of customs unions, has been the industrialized economies.[2] In the case of customs unions, the idea was to analyse the situation of industrialized countries that sought to enhance their efficiency through increased negotiated trade deregulation in the context of European integration.

[2]Analyses of the importance of the new theories for developing countries will be found in Stewart (1984) and Krugman (1988).

Although Argentina and Brazil are not industrialized countries and their context is therefore different from the European one, both have a significant manufacturing sector and are interested in modifying the existing trade patterns in order to make their economies more competitive, without this meaning that free trade is regarded as the desideratum. More specifically, at their current stages of economic development Argentina and Brazil are trying to reduce the protection enjoyed by key segments of their manufacturing and farming sectors, without necessarily proposing unilateral deregulation. In that fundamental aspect the problem is similar to the problem of the industrialized countries, and the theoretical contributions can suggest the advantages of such unions over the present situation of protection.

In the case of developing countries with a lesser degree of industrialization, another type of argument has been formulated in favour of economic integration. Rather than trying to modify the existing trade patterns, in this case the customs unions would be based on the need to introdce new production and trade patterns by advancing in the process of industrialization (Robson, 1980).

These arguments are also relevant for Argentina and Brazil, since they are seeking, through a customs union, not only to make their existing production more efficient but also to advance in the process of industrialization. This would imply the restructuring of existing sectors and, above all, the elimination of barriers blocking access to the branches of greater technological vigour.

Although based essentially on the situation in highly industrialized countries, both the contributions of "strategic trade policy" and other approaches founded on evolutionary theories of technological change could help to justify the integration of Argentina and Brazil as a means of facilitating access to industries with greater technological vigour.

2. *The main contributions of the theory of customs unions*

The theoretical contributions that we consider to be most relevant to the present case related to:

i) the advantages and disadvantages of customs unions as regards trade creation and diversion;
ii) the arguments in favour of industrialization; and
iii) the economies of scale and specialization.

The concepts of trade creation and diversion are certainly valuable as criteria for assessing the advantages of a customs union in accordance with the orthodox theory.

When for consumption purposes goods manufactured in country A are replaced by goods imported from country B, whose prices are lower than domestic prices, trade will be created. Trade diversion will take place when country B becomes a supplier of goods that it used to import from the rest of the world at lower prices.

As long as trade creation prevails over trade diversion, the customs union affords more prosperity than the former protection. Constant costs and unaltered terms of trade are assumed in the comparison of the two situations. However, on the import side, the potential benefits of a customs union that creates trade are less than those offered by unilateral deregulation. This holds good as long as country B produces at higher costs than the rest of the world.

On the other hand, it is unwise to assume that the terms of trade do not change (Wonnacott and Wonnacott, 1981). If that restrictive assumption is eliminated, a customs union helps to increase the exports of A by providing access to the market of B, a market protected by the common externl tariff. "In other words, it allows us to enjoy the advantages of its protection, and this fact is likely to imply benefits that unilateral trade deregulation cannot provide. Unilateral deregulation allows us to have a more efficient economy, but it does not allow us to enjoy the advantages of the discriminatory protection afforded by the customs union." This explanation is provided by Dornbusch (1986, p. 18) in a valuable study specifically designed to evaluate the advantages of the integraton of Argentina and Brazil, from Argentina's point of view.

A factor that complements the access to the market protected by the customs union is the lower transport costs of exporting to neighbouring country B as compared with trade with the rest of the world, even when it is likely that the exports to country B are less competitive. However, country B will be benefitted by the increased imports from A only if that lesser initial competitiveness is offset by lower transport costs associated with the existence of the customs union. If these circumstances do not obtain, country B suffers from a diversion of trade that is reflected in lower tariff revenues. In that case the customs union has advantages only for country A, and this clearly makes the preferential agreement inoperable.

The weakness of the economic arguments in favour of customs unions is evident in the light of these facts, as long as other considerations, such as the goal of industrialization and economies of scale, are not introduced.

In the case of developing countries, Cooper and Massell (1965) argue that society is willing to tolerate inefficient industrial output in order, among other goals, to modify the terms of trade, increase employment, promote manufacturing, etc.

In a similar argument applied to the Latin American case, integration would be justified as a public or collective good, i.e., increased industrialization. Economies of scale, externalities, progress towards economic stability, and reduction of the vulnerability of commodity exports, among other factors, argue for the type of industrialization which, in the original ECLAC proposals, was aimed at regional import substitution (Fuentes and Villanueva, 1989).

Given the need for protection it is argued that a customs union reduces the costs without modifying the goal of industrialization. In this case the comparison would be between a customs union and protection, since by definition it is assumed that the countries involved want a certain degree of protection in order to continue their industrial development.

Apart from the goal of industrialization, the other crucial element in favour of a customs union is economies of scale, which are impossible to achieve in a relatively small national market.

In the light of these considerations, a customs union will then, according to Dornbusch, make it possible:

i) to generate economies of specialization, so that within each manufacturing sector each country produces the goods for which it has the biggest comparative advantages (Argentina for skilled-labour intensive products; Brazil for unskilled-labour intensive products);
ii) to take advantage of economies of scale that are unobtainable in a national market;
iii) to secure through the economies of scale and specialization, the efficient production of a larger variety of goods;
iv) to stimulate greater competition than there would be in a protected domestic market.

These factors would give rise to increased trade within industries, thus enhancing the efficiency of the manufacturing sectors of both countries and making a customs union more attractive than protection.

It is worth considering whether these factors also render a customs union more advantageous than unilateral tariff reduction.

If it is assumed that the economies of scale and specialization and the lower transport costs makes the goods exported by country A to country B competitive with those produced in the rest of the world, the increased exports of A will not produce a diversion but will create trade in B, and a customs union will therefore be more beneficial not only than protection, but also than unilateral deregulation.

It is evident that in order to meet this condition it is essential to achieve economies of scale and specialization. If they do not materialize, then in purely static terms and with regard to economic prosperity, it seems difficult to think that a customs union will be better than a unilateral tariff reduction.

However, in the absence of economies of scale and specialization, it could be argued that the importance of other benefits of industrialization (creation of jobs, external economies, acquisition of industrial know-how) makes a customs union more beneficial than unilateral deregulation.

Finally, a free-trade area appears, since each country retains its own tariffs, to be a less solid arrangement than a customs union; its advantages over unilateral tariff reduction are therefore less clear. Nevertheless, given the enormous difficulties of negotiating a common external tariff, a free-trade area must be regarded as a second-best alternative to a customs union.

To sum up, if the assumptions of unaltered terms of trade and constant costs are eliminated, the advantages of a customs union are greater not only than protection but also than unilateral deregulation, since it facilitates trade creation in an expanded market protected against third countries.

In turn, if industrialization is introduced as a strategic goal or a collective good which warrants a certain amount of protection, a customs union reduces the relevant costs without sacrificing the collective good. Even if economies of scale and specialization are not attained, other benefits associated with the goal of industrialization make a customs union more advantageous not only than protection but also than unilateral tariff reduction.

In the case of Argentina and Brazil the goal of industrialization seems to be associated both with the restructuring of the existing branches and with the need for increased output in research and development intensive branches or branches where technological progress is very rapid.

Let us now examine the relevance of the theoretical contributions based on the situation of the industrialized countries for this type of strategy, in which the customs union is called upon to play a specific role.

3. *The protection of high-tech industries*

It has already been noted that the "strategic trade policy" suggested by the "new" theory of international trade provides powerful arguments for the protection of companies or industries with high research and development costs, generally called "high-tech". As they obtain high earnings and are able to pay high wages, the protection of domestic producers of these goods increases national prosperity at the expense of competitor countries.

In turn, the protection of this type of industry would give rise to external economies stemming from the fact that the companies that generate these innovations cannot take full advantage of the benefits, particularly of the know-how involved in product design, sometimes obtainable through reverse engineering, or of the skills of their personnel, who may move to other companies or institutions.

This type of argument has prompted a debate on how to decide when an industry is strategic and what kind of reaction government intervention as suggested here can generate in competing firms and countries (Krugman, 1987).

Apart from these issues, it has been pointed out that the *new* theory "basically concerns the problem of the best allocation of existing resources. Its models examine all the gains suddenly delivered by different patterns of resource allocation, determined by the market and pushed by the policy pursued" (Dosi, Tyson and Zysman, 1989, p. 11).

In order to overcome this fundamental limitation and comprehend the essentially dynamic nature of technological change, these authors introduce the concept of Schumpeter efficiency, which allocates resources to certain industrial branches on the grounds of their dynamic potential for growth and technological change, as has occurred in the Japanese case (Dosi, Tyson and Zysman, 1989).

These theoretical contributions undoubtedly offer more solid arguments for protecting the industries possessing the most technological vigour than the traditional argument of infant industry. Although conceived for the situation of developed economies, these arguments would serve also for newly industrialized countries that are trying to make inroads in the production of the more dynamic branches of international trade and give priority to the technological possibilities of the manufacture of this type of goods.

However, at the start of any analysis of the problem in developing countries a number of obstacles surface regarding how to obtain the technology for embarking upon the production of this type of goods, in view of the shortage of skilled personnel, the lack of financial resources and the rapidity of technological progress.

Moreover, given the speed of technological progress, the major barriers to entry, the fall in prices and the short useful life of the products in question, the classic conflict arises between the need for the rapid introduction of imported products, whose prices are constantly falling, on the one hand, and the increased costs of local production, on the other.

Aside from specific problems, it seems clear that in the framework of a customs union the barriers to entry and the conflicts between imports and local production would be less than in the case of unilateral action.

In other words, the costs of the protection that should be granted to the production of this type of goods would be less in an expanded market than if the action is taken by each country individually. The size of the expanded market provides a wider basis for absorbing research and development costs and financing the costly investments in fixed assets and the manpower training required by the technologically most advanced industries.

In the light of all these theoretical arguments it could be concluded that a customs union will also be more beneficial than protection in the case of industries where technological change is rapid. However, owing to the nature of the development and production of this type of goods, this conclusion does not mean that a customs union is more advantageous than importing high-tech products from industrialized countries.

II

Conditions for the establishment of an Argentine-Brazilian free trade area

1. *The potential benefits*

At the beginning of the 1980s, using a stylized model of trade deregulation with conventional assumptions, an estimate was made of the potential benefits of a widespread process of integration among the six major Latin American economies (Cline, 1981). The initial assumptions were the previous absence of free trade inside the region, the removal of all types of barrier in intraregional trade and the retention of differentiated tariffs against third countries. The model estimated the benefits of trade creation and the costs of trade diversion from former and more efficient partners.

In accordance with the arguments of the "new" theory of international trade, some of the benefits considered came from the utilization of economies of scale, greater employment of low-cost opportunity labour and saving of hard currencies. Other dynamic effects, such as investments made necessary by consequent production increases and the stiffening of competition in the respective domestic markets, were not taken into account, which is why a certain underestimate of the benefits is assumed. This exercise revealed vigorous creation of trade and estimated that the net social returns were in excess of 1% of the aggregate GDP of the six countries.

The static benefits of integration rise in geometric proportion to the initial level of the tariff, and their volume in absolute terms is directly related to each country's share in the imports of its regional partners. Both factors are more significant for Argentina and Brazil than for any of the other four countries included in the model, so that it comes as no surprise that the bulk of the estimated benefits is concentrated in these two countries and that they are in turn the main source of the overall gains to the group in question. According to the results obtained by Cline, in a possible scheme of intraregional deregulation 90% of the benefits of trade creation and 68% of the net social benefits would be contributed by the participation of Argentina and Brazil.

The distribution of the benefits introduces an equally interesting perspective of analysis. The model calculates that the benefits of integration would represent 1.34% of GDP for Argentina and 0.45% for Brazil. This difference is due to the fact that the opening up of the regional market would produce a noticeably higher growth of Argentine exports over those of Brazil. In other words, the static benefits are higher for countries capable of entering the expanded Brazilian market. Under these conditions Argentina obtains additional benefits associated with the increased use of labour, saving of foreign exchange and use of economies of scale.

As Cline suggests, the estimated values are subject to criticism in respect of the initial assumptions and the parameters adopted for measuring the combined effect of trade diversion and creation. But the exercise is undoubtedly pertinent in at least two directions. First, it indicates the possibility open to the countries of Latin America to obtain both static and dynamic economic benefits through integration. Second, it underlines the importance of the contributions of Argenina and Brazil to the generation of these benefits. This particular hypothesis is based not only on the relative size of the two economies but also, and essentially, on the degree of development of their production apparatus, the leadership that they exercise in intrazonal trade and the existing bilateral complementarities.

The combined share of Argentina and Brazil accounted for between 75% and 80% of total trade within ALADI in the last 15 years. Their bilateral trade, in turn, averages between 20% and 25% of intrazonal trade, while the share of their ALADI partners is slightly over 20% of Argentina's total foreign trade and around 10% of Brazil's. These facts support the argument, widespread throughout Latin America, that the success of the bilateral integration programme under way will have dynamic effects on regional trade and production (Tavares de Araujo Jr., 1987).

The probable existence of production complementarities between the two countries is of vital importance for evaluating the feasibility of the Agreement. This question, however, is not a simple one. The evaluation cannot be reduced to a mere analysis of available supply and, consequently, the potential *diversion* of trade. Firstly, the possibility of substituting one trade partner for another depends on the technical characteristics of the product traded, on the existence of marketing channels and, more generally, on the financing and supply conditions that affect the relative competitiveness of the product in question. Secondly, and fundamentally, the expanded market permits best use to be made of economies of scale and specialization and promotes the spread of technological and organizational externalities, modifying the terms of trade that would result from a static view that only considers the endowment of factors.

Still, the notion of trade *diversion* can be useful for estimating a sort of "natural" path in the formation of a free trade area, in the absence of the effects of restructuring of the production apparatus associated with the hypothesis of trade *creation*. It must be assumed that diversion is the dominant trend in the initial stage. A point underlined in one of the first works on the Argentine-Brazilian Integration Agreement is that the hypothesis of trade diversion is directly linked to a pattern of *inter*sectoral complementarity, according to which the main items of bilateral trade would be Argentine exports of agro-foods and Brazilian exports of manufactures (Tavares de Araujo Jr., 1987).

This author summarizes several assessments made by the General Secretariat of ALADI which, on the basis of 1980-1984 trade, project the expansion of bilateral trade attributable to diversion from third countries of reciprocal exports and imports totalling over US$1 million effectively made in that period. These calculations reveal an increase in bilateral trade of around 150%, which would take place under conditions of relative balance, although with deficit trends for Brazil. But the truly significant results are that 80% of Argentina's potential exports is concentrated in farm and agro-industrial goods and that 80% of Brazil's additional exports would be of processed metal goods.

In fact, as will be seen below, bilateral trade answers predominantly to a pattern of intersectoral specialization. An interesting fact is that, even in that framework, there are still significant prospects for expanding reciprocal trade. The greater benfits would come not only from saving of hard foreign currency but also from better prices, not taken advantage of until now due to defects in the supply channels. In the case of wheat, for example, Brazil imports from third-party suppliers at prices higher than Argentina's. Moreover, if account is taken of the potential increases in demand associated with changes in income distribution or, as Tavares de

Araujo suggests in the case of grain in Brazil, the cutback in excessive subsidies for certain domestic operations, there would also be an effect of trade *creation*, even when use is being made of static comparative advantages.

However, the search for dynamic effects of production restructuring associated with economies of scale and specialization, with a priority for industrialization, and with the capacity to introduce technical progress that stems from technological selection and acquisition of know-how, against a background of greater competition, leads to the exploration of potential intrasectoral advantages. In this hypothesis the possibilities for trade creation depend directly on the dynamic *production* of new comparative advantages. "The point of departure of this discussion is the common challenge for the growth prospects of both economies: the challenge of training to keep pace with shifts in the world technological frontier and, at the same time, to ensure conditions of international competitiveness for one's industrial capacity" (Tavares de Araujo Jr., 1987, p. 15, our translation).

A comparative analysis of certain structural features and of the recent performance of the Argentine and Brazilian economies, particularly the industrial sector, and of the prospects and problems that both face, should provide valuable material for evaluating the feasibility and usefulness of a free trade area between the two countries.

2. *A comparison of production profiles: performance complementarities and asymmetries*

A market expanded by the establishment of an Argentine-Brazilian free trade area would bring together an estimated population of 170 million, somewhat more than 40% of the total population of Latin America, with a past annual growth rate of 1.6%. The aggregate GDP of the two countries is around US$430 billion, of which an average of about 25% is provided by the industrial sector. Together, Argentina and Brazil account for nearly 50% of total regional production and more than 50% of the manufacturing product, while their per capita product is about US$2 500, clearly higher than the regional average. Consequently, this is a potentially suitable market for undertaking an expanded process of integration.

However, the size differences between the two partners are substantial. Brazil's population is 4.5 times bigger than Argentina's and its total GDP four times bigger, with an approximate 5 to 1 ratio in the manufacturing sector. The tendency in the last 20 years has been for these gaps to grow steadily wider, while the difference in per capita income in Argentina's favour declined from 125% in 1970 to barely 13% in 1987. These facts underline two important points for the implementation of the Integration Agreement. Firstly, from a static point of view the *absolute* differences in size make the advantages of an expanded market more evident for Argentina. Secondly, the similarity of per capita income (*relative* size) suggests the existence of comparable demand profiles, which would favour the use of economies of scale through specialization within industries. There are obviously substantial differences both in the average income of the many regions of Brazil and Argentina and in personal income distribution; this restricts the comparable levels of demand to only a few partial markets.

The structure of sectoral production is also similar in the two countries and its long-term evolution reflects a relatively stable pattern. More than one-third of total production is concentrated in the agricutural sector and manufacturing; and although the latter has a somewhat larger relative weight in Brazil, the sectoral distribution is fairly similar. The fact that in both countries the industrial sector generates around 25% of the total product suggests that there is an objective base for the development of an intrasectoral specialization strategy. However, there are appreciable differences in the vigour of the two economies. Since the 1970s Argentina has tended to mark time, especially in the industrial sector, while the Brazilian economy has exhibited periods of vigorous expansion. However, in the economic cycle of the 1980s they share a common trait: both are passing through phases of deep recession associated with the external-debt crises and the consequent adjustment (Chudnovsky, 1988; Botzman and Porta, 1989).

The path of their respective investment rates reflects the characteristics of their processes of accumulation. Although the Brazilian economy is exhibiting much greater vigour, there has been a strong introversion in both countries in recent years (table 1). The decline of the investment coefficient to levels close to —and in some years even lower than— replenishment levels indicates a deterioration of the production capacity, in particular in the manufacturing sector. Within this framework two other factors of importance for the Agreement's future must be stressed. On the one hand, both countries have a mature industrial structure, whose performance is dependent on the reconstruction of the investment process. On the other hand, the greater vigour of the Brazilian economy can operate as a "locomotive" factor in a hypothesis of the reconversion of Argentina's industry.

Throughout these years some considerable changes have been taking place in the composition of manufacturing output. In both countries the consolidation of the intermediate-goods sector stands out: basically paper, iron and steel, and petrochemicals. Brazil has made substantial progress in the domestic production of capital goods, a sector which, like basic industry, was vigorously promoted in the industrialization strategy based on major projects financed with external resources adopted in the 1970s. This progress has diminished the importance of the automobile sector, the axis of industrialization in the 1960s. In Argentina, on the other hand, although it started with a similar pattern, the production of non-durable consumer goods continues to head up the industrial structure, and it is very significant that during the recent process of relative de-industrialization it is this segment that has had the highest growth rates.

These changes are directly related to changes in the external role of the industrial apparatus. During the 1960s and 1970s policies based on import-substitution models predominated in boh countries and were generally applied in a context of strong protection of the domestic market. In the mid-1970s there was a basic shift in the implementation of industrial policy. Argentina introduced temporary trade and financial deregulation accompanied by a sharp over-devaluation of the local currency. The subsequent introversion in manufacturing development was a consequence of the abrupt abandonment of the path of maturation followed up till then. In Brazil, on the other hand, a policy of promoting the intermediate- and capital-goods sectors was combined with a strategy of large export subsidies.

Table 1

ARGENTINA AND BRAZIL: EVOLUTION OF GROSS DOMESTIC PRODUCT AND INVESTMENT, 1961-1988

(Cumulative annual percentages)

Variables	1961-1970	1971-1980	1981-1983	1984-1987	1988
Total GDP					
Argentina	4.1	2.6	-2.9	0.6	-0.5
Brazil	6.1	8.7	-1.7	6.2	-0.3
Manufacturing GDP					
Argentina	5.2	1.6	-3.9	-0.6	-5.5
Brazil	6.9	9.0	-5.7	6.8	-2.5
Gross investment					
Argentina		3.7		-8.5	
Brazil		9.3		-2.7	
Investment rate (I/GDP, percentage)					
Argentina		21.7		15.2	
Brazil		23.9		16.6	

Source: 1960-1987: Inter-American Development Bank (IDB), *Progreso económico y social de América Latina, 1988 Report*, Washington, D.C.
1988: ECLAC, *Economic Panorama of Latin America 1988* (LC/G.1531), September.

A comparison of export structures reveals the magnitude of these changes. In 1970 81.5% of Argentina's exports were made up of farm products and their industrial derivatives, and this share stood at 71.3% in 1985 with no appreciable changes in the industrial contribution. In Brazil, meanwhile, the share of the farming complex in exports fell from 77.6% to 42.3% in the same period. The vigour of manufacturing exports not based on natural resources is clearly greater in Brazil: between 1970 and 1985 its contribution to total exports rose from 10% to 40%; and in Argentina, from 14% to 18%. In both countries, on the other hand, iron and steel and petrochemical exports grew significantly (table 2).

Within the framework of this changing profile of specialization and external financial restriction imposed by the debt crisis, the degree of openness of the industrial sector has been modified in the same direction in the two countries. The exports coefficient has grown and the imports coefficient has decreased, always more markedly in Brazil. The two economies are relatively closed to international competition, yet on average not very export-oriented. In Argentina the clearest changes are concentrated in the intermediate-goods sector, in particular the branches of paper, iron and steel and basic chemicals. In Brazil the trend is more uniform for the entire industrial system, with significant changes in the metal-working complex and the branches of textiles, garments and footwear, besides the basic industries.

This situation highlights some common interests for the establishment of a free trade area. From the Argentine standpoint Brazil is a large consumer market, capable of generating prospects for increased production capacity and agricultural and manufacturing exports and helping to ease the problems of scale that afflict many branches of production. At the same time it is a partner endowed with an appreciable industrial and technological capacity, with a very diversified export apparatus. It could thus function as a new frontier for a re-industrialization strategy by stimulating new investments and increasing, in that context, the feasibility of restructuring production. In turn, the crisis of foreign and domestic debt, the difficulties of the public sector, the slackening of private investment, and the need to restructure the industrial apparatus to cope with international competition would stimulate Brazil's interest in a partner like Argentina with which it could tackle jointly the new domestic and international situation.

In relation to the potential co-operation between the two countries, although Argentina's consumer market is much smaller, it has other attributes that suggest an initial complementarity for the process of integration. Its agricultural and agroindustrial production is highly competitive and would help to bring down the prices of some key items in the Brazilian family basket and facilitate joint effors in other markets (Villalobos, 1988). Likewise, Argentina still has a greater relative abundance of skilled labour, a factor that would favour development efforts in sectors of production which make intensive use of this type of labour. Thus, even in this context of deterioration and reduction of manufacturing capacities, there are some branches making intensive use of skilled labour and with short production turns that are currently competitive in international markets. This base would make

Table 2

LATIN AMERICA, ARGENTINA AND BRAZIL: COMPARISON OF EXPORT PROFILES

(Percentages)

	Latin America			Argentina			Brazil		
	1970	1980	1985	1970	1980	1985	1970	1980	1985
Commodities	**59.6**	**54.3**	**47.5**	**59.5**	**49.0**	**49.3**	**64.2**	**30.3**	**27.6**
Farm goods	15.4	19.9	20.4	59.1	48.5	48.2	57.1	21.3	21.0
Minerals	2.8	4.9	4.0	0.3	0.4	0.2	6.9	8.9	6.6
Fuels	41.4	29.6	23.2	0.1	-	0.8	0.1	0.1	-
Manufactures	**40.2**	**45.3**	**51.9**	**40.4**	**51.0**	**50.7**	**35.6**	**69.5**	**72.2**
a) Resource-based	36.4	30.7	31.7	26.5	30.5	33.0	25.0	36.0	33.2
Farm goods	6.7	13.1	11.4	22.4	22.8	23.1	20.5	30.6	21.3
Mining	3.7	6.9	9.5	1.3	4.2	4.4	1.0	2.3	5.4
Petroleum derivatives	26.1	10.7	10.8	2.8	3.5	5.6	3.4	3.0	6.5
b) Non-resource-based	3.9	14.6	20.2	13.9	20.5	17.7	10.6	33.5	39.0

Source: Joint ECLAC/UNIDO Industry and Technology Division, empirical base for comparative studies, Argentina, Brazil and Mexico, 1988.

it possible to complement the advantages already acquired by Brazilian industry in large-scale production making intensive use of common inputs.

These elements of structural complementarity are favourable factors in the rethinking of the trade and industrial policies of the two countries in order gradually and flexibly to dismantle the existing excessive protectionism. In the Brazilian case a gradual modification of the general levels and methods of protection in the production apparatus could be initiated by means of preferential imports from Argentina, which would be not only strictly complementary, as is generally the case today, but also competitive with domestic production (Tavares de Araujo Jr., 1988). For Argentina, whose manufacturing also enjoys high levels of protection, although lower than Brazil's, integration with Brazil is an alternative to the unilateral deregulation already attempted between 1978 and 1981 with clearly negative results. Preferential access to the Brazilian market would stimulate the recovery of production investment and the pursuit of greater genuine competitiveness.

Recognition of the existence of potential complementarities and common needs cannot, however, disguise the fact that both the repetition in both countries of the same model of industrialization and the differences in sectoral strength in the most recent period impose harsh structural restrictions on bilateral trade. In fact, it must be stressed that the Brazilian economy is facing the current situation with a broad-based, more modern and relatively integrated industrial capacity and has secured substantial export diversification. On the other hand, in Argentina only the agricultural sector has shown some vigour in output and the incorporation of technological change during the last 15 years. The manufacturing sector has undergone a process of introversion, with the result that the levels of production and employment have dropped and the branches making most intensive use of skilled labour and with a greater capacity for introducing technical advances have lost weight in the overall structure and in exports.

In addition, the fact that the import-substitution strategy is based almost exclusively on supply of the domestic market has led to the formation of similar industrial structures in both countries. The widespread implementation of this strategy was intended to "solve" the problems of production scale by means of a system of high, generalized and permanent protection, which neutralized the potential gains from competitiveness that would be expected from the maturing of manufacturing and technological development. This favourable treatment of the relative inefficiency of production standards and plant organization hindered active integration in international markets. This therefore stimulated the gradual integration of the various stages of production at the national level and excessive vertical integration at the plant level. As a result, Argentina and Brazil possess industrial supplies with very similar profiles but with different absolute sizes.

Only in some exceptional cases involving subsidiaries of transnational corporations (TC) do manufacturers in Argentina and Brazil show some degree of specialization and complementarity and develop intra-company trade on the basis of compensation-trade programmes, in particular in the automobile and truck sector. Duplication generally prevails in the manufacturing sector, and this naturally does not favour trade. Nevertheless, given that Brazil's industrialization and export strength are greater, its prospects with regard to manufacturing exports are obviously much greater too, as is apparent in bilateral trade.

In this respect, and in contrast with what happened in the integration experiments in Europe or between Canada and the United States, where in the preceding stages there had already been a considerable volume of trade among member countries, Argentine-Brazilian trade exhibts no similar relative dimension, although it does show profound asymmetries (Hirst, 1987). Firstly, Argentina's average ranking as a supplier of Brazil fell from sixth in the 1970s to ninth in the 1980s. Brazil has been a more significant supplier of Argentina, above all in the 1980s when, except in 1981, it has been the main supplier after the United States. A similar asymmetry is found in exports: while for Argentina the Brazilian market was between second and fourth in order of importance, for Brazil the Argentine market fluctuated between sixth and tenth.

3. *Specialization in bilateral trade*

The trade flows between Argentina and Brazil conform primarily with a pattern of *intersectoral* specialization, in which Argentina exports agro-food goods and imports industrial manufactures, almost always with a negative balance. Within this dominant scenario there were some changes in the 1980s which, without becoming a trend, are significant factors in an evaluation of the integration prospects.

Throughout the 1980s the total value of bilateral trade between Argentina and Brazil fluctuated between US$1 billion and US$1.5 billion a year, with a slight upturn in recent years after the fall in 1983. During this period the trade balance was consistently negative for Argentina, with the exception of 1986, when the achievement of a favourable level of exports helped to generate a slight surplus. In the last two years the imbalance was particularly pronounced, amounting to 25% of total trade and 70% of Argentina's exports in 1988. Until then, the behaviour of trade flows had been erratic and the relative movements of the deficit could not be explained by a definite trend in exports or imports. From 1987, in contrast, Brazil's exports attained especially high levels (table 3).

When bilateral trade is compared with total foreign trade, for both countries there is a pronounced difference in the importance of the partner country. Argentina has a smaller share both as a seller and as a buyer in Brazilian trade, with values of 3% in both cases, while for Argentina's trade Brazil is a market and supplier of greater importance. In particular, the value of Argentine imports from Brazil has stabilized at around 15%. The growth of the share of the Brazilian market in exports in the last two years is also significant, for Argentina's weight among Brazil's suppliers has risen from 2% to 4-5%.

In recent years, therefore, the levels of bilateral trade have increased and the importance of each country as a trade partner of the other is growing, but these trends are not modifying substantially the traditional asymmetries reflected in Argentina's deficits and greater relative dependence. This situation is corroborated by the pattern of relative specialization that has developed in bilateral trade, with Brazil a major supplier of industrial manufactures and Argentina a supplier of agricultural products with varying degrees of processing.

In fact, when the different sources of the goods traded are examined, Argentina emerges with a constant surplus in commodities and agricultural manufactures (AM). Nevertheless, there have been sharp variations in the respective annual exports in recent years, with a peak in 1986 associated with the surge in domestic demand following the introduction of the *Plan Cruzado* in Brazil, and with a strong slump in 1987 due to a combination of a cutback in Brazilian demand and a fall in international prices. In contrast, Brazilian exports are mostly industrial (IM) and have been on the rise, which also explains Argentina's rising deficit under this heading (table 4).

A comparison of trade levels by product in recent years shows that the trends in trade in industrial manufactures have been more stable. This item shows sustained growth, in contrast with the sharp fluctuations in trade in agricultural products, which have especially affected Argentina's exports. The uneven behaviour of the bilateral trade balances between 1985 and 1987 reflects the divergent trends by group of products. The pattern of specialization in Argentine-Brazilian trade seems to be associated with increased stability of the foreign-exchange balance in the segments in which Brazil is a net exporter.

Table 3

ARGENTINA-BRAZIL: BILATERAL TRADE 1975-1988

(Millions of US dollars)

	Exports	Imports	Balance
1975	213.5	383.1	-169.6
1978	576.8	348.9	227.9
1980	765.0	1 091.5	-326.5
1981	595.1	880.2	-285.1
1982	567.7	666.4	-98.7
1983	338.3	654.6	-316.3
1984	478.2	853.1	-374.9
1985	496.0	611.6	-115.6
1986	698.0	690.2	7.8
1987	539.0	819.3	-280.3
1988	572.9	971.3	-398.4

Source: Argentina, Secretariat of Industry and Foreign Trad National Office for Sectoral Research.

Table 4

ARGENTINA-BRAZIL: BILATERAL TRADE 1985-1987
EXPORTS AND IMPORTS BY TYPE OF PRODUCT

(Millions of US dollars)

	Exports			Imports			Balance		
	1985	1986	1987	1985	1986	1987	1985	1986	1987
Commodities	176.7	315.4	218.2	144.1	166.4	158.6	32.6	149.0	59.6
AM	146.9	206.7	113.1	14.5	26.3	26.3	132.4	180.4	86.8
Fuels	63.5	23.4	0.1	17.7	0.3	30.6	45.8	23.1	30.5
IM	109.0	150.4	207.8	435.3	497.2	603.8	-326.3	-346.8	-396.0
Total	**496.0**	**698.0**	**539.0**	**611.6**	**690.2**	**819.3**	**-115.6**	**7.8**	**-280.3**

Source: Argentina, Secretariat of Industry and Foreign Trade, National Office for Sectoral Research.
AM: Agricultural manufactures.
IM: Industrial manufactures.

4. *Macroeconomic instability*

The first agreements of the programme of bilateral integration were negotiated and signed during 1986. That year the main macroeconomic variables behaved favourably in both countries: growth of the economy in general and the industrial sector in particular, relative price stability and an upturn, although a weak one, in the investment rate. In that context the two exchange rates also remained relatively stable. However, in macroeconomic performance 1986 was an exception as compared with the decade as a whole. Particularly since 1986, i.e., when the agreements came into effect, the economic situation took a dramatic turn for the worse.

The contrast between that time and the present could not be more striking. Both economies are entering a phase of open recession with sharp falls in the levels of industrial production. The restrictive monetary policies have proved incapable of halting the runaway inflation. Shaken by a succession of increasingly less effective stabilizing adjustments, Argentina and Brazil were slipping towads hyperinflation in the first months of 1989, amidst evident symptoms of a breakdown in the production apparatus. The difficulties on the external front caused Brazil to declare in early 1987 a moratorium on the payment of its external-debt service, a moratorium which remained in force for a year and threatens to be reimposed. Argentina has in fact observed an undeclared moratorium since April 1988. In this context, the fluctuations in the two exchange rates and in their relative parities have been spectacular.

The macroeconomic imbalances clearly reveal the difficult situation in which both economies have been functioning since the foreign-debt crisis at the beginning of the decade. Many of the imbalances are due basically to the burden of foreign-debt service and to speculative transfers associated with exchange-rate instability, which mainly affect the international balance of payments and the fiscal accounts. Since 1982 both countries, as well as the Latin American region in general, have carried out a severe adjustment process that has provided financing for those transfers through an unprecedented growth in the trade balance. Although a substantial growth in exports has been achieved, the generation of an external trade surplus has been largely due to the cutback in imports. At the same time the fiscal adjustment curbed mainly public investment. Both factors greatly contributed to establishing conditions of almost permanent recession, which still exist, impeding both industrial restructuring in economies stripped of financial resources in this way and trade integration between relatively insolvent economies.

In this context the industrial system is encountering many difficulties in reestablishing itself in international markets. In view of the inflexible downward trend in financial costs, the growing cost of foreign exchange for imports, fiscal restrictions and the lack of a consistent technological-industrial policy, the gains from competitiveness in the manufacturing sector tend to rest on continual over-devaluation of the local currency and reduction of real wages. However, there is thus no virtuous circle of the kind found in more successful situations of industrial growth, in which a rising share in the international market is generated by the self-sustaining growth of industrialization, productivity levels, real wages and domestic demand. On the contrary, a structural duality tends to be recreated with the removal from the manufacturing sector of a specifically export segment, for its energy cannot then reach the domestic market. Strictly speaking, its performance hinges fundamentally on a series of factors that tend to depress domestic demand, because the basis of its international competitiveness is rooted much more in a system of direct or implicit subsidies than in genuinely higher productivity. Thus, the domestic market subsidizes the export sector through low wages, fiscal incentives, depressed prices in related sectors, tariff exemptions for imports and over-devaluation of the exchange rate.

The macroeconomic setting and the coherence of the industrial strategy are, in the end, determining factors in the development of an integration scheme such as the one that Argentina and Brazil are introducing. In particular, the macroeconomic situation of both countries was clearly adverse in 1987 and 1988, and much less favourable for the introduction of the Agreement than could have been predicted when it was signed in 1986. The industrial slump and the extreme volatility of exchange-rate parities were the harshest constraints both for the negotiations and for reciprocal trade and the mobilization of new investments.

III

Summary and conclusions

Argentina and Brazil are entering the 1990s in a critical economic situation. Hyperinflation is the most evident manifestation of the crisis, but the signs of disinvestment, technological slippage and deterioration in living standards are equally disturbing.

Although the crisis is due to a series of structural and cyclical causes, it is evident that the weak position of the manufacturing sector in international trade in both economies is one of its chief traits. One of the arguments that has gained ground in the debate and in economic policy blames the high level of protection of the domestic market for industry's lack of competitiveness and proposes integration in the world market by means of unilateral economic deregulation. The experiments in such deregulation attempted in the region, especially in Argentina in 1979-1981, did little to promote genuine manufacturing competitiveness, since the generation of export flows was based on static comparative advantages. Nevertheless, it must also be recognized that the situation of generalized permanent protectionism in which industry has operated has not generated the productivity gains which would have been expected from the maturing of the process of manufacturing and technological development. It is in these circumstances, when it is essential to restructure the industrial apparatus shaped by the import-substitution strategy, in order to secure competitiveness based on the incorporation of technological advances and the generation of dynamic comparative advantages, that the prospect of regional economic integration acquires fundamental importance.

An expanded market would help to reduce the levels of protection of many activities that no longer need it, with the eliminaton of frivolous protection under more gradual and controlled conditions than in the schemes of unilateral deregulation. At the same time, concerted efforts in the technological sphere, in the context of economic integration, would make it less troublesome and more feasible to ensure the genuine protection of activities at the technological frontier —a common policy in industrialized countries and in some recently industrialized ones which helps to create dynamic competitive advantages.

Advances in the theoretical literature on the subject have been few, but they do provide some valuable justification of the advantages of preferential trade agreements. In the orthodox theoretical literature *customs unions* have been regarded as a second-best alternative, given the difficulty of promoting a generalized free-trade scheme. To the extent that they create trade they will facilitate a better international allocation of resources and consequent gains in prosperity for member countries than protection could offer in either of the markets. In other words, free trade would be the ideal but, given the impossibility of achieving it, a customs union will have advantages over the alternative of closed national economies.

These arguments are reinforced by the inclusion in the *new* theory of international trade of increasing yields to scale and oligopolistic competition among the assumptions that explain trade flows. The expanded market of a customs union will facilitate economies of specialization and economies of scale, resulting in greater efficiency and product mix, as well as increased competition. Free trade will remain the theoretical *desideratum*, but a customs union will certainly be preferable to closed markets.

In contrast, other writers, particularly on development theory and evolutionary theories of technological change, also base the existence of advantages for the countries members of a customs union on a scheme of unilateral openness to free trade. The advantages derive from the concept of "preference for industrialization", which justifies protection in terms of its beneficial effects on employment, acquisition of know-how and introduction of technical progress associated with the process of industrialization. Similarly, the generation of significant external economies in technological research and development justifies some degree of protection in these areas, although it will necessarily be less in the case of an expanded market than in individual countries. This argument is relevant for Argentina and Brazil, confronted as they are by the need to intensify their industrialization by restructuring existing activities and making progress in the production of goods with greater technological content.

By virtue of the absolute size of each economy Argentina will benefit more from an expanded market. The greater vigour of the Brazilian economy could also have a *locomotive* effect on Argentine production. Thus, on the assumption of static comparative advantages and in accordance with a model of trade deregulation between Argentina and Brazil, it has been estimated that the benefits would be greater for Argentina. In addition, the results of the application of the model indicate that the potential increase in trade would conform with an *intersectoral* pattern: agro-foods from Argentina, metal manufactures from Brazil. In fact, this has been the content of their bilateral trade in the last 10 years. Under this scheme the direct benefits of integration will be a large preferential market for Argentina and a supplier of relatively cheap food for Brazil.

However, the expanded market may also have dynamic restructuring effects stemming from economies of scale and specialization and from technological and organizational externalities —a hypothesis that leads to the exploration of potential *intrasectoral* advantages. The fact that both countries have a relatively mature and diversified industrial sector and similar per capita income levels suggests the existence of complementarities capable of serving as a base for expansion of trade and output.

In comparison with Brazilian industry, for example, Argentine industry is competitive not only in agroindustries but also in a number of sectors making intensive use of skilled labour and with short production runs. At various times these sectors have performed satisfactorily in international markets. Similar advantages might be found in specialized components. Given the excessively closed nature of Brazil's economy, selective openness to competition from Argentine producers would help to promote a process of reorganization that would benefit the overall competitiveness of its industrial system.

In addition to the potential benefits, the severe difficulties and constraints involved in the introduction of a formula of integration between the two countries are also evident. Macroeconomic instability continually alters the conditions of competition and influences investment decisions. The parallelism of industrial structures would continue to inhibit intrasectoral trade unless eventual restructuring programmes are not harmonized in some way. The current high levels of protection generate opposition to the possibility of intensified competition in the two domestic markets. Finally, the asymmetry in the size and strength of the production apparatus accentuates the reluctance of the smaller partner.

The answer to this complex set of needs, potentials and limitations was based on a highly flexible and very gradual approach. PICE, approved in July 1986, established a process of advances by sectoral protocols, without goals, specific contents or specific sequences of incorporation. The instruments range from simple letters of intent to harmonize policies in some sectors to the creation of free-trade areas in others. The logic of this approach would seem to lie in the quest for "success" in a few projects and a sort of *demonstration effect* which will help to create a critical mass of trade and consensus to serve as a basis for a later stage of more rapid and generalized dismantling of reciprocal trade barriers.

Within this framework of flexibility and fairly vague definition of instruments, a guiding principle was nevertheless adopted: the establishment of conditions for intrasectoral specialization. Thus, the most significant agreement in the first stage of PICE was in the capital-goods sector (Protocol 1), defining a free-trade area between the two countries, with no tariffs or semi-tariff barriers and with the gradual incorporation of the various production lines into the scheme. This instrument injected remarkable strength into bilateral trade in capital goods in 1987 and 1988; it has become the main stimulus of the increased output in Argentina; it has promoted the only, albeit weak, restructuring efforts in the sector; and it has therefore tended to internalize the potential advantages of the expanded market (Porta, 1989).

At the same time, this development has been jeopardized by a number of management deficiencies in Protocol 1, owing to the meagre or non-existent progress with the integration programme in other sectors, the inconsistencies in industrial policy and, above all, the negative impact of recessionary trends and macroeconomic instability. Trade remains depressed, the negotiations on incorporation of products in the sectoral free-trade area are tending to stagnate, the mecanisms for the promotion of new investments and joint undertakings are not materializing and there are no serious indications of reorganization or reactivation of the industrial capacity in general.

The approach based on gradual progress by sectors causes some problems. What is the advisable sequence? The sectoral approach demands an effective answer to this question, for there are two supplementary issues: first, the need to prevent imbalances in the production chain; and second, the need to consider the dynamics of the "integration effect" on intersectoral trade. The agreement between Argentina and Brazil began with final goods: first, capital goods and then, in turn, automobiles and agro-foods.

At first glance, the decision to start with final goods in the programme of bilateral integration would appear to encounter obstacles fairly soon unless there is relative convergence of the two domestic cost structures, particularly with respect to physical inputs. This hypothesis posits the need to harmonize national policies for the basic industrial sectors, intermediate-goods producers and forward-price setters, and to include integration formulas in these policies as quickly as possible. The experience of the capital-goods sector shows how difficult it is to make progress when there are wide differences in domestic iron and steel prices in the two countries. In this respect, the sectoral approach would benefit from progress in the programming to scale of related prodution activities, so as to cover the entire technical-economic structure of the industrial branch.

Another factor, linked directly to the one just discussed, is the limitations of the gradual sectoral approach in regard to consolidating the advances made in a given sector. As each sector is increasingly subject to the new conditions of competition in the expanded market, there will be a need for an equal degree of harmonization of policies between the partners, as well as extension of the Agreement to cover more sectors. Otherwise there is a risk that the sectoral scheme may begin to deliver decreasing returns, and the potential advantages of integration may tend to be nullified. In other words, the gradual approach seems to be an adequate response to the difficulties and reluctance encountered at the point of departure, but this initial virtue will be eroded unless more extensive integration criteria are applied at a later stage.

The Treaty signed in November 1988 by Argentina and Brazil, which provides for the total elimination of tariffs and other trade barriers over a period of 10 years, apparently introduces this second stage. Once the two Congresses enact it into law, the establishment of a customs union between the two countries will be a reality. This situation will enable more active use to be made of tariff policy as an instrument for restructuring existing industries and will motivate the parties to undertake joint activities with a strong technological content. At the same time, by adopting selective criteria of protection against third-party suppliers they could bring about definite structural changes in both countries which will generate genuine increases in their international competitiveness. Progress in this direction will of course demand extensive harmonization of sectoral and macroeconomic policies between the two partners.

Indeed, the greatest difficulties remain the macroeconomic conditions in which the process of accumulation functions in Argentina and Brazil. The macroeconomic imbalances are of such magnitude that they can neutralize integration schemes of any kind. However, it should not be inferred that, unless these imbalances disappear completely, no long-term strategies —such as the free-trade area— will be viable. The achievement of a degree of control over the macroeconomic variables and, essentially, the relative harmonization of macroeconomic policies and coherence in sectoral policies would open up opportunities for some sectors to consolidate a process of restructuring and reactivation with a view to gradual integration. Obviously, the road would have fewer pitfalls if each country's strategy of reindustrialization and restructuring of the production apparatus, and the eventual role of the integration process were set forth with greater clarity.

In order to contribute to a more precise formulation of the advantages and disadvantages of a free-trade area over other long-term alternatives that are being outlined at present, it is vital to have a series of studies that describe in detail the competitive situation of each production branch in Argentina and Brazil and examine the way in which an expanded market could modify the current conditions of competitiveness and level of protection by using economies of scale and specialization. In turn, it is vital to determine the strategy for industries with high research and development intensity, taking into account the dissimilar situations in each country and the changing international frontier. These studies on structural situations must necessarily be supplemented by an evaluation of the macroeconomic, trade and industrial conditions and policies, especially exchange-rate parities and the system of payments and international financing.

The production of such studies will not only strengthen the economic bases of integration but will also facilitate the negotiation of the general free-trade area. As demonstrated by the experience of other attempts, an integration exercise undoubtedly requires good negotiators and political consensus, but it requires solid technical support as well.

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The centre-periphery system and unequal exchange

*Edgardo Floto**

The economic crisis that has affected the Latin American countries since the early 1980s and is threatening to expand beyond the present decade has reactivated the debate about trade and development and the role of Latin America in the international division of labour. This paper seeks to contribute to that debate by restating ECLAC's original centre-periphery theory within the framework of the "unequal exchange" discussions. The paper aims to show that the ECLAC theory, after nearly 40 years, still contains the elements for a more satisfactory interpretation of world trade than other trade theories. After a brief introduction on comparative advantages and trade theory, the paper discusses the main elements of ECLAC's centre-periphery model. This model is then contrasted with the views of the main contributors to the unequal exchange debate, with the aid of the price and distribution relations of a two-country two-commodity international trade model in which the two nations are replaced by a "centre" and a "periphery". The last sections incorporate ECLAC's demand elasticity argument into the discussion and analyse the model's policy implications for peripheral countries.

*Economist of the Investment Centre, United Nations Food and Agriculture Organization (FAO).

I

Comparative advantages and trade theory*

Traditional international trade theory, whether formulated in the classical Ricardian form or in the refined framework of neo-classical theory, argues that commodity free trade will always work to the advantage of each trading country and thus will always have a positive effect not only on world welfare but also on the welfare of each individual trading partner.

Ricardo, with the help of his famous example of exchange of cloth for wine between England and Portugal, concluded that it was in the interest of each trading partner to specialize in those products in which they had comparatively[1] lower costs of production, as this would result in higher income levels, in terms of use values, in both countries.

Ricardo's model assumed that resources were mobile nationally but immobile internationally. Labour, the only explicitly considered factor of production, was employed in the two existing branches of production (wine and cloth) and these were assumed to have constant return to scale. The prices at which the countries would be willing to trade (and consequently their comparative advantages) were determined by the technical conditions governing labour inputs in each economy.

Ricardo's theory of comparative advantages has been subject to various lines of development since its initial formulation: some of them still within the classical framework, such as that of J.S. Mill, who broke away from the labour theory of value by introducing the law of reciprocal demand as the determinant of the equilibrium terms of trade in the Ricardian model, and others firmly within the neo-classical tradition, such as those of Keckscher, Ohlin and Samuelson. Heckscher and Ohlin (Heckscher, 1919, and Ohlin, 1933) argued that comparative advan-

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[1]As against the absolute cost advantage principle contained in a previous analysis on international trade by Adam Smith in the *Wealth of Nations*.

tages can only exist if the resource endowment or the factor proportion (as against Ricardo's techniques of production) of the trading partners are different. Such differences will result in different relative factor prices and, as each country will export those goods which use up more of its best-endowed resources, trade will tend to reduce differences in relative factor prices. Subsequently, Samuelson (Samuelson, 1948) was to show that under certain assumptions free trade would actually equalize factor prices in the trading partners.

Basically, the neo-classical theory demonstrated that, under certain conditions,[2] there was a possibility of gainful trade when production techniques were identical in all trading partners but their factor endowments differed. Thus, within the neo-classical framework of analysis, the difference in technical conditions between countries assumed in the Ricardian model became just another reason for having different pre-trade price ratios and consequently gains from trade. Moreover, differences in demand patterns would also lead to differences in pre-trade price ratios even if techniques and factor endowments were the same. International factor immobility, which played a central role in the Ricardian model, was no longer crucial in the neo-classical world, as factor movement could be substituted for commodity movements in attaining the gains from international transactions (Samuelson, 1948).

The conclusions reached on the basis of the neo-classical theory of international trade were not very different from those drawn from the static Ricardian model. In the neo-classical world, given the existence of complete harmony of interest between all countries (and all classes within those countries), the world free trade system had an innate tendency to improve the fate of all trading partners and reduce (if not eliminate[3]) the inequalities between them. Moreover, as technical progress would merely happen at random without any systematic geographic, social or economic bias, wherever it took place it would benefit everybody, directly by cheapening products and indirectly by stimulating production of other goods. In other words, free trade would translate an improvement in overall productivity and income in one place into increased productivity and income everywhere in the world.

Despite historical evidence contradicting the neo-classical vision of the world economy, the law of comparative advantages was never seriously questioned as a basic explanation of international commodity trade.[4] In the late 1940s, however, ECLAC stepped in to challenge the conclusions of the theory of comparative advantages and to attempt to present an alternative view of the effects of foreign trade on trading partners. However, ECLAC was not interested in introducing purely internal modifications[5] to the then prevailing Heckscher-Ohlin theory, nor did it have the intention of restricting its analysis to the sphere of exchange (as is commonly attributed to ECLAC). Instead, it sought to explain, through the interaction of forces at the centre and the periphery of the capitalist system during the cycle, the processes of accumulation, production and growth in the world economy. Unfortunately, it is only during the last decade, with the rise of the so-called neo-Ricardian critique of the theory of comparative advantage, plus the discussions on "unequal exchange" and the North-South debate, that ECLAC's contribution has become better known. It is our intention to show that by elaborating further the original formulation of the centre-periphery model it can provide a more realistic interpretation of the disposition created by the present world trade structure.

[2]Albeit rather restrictive assumptions, as Kaldor (1980) has shown.

[3]Inequalities between trading areas would be eliminated altogether if the countries had identical and "well behaved" production functions, i.e., identical production functions which, apart from being linear and homogenous, have a constant elasticity of substitution irrespective of factor proportions; Kaldor (1980).

[4]Most of the challenges came from the quarter of protectionist theory, but they were subsequently incorporated into the main body of international trade theory. "By directing attention to correcting the malfunctioning of the market mechanisms which operate in one way or another to give incorrect "signals" as to the direction of comparative advantages, the free-trade argument has in general survived the onslaught"; Evans (1981c), p. 118.

[5]A common temptation among critics of neo-classical theory which makes the analysis more complex but does not fundamentally alter the basic structure of the neo-classical model nor its conclusions.

II

ECLAC's centre-periphery system

As mentioned before, ECLAC's ideas developed as a reaction against the conclusions and policy recommendations based on the orthodox theory of international trade. ECLAC's critical comments were not aimed at any specific formulation of that theory, but were directed towards a rather vaguely defined "out-dated schema of the international division of labour, which achieved great importance in the nineteenth century and as a theoretical concept continued to exert considerable influence until very recently ...(asserting that)... the specific task that fell to Latin America, as part of the periphery of the world economic system, was that of producing food and raw materials for the great industrial centres".[6] Despite the characteristic lack of references in the early ECLAC writings,[7] one can safely assume that ECLAC officials had a Heckscher-Ohlin type of model in mind when aiming their criticisms.

As Pinto and Kñakal (1972) have pointed out, the concepts of "centre" and "periphery" can give rise to some ambiguity if one takes them out of their original context or meaning. They are certainly not intended as another substitute for the concepts of "developed" and "developing" or "industrialized" and "underdeveloped" countries. In the context of ECLAC's centre-periphery system, a "central" economy must necessarily be developed. In addition to its high level of income and development structure, and the basically endogenous nature of its growth dynamism, however, it also needs a capability to exercise "a *perceptible* influence upon the course of events in peripheral economies —but not vice versa".[8] The degree of influence and the means of exerting this influence will be decided by the centre. Furthermore, contrary to the situation last century when Great Britain was unquestionably *the* centre of the world system, in today's world one can distinguish a "principal centre" (i.e., the United States) and "sub-centres" (such as the EEC and Japan) which influence each other and the periphery to a greater or smaller extent according to their economic capacity. Consequently, although one can use the term "centre" to comprise the "principal centre" and the "sub-centres", it cannot be understood to include every developed country.

ECLAC's explanation of the functioning of the world economic system starts from the premise that capitalist development has not only been unequal from its outset but also that is has an inherent inequality that will widen the gap between the two extremes —the centre and the periphery— rather than narrow it as the orthodox theory of international trade would have us believe. Capitalist development has favoured those countries at the centre of the world economic system where indirect methods of production generated by technical progress were introduced first and distributed rather evenly and rapidly throughout their production system. The rest of the countries,[9] i.e., those which were peripheral to the world-wide spread of technology, had a late start and "technical progress only affected small sectors of the vast population as it usually only penetrated where it was needed to produce foodstuffs and raw materials at low cost for delivery to the great industrial centres".[10], [11]

[6] Prebisch (1950), p. 1.

[7] With the honourable exceptions of J.M. Keynes and H.W. Singer.

[8] Pinto and Kñakal (1972), p. 100.

[9] ECLAC's original centre-periphery model reflected a bipolar order of an industrialized capitalist world and an underdeveloped one, in which there was no room for the socialist world, reflecting the very small external economic impact of the USSR before the Second World War. Despite the rapid rate of growth shown by the socialist countries during the post-war period, however, their relatively low level of integration in the world economy (compared to the capitalist industrialized countries) has not changed substantially the conclusions drawn from ECLAC's original model (see Pinto and Kñakal, 1972, pp. 72-128). Moreover, apart from few exceptions (e.g., Cuba), generally speaking trade relationships between socialist countries and peripheral economies do not seem to be based on a footing very different from that characterizing trade relationships between the "capitalist centre" and the periphery. In the light of these assumptions the distribution of benefits from trade and technical progress in one case and the other should not be very different either.

[10] ECLAC (1951), p. 3.

[11] Kaldor would argue that unequal development between industrialized and peripheral countries is not just due to the fact that technological progress was introduced first in the former, but also to the presence of increasing returns to industry and the

The way in which technical progress spread from those countries where it originated to the rest of the world led to different structures of production in the centre and in the periphery, and to different functions in the world economic system. Thus, in ECLAC's view, centre and periphery can be regarded as the historical outcome of the way in which technical progress was propagated in the world economy.[12] In such a world, the function of the periphery is to produce and export raw materials and foodstuffs, while that of the centre is to produce and export industrial goods for the system as a whole.[13] Underlying the differentiation of these two groups of countries in the context of the world economy, which is reflected in the structure of international trade, is a basic distinction between their structures of production (Rodríguez, 1977). In order to enable the periphery to fulfil its role of supplier of raw materials and foodstuffs efficiently, technological progress was oriented mainly towards its primary export sector. This led to a highly specialized domestic structure of the periphery, in so far as a large share of productive resources was devoted to expanding the primary export sector. The rest of the economic sectors were left backward, with low labour productivity, as domestic demand for other goods and services was met with imports rather than with domestic production. As a result, the periphery ended up with a productive structure that was both specialized and heterogeneous. In other words, the peripheral economy was characterized by the presence of sectors which had high levels of productivity, comparable to those attained in other parts of the world, but which could offer employment only to a limited number of workers, coexisting with sectors in which the levels of labour productivity were well below those of similar activities in the industrialized countries of the centre. By contrast, technological progress in the centre tended to propagate evenly throughout the whole of the domestic production system, creating a diversified and homogeneous structure of production which enabled the centre to assume efficiently its role of producer and exporter of industrial goods for the world system as a whole.[14]

Within such a framework, it is argued, the main reasons behind the widening of the differences in income and productivity between the centre and the periphery of the world economic system are not only the dissimilar evolution of technical progress but also the unequal way its benefits are distributed.[15] Technical progress was held to be more rapid in the centre than in the periphery, and increases in labour productivity were assumed to be more intensive in industry than in the primary production of peripheral countries.[16] In theory, the benefits from this technical progress could be transferred either through a reduction in the price of goods (money incomes remain unaltered), reflecting lower production costs, or through an increase in incomes (prices remain unchanged). In practice, however, productivity gains in industry were not reflected in lower prices but in higher incomes at the centre, whereas the opposite was true for raw materials produced in the periphery. This, in turn, was reflected in rates of increase of average productivity and average real income which were higher in the centre than in the periphery.[17] In other words, the pattern of distribution of technical progress between countries resulted in a world economic system which has, at the centre, a diversified and homogeneous structure of production, with an endogenous dynamic and capability to reproduce itself, and at the periphery, a specialized and heterogeneous economic structure, which can only accumulate through exchange with the centre. It is this concern about the differences in the economic struc-

consequent "polarization process" which inhibits the growth of manufacturing activities in some areas and concentrates them in others. The export of these cheap "factory-made goods" eliminated local producers (handcrafts, artisans) in underdeveloped countries as they became uncompetitive and forced these countries to "specialize" in the production of raw materials and minerals. Kaldor (1980), p. 6.

[12] Rodríguez (1977), p. 198.

[13] See Prebisch (1950), pp. 1-2, and ECLAC (1951), pp. 3-4.

[14] These concepts of heterogeneity and homogeneity of the production structures were developed at a much later date; see Pinto (1965). The bipolar order of ECLAC's world does not consider the case of the development of new settlement areas such as North America and Oceania, where benefits of high technology and the homogeneous production structure spread as well. This was suggested to me by D. Evans.

[15] ECLAC (1951), p. 74.

[16] Prebisch (1950), p. 8.

[17] Rodríguez (1977), p. 199.

tures of the centre and periphery, their accumulation processes and the role of the means of production what makes ECLAC's analysis not just another theory of trade but effectively an alternative approach[18] to trade theory[19] along the lines suggested by the recent neo-Ricardian critique of the comparative advantages theory.[20]

Followers of the neo-classical approach to international trade would argue that regardless of where technical progress takes place,[21] its benefits will be made available to every country in the world, no matter what its line of specialization, through lower prices of the goods.[22] According to Prebisch (1950), however, historical evidence seems to indicate that, while this was probably true for industrialized countries, it did not apply to the periphery of the world economy. The enormous benefits derived from increased productivity did not reach peripheral countries in a measure comparable to that obtained by the population of the great industrial centres, and the fact that reveals the impact of this unequal distribution of benefits is the deterioration of the periphery's terms of trade and their secular tendency to get worse.

A deterioration of the terms of trade in the periphery is understood as a decline in the amount of finished manufactured products that those countries can obtain for a given quantity of primary commodities.[23] It is argued by ECLAC,[24] that increases in productivity resulting from technical progress have not been reflected in proportional reductions in nominal prices, but have actually resulted in price (and income) increases, and further, these increases have been larger in the centre's industrial production than in the primary production of the periphery. Moreover, since the terms of trade have moved against the periphery, this has meant that "while the centres kept the whole benefit of the technical development of their industries, the peripheral countries transferred them a share of the fruits of their own technical progress".[25]

The ability of the industrial centres to retain the benefits of their own technical progress and at the same time absorb part of the benefits accruing to the periphery can be explained, according to ECLAC, by two sets of factors: on the one hand, the way wages and profits evolve, both at the centre and in the periphery, during the course of the economic cycle[26] and, on the other, the difference between income-elasticities of demand for imports at the centre and the periphery. The first part of this argument contains the basics of what has become known as the "unequal exchange" theory.[27]

[18]To borrow Steedman's concept: "An alternative approach would... lead to a trade theory which is more concerned with growth and with the role of capital goods than is a trade theory —such as the Heckscher-Ohlin-Samuelson theory— which starts from exchange and consumption." Steedman (1979), p. 7.

[19]As suggested also in FitzGerald (1982).

[20]See Evans (1981c).

[21]The probability of its occurrence anywhere would be similar.

[22]See, *inter alia*, Johnson (1958).

[23]A concept used despite its acknowledged limitation that it does not reflect differences in quality of finished products (see Prebisch, 1950, p. 8) which could accounts for some of the decline in the price relationship between primary and manufactured goods. Commodity terms of trade were used probably because they are relatively easy to measure and were readily available. But ECLAC's argument implies that "factoral terms of trade", rather than "commodity terms of trade", have to decline. Even if the latter do not deteriorate, the mere inequality of the rate of increase of labour productivity (productivity rises more in the centre than in the periphery) implies a difference in average income levels. If commodity terms of trade deteriorate as well, then the gap between incomes will be even larger (Rodríguez, 1977, p. 200).

[24]See ECLAC (1951), and Prebisch (1950) and (1951).

[25]Prebisch (1950), p. 10; this conclusion seems to have shocked Viner, who did not hesitate to dismiss it as "for the most part mischievous fantasies, or conjectural or distorted history"; see Viner (1953), p. 44.

[26]"Even though the low mobility of factors of production as technical progress spreads suffices to explain the great differences between incomes at the centre and those at the periphery, these differences are created precisely during the cyclical movement" ECLAC (1951).

[27]The main contributors to that theory are Emmanuel (1972), who first used the term "unequal exchange"; Amin (1974); Braun (1973); and Saigal (1973).

III

Wages and profits in the economic cycle

The cycle has been the mode of growth of the capitalist economy, and increased productivity has been one of the main factors of that growth. Consequently, the distribution of benefits from technical progress cannot be understood except in relation to trade cycles and the way in which they evolve in the centre and at the periphery.[28]

In the centre, the process of cyclical development creates a continuous disparity between the aggregate demand and supply of finished consumer goods, with the former exceeding the latter in the upswing while the opposite holds true during the downswing phase of the cycle. Profits and their variations are closely related with this disparity (Prebisch, 1950). During the upswing, despite increased productivity, prices rise and so do profits. Therefore, if increased productivity were to bring about an immediate improvement in wages and salaries these would have to rise more than prices. However, during the upswing prices frequently rise more than wages, so that the benefits accruing from technical progress are absorbed by profits and thus remain in the hands of the entrepreneurs. During the cyclical downswing, on the other hand, when profits have to be reduced, the part that had been absorbed by nominal wage increases loses its fluidity and cannot be reduced concurrently. Consequently, during the depression nominal wages decrease less than prices and lose only part of the increase obtained during the prosperity phase, thus establishing a more favourable relation for wages.

So far, however, the mechanism of trade cycle does not explain why industrial countries are in a position to retain the benefits from their own technical progress, and even take possession of part of the benefits from the technical progress accruing to the periphery. To understand this uneven distribution of benefits one has to analyse the inequality in the cyclical movement of prices of primary products and manufactured goods.

[28]See Prebisch (1950), p. 12, and ECLAC (1951), pp. 57-8.

During the upswing of the cycle, demand for manufactured goods in the centre is greater than supply. This, as mentioned before, leads to an increase in prices as well as in profits and nominal wages. Eventually through a series of reactions, supply exceeds demand, leading to the cyclical downswing. During the cyclical downswing, stocks of manufactured goods which are temporarily unsaleable are accumulated. As a result of the accumulation of surplus supply, producers of manufactured goods will scale down their demand for the goods of their immediate suppliers, who will in turn reduce their demand for the goods of their own suppliers, and so on until the weakest link in the chain —i.e., suppliers of primary commodities in the periphery— is affected.

Throughout the various stages of the cyclical downswing, there is a decrease in prices, employment and profits. If the decrease in the supply price were proportional to the increases of profits and wages that provoked the initial increase in price, one would simply return to the point of departure, and both the centre and the periphery would share equally in the benefits of technical progress (ECLAC, 1951). Experience has shown, however, that at the centre, despite unemployment, well-organized trade unions tend to offer great resistance to any wage reduction, while entrepreneurs, for their part, tend to resist any lowering of profits. These rigidities will hinder any reduction of the price of manufactured goods to the extent required to balance supply and demand, and consequently surplus stocks will continue to accumulate. The accumulation of stocks leads to greater need to curtail production and, therefore, to reduce demand for primary products. Consequently, the pressure to reduce prices moves towards the periphery with greater force than would be the case if, by reasons of the limitations of competition, wages and profits in the centre were not rigid (Prebisch, 1950). The stronger these rigidities, the larger the fall in the demand for and prices of primary products.

In the periphery, on the other hand, the existence of surplus labour coupled with the characteristic lack of labour organizations (or at least, of organizations as powerful as those at the centre) prevents workers, first, from obtaining wage increases comparable to those of the industrial countries during the upward phase of the cycle, and, secondly, from maintaining whatever increases they have obtained to a similar extent during the downswing of the cycle. Similarly, entrepreneurs at the periphery cannot put up a resistance to a reduction in profits comparable to that offered by their counterparts in industrialized countries. Consequently, during the downswing, wages as well as profits are likely to be lower in the periphery than in the centre, while unemployment would be higher in the former than in the latter. If wages and profits at the periphery were to show a larger downward "stickiness" this would merely increase the pressure exerted by the centre on the periphery, and demand for primary products would fall to the extent required to achieve the necessary reduction in income (i.e., profits plus wages) in the primary producing sector.[29] As the experience of the Great Depression indicated, the pressure that the centre can exercise on primary producers can be so great as to compel them to devalue their currency in order to adapt themselves to the fall in prices brought about by the decline in the demand of industrialized countries (ECLAC, 1951).

ECLAC's attempt to explain the uneven distribution of benefits from technical progress during the cycle through the relative inflexibility of wages and profits at the centre in the downswing focuses only on one side of the coin. The fact that the centre can make use of that inflexibility not only to retain the benefits from technical progress in its own economies but also to obtain a share of the benefits accruing in the periphery, can only be understood in the context of two distinct systems of price formation. As Kalecki pointed out some time ago[30] (and Hicks rediscovered in the mid-1970s),[31] price changes can be classified into two groups: those dominated mainly by supply and demand conditions and those which are "cost-determined" or dominated by "costs plus profits".[32] Prices of finished goods would be "cost-determined", while prices of raw materials and primary foodstuffs would be "demand-determined" (Kalecki, 1971). One could extend this concept and argue that prices of goods produced at the periphery are "demand-determined" while goods produced at the centre are determined mainly by unit prime costs (i.e., cost of materials and wages) and the gross profit margin, expressed as a mark-up on unit prime costs. These mark-ups are determined by semi-monopolistic and monopolistic factors, or what Kalecki called the "degree of monopoly" of the firm's position, which it would exercise making sure that the price is not too high in relation to prices of other firms in the industry.[33] For any particular firm, these conditions may be represented by the equation:

$$p_i^j = m_i^j u_i^j + n_i^j p_i \qquad (1)$$

where p_i^j is the price of firm "j" in industry "i", u_i^j are the firm's unit prime costs, m_i^j and n_i^j are positive coefficients specific to firm "j", and p_i is the weighted average price of all firms in the industry "i". Similarly, the output-weighted average of equations for each firm in industry "i" would be:

$$p_i = m_i u_i + n_i p_i \qquad (2)$$

and therefore

$$p_i = u_i \frac{m_i}{1 - n_i} = \lambda_i u_i \qquad (3)$$

where

λ_i is the average industry mark-up which, according to Kalecki, reflects the degree of monopoly in the industry. If one assumes that

[29]Prebisch (1950), pp. 13-14; see also ECLAC (1951), p. 60.

[30]See Kalecki (1939).

[31]See Hicks (1976).

[32]To use J. Robinson's terms, see Robinson (1980), p. 8.

[33]Kaldor objected to this concept, arguing that it was purely tautological (see Kaldor, 1955/1956); subsequently, Kalecki argued that there was no problem of tautology: if prices were not determined by the equilibrium of supply and demand, they were "*fixed* by the firms on the basis of average prime costs and average price of the product group in question" (M. Kalecki, "Trends and the business cycle", *Economic Journal*, 1968, reprinted in Kalecki, 1971). For another defence of Kalecki's concept see Riach (1971).

the actual level of overheads does not directly influence the determination of price since overhead costs remain roughly stable as output varies, then one can safely equate mark-up to profit ($\lambda_i = r_i$). Moreover, following Mainwaring's analysis,[34] if one expresses unit prime costs of industry "i" as

$$u_i = p_p\, a_{pi} + w\, a_{oi} \qquad (4)$$

where p_p represents the price of commodity inputs, a_{pi} the variable input coefficients, a_{oi} the unit labour, and w the money wage of homogenous labour, then one could express the profit of an industry at the centre as

$$r_c = \frac{p_c}{u_c} = \frac{p_c}{p_p\, a_{pc} + w\, a_{oc}} \qquad (5)$$

For reasons of simplicity one could further assume that "c" is a centre industry in the early stages of the production chain whose prime costs consist of wages and the cost of primary products supplied by the periphery. It can thus be seen that during the downswing of the cycle, when prices collapse, capitalists at the centre can retain (or reduce the decline of) their profits only by reducing w or p_p. Since we have already argued that wages at the centre are determined by institutional factors (trade union bargaining power) and show downward inflexibility, the problem can only be solved at the expense of the prices of primary products (p_p) supplied by the periphery. On the other hand, as the periphery is a "price taker" (in contrast with the centre, which is a "price maker"), it has no choice but to accept lower prices and reduce profits and wages accordingly.

IV

ECLAC and the "unequal exchange" debate

Let us now briefly contrast ECLAC's model with the main contributions to the debate on unequal exchange (i.e., Emmanuel, Amin, and Braun). For these authors, unequal exchange arises from the fact that real wages are higher in the developed North than in the developing South. Trade under these conditions is unequal for the developing world in the normative sense that its terms of trade and income levels are lower than they would be under a Pareto-efficient trade arrangement allowing for perfect international labour mobility.[35] Their propositions can best be analysed with the help of a two-country two-commodity neo-Ricardian or Sraffian trade model which abstracts from the level of activity.[36] The two countries will be C ("centre"), which has high wages, and P ("periphery"), with low wages. Production takes place in self-contained periods and wages are paid at the end of each period. Commodities 1 and 2 will be produced by means of labour and the same two commodities with given technical coefficients a_{ij} and labour productivity a_j. It will be further assumed that as a result of foreign trade complete specialization of C and P will take place. Thus, in a situation where transport costs can be disregarded, the following price equations could be defined:

$$p_1 = w_c\, a_1^c + (1+r)\,(a_{11}^c\, p_1 + a_{21}^c\, p_2) \qquad (6)$$

$$p_2 = w_p\, a_2^p + (1+r)\,(a_{12}^p\, p_1 + a_{22}^p\, p_2) \qquad (7)$$

where the variables are prices (p_i), wage rates (w_c, w_p), and the rate of profit (r) (which for the time being will be assumed to be equalized through competition), and where the centre is specializing in the production of the manufactured commodity 1 and the periphery in the production of raw materials (commodity 2). If we define the terms of trade as $T = P_2 / P_1$, where the price of manufactures is standardized as $P_1 = 1$, then we have

[34] Mainwaring (1977), p. 677.
[35] Bacha (1978), p. 321.
[36] See Mainwaring (1979) and Evans (1980).

$$1 = w_c a_1^c + (1+r)(a_{11}^c + a_{21}^c T) \tag{8}$$

$$T = w_p a_1^p + (1+r)(a_{12}^p + a_{22}^p T) \tag{9}$$

where wages (w_c, w_p) are expressed in terms of their exchange ratio with the manufactured commodity 1. Consequently, we have two equations and four variables: w_c, w_p, r and T. To solve the equations the system would have to be "closed" by choosing two variables as exogenously determined. The selection of the pair of variables which are assumed to be determined exogenously provides the starting point for a brief discussion about the analytical arguments presented by the various contributors to the "unequal exchange" debate.[37]

Emmanuel's argument starts by modifying the assumptions about factor mobility made by Ricardo. Emmanuel retains the assumption of labour immobility internationally, but treats capital as internationally mobile, with the consequent tendency towards equalization of the rate of profit in all countries.[38] Further, he assumes that nominal and real wages at the centre and the periphery (w_c, w_p) are determined independently by institutional and historical forces, and establishes a direct relationship between the international terms of trade and wages (measured by the bundle of commodities required to maintain labour). Emmanuel goes on to conclude that, in the context of specialized trade and equalized international profits, inequalities of wages internationally would result in an unequal distribution of wage income and an "unequal exchange" associated with unfavourable barter terms of trade. In his model, unequal exchange is defined by comparing international prices of production with *unequal* wages to the prices which would obtain with *equal* wages.[39] For Emmanuel, high wages precede and are a cause of higher levels of development at the centre, but they push the periphery farther into "unequal exchange" as a result of the "centre-periphery" differential in worker bargaining power,[40] which leads to the objectable conclusion that workers at the centre constitute a labour aristocracy exploiting peripheral workers.[41]

Other objections to Emmanuel's analysis refer, on the one hand, to the unsubstantiated hypothesis that higher wages not only improve the terms of trade but also lead directly to higher levels of accumulation and technical change (Evans, 1981c) and, on the other, to the failure to explain why, given the assumed international mobility of capital, there is no massive flow of capital to peripheral countries for the manufacture, at economic costs, of commodities for export to the world markets.[42] Finally, Emmanuel's theory has been further criticized because, under the conditions of international mobility of capital assumed in his model, an increase in the (nominal and real) wage rate in the short run in one country will lower the rate of profit below the internationally equalized level, leading to a short-run capital outflow and a balance-of-payments crisis. This in turn will create strong competitive pressures leading to a lowering of real wages (either through devaluation of the exchange rate or unemployment) to restore the rate of profit to long-run levels, thus undermining the central mechanism required for Emmanuel's theory to work.[43]

Braun's analysis has great affinity with the unequal exchange theory of Emmanuel. But, unlike the latter, rather than accepting the assumption that wages constitute the independent variable and prices the dependent one, Braun chooses prices as the independent variable. The price at which peripheral countries exchange their products is determined by the

[37]This approach was borrowed from Evans (1981d) and Fitz-Gerald (1981).

[38]Emmanuel (1972), pp. xxxiii-iv.

[39]Evans (1980), p. 3; emphasis in original.

[40]*Ibid.*, p. 5.

[41]"...a *de facto* united front of the workers and capitalists of the well-to-do countries, directed against the poor nations, coexists with an internal trade-union struggle over the sharing of the loot. Under these conditions this trade-union struggle necessarily becomes more and more a sort of settlement of accounts between partners"; Emmanuel (1972), p. 180. But as Braun rightly pointed out, "though the working class of imperialist countries can *benefit* from the low level of wages obtained in dependent countries, the working classes of the imperialist countries cannot exploit the working classes of dependent countries... (because the former)... have no relations of *domination* with the working class of the dependent countries" (Braun, 1977, p. 111).

[42]Braun (1977), p. 111; an objection which we share, but would not have expected from Braun, since he also assumes equalization of rates of profit and, therefore, international mobility of capital.

[43]Evans (1981c), p. 123.

centre countries through a combination of commercial policies and monopolistic bargaining power. The price thus determined is such that, for a given rate of profit r, $w_c > w_p$ and the centre will always benefit through unequal exchange. The possible use of tariffs or other trade restrictions to protect an industry in the centre from import competition would not eliminate the net benefits per worker employed, as at least some of the cost of protection is passed on to the periphery through the mechanism of unequal exchange and w_c (net of protection) would be higher than w_p (Evans, 1981b). The second variable chosen by Braun to close the set of price formation equations is the rate of profit (r), which, following Emmanuel, he assumes to be equalized internationally,[44] though the implications of international mobility of capital are not analysed in this system. The way the rate of profit (r) is determined is not fully explained by Braun either, but it would seem that it is determined exogenously by the accumulation process at the centre and spread over the world. For any given set of prices (T) and profits (r), the system of equations can be solved for the other two variables (w_c, w_p), leading not only to a set of long-term prices but also to a distribution relationship. Given "r", the gains of unequal exchange are imputed to the workers at the centre (though not seen as Emmanuel's labour aristocracy),[45] although it seems more likely that these benefits are "shared" between capitalists and workers at the centre.

Within Braun's model,[46] demand relationships will constrain the choice of "T" (Parrinello, 1979) but will not necessarily lead to terms of trade unfavourable to the periphery. In order for the periphery's terms of trade to deteriorate, T must be "rigged against the periphery", i.e., prices must be determined by the centre countries in such a way as to lead to unequal exchange benefits for them. This has led to criticisms about the conspiratorial character of such a theory (Evans, 1981b), which despite Braun's denials, is implicitly assumed to be part of the overall character of imperialism.

[44]Braun (1977), p. 52.

[45]See footnote [41].

[46]Braun really talks about institutional power, the use of the State to support certain economic policies.

In his analysis of the relationships between the capitalist centre and the periphery, Amin attempts to present an alternative view to Emmanuel's Unequal Exchange model. In Amin's approach, the selection of the two independent variables w_p and r is the result of the structural specifications he gives of the world economy. Amin introduces the concept of a peripheral mode of production characterized by the presence of modern advanced-technology export sectors (and possibly sectors protected against import competition) which have an internal "unequal exchange" relationship with marginalized or non-capitalist modes of production. Within this framework, wages in the periphery (w_p) are determined by the subsistence requirements of the labour power, influenced mainly by the role of non-capitalist activities, and not by the outcome of an historical, institutional and bargaining process as in Emmanuel.[47] Further, the low level of wages in the periphery is the result of the social formation of peripheral countries, which permanently generates a surplus labour force. The second independent variable is assumed to be the rate of profit (r), which is determined by the needs of accumulation at the centre.

Amin assumes a long-run international mobility of capital which would ensure an equalization of rates of profit.[48] He also assumes that the periphery is able to produce non-specific goods (i.e., commodities competing with the centre), thus opening the possibility of autarkic or more "self-reliant" development.[49] Furthermore, given the assumed international mobility of capital in Amin's model, the productivity of the "periphery" is similar to that of the "centre". As a result, unequal exchange is defined as the exchange of products whose production involves wage differentials greater than those of productivity.[50] Consequently, in his model, unequal exchange that benefits the centre takes place

[47]D. Evans (1981d), pp. 27-30.

[48]He really assumes that the international mobility of capital will lead to a very small range of profit rates. See Amin (1977), p. 184.

[49]For a discussion on the connections between Amin's views on an "unequal exchange" relationship and those of some dependency writers, such as Frank (1967) and Wallerstein (1974), see Evans (1981a).

[50]Amin (1977), p. 211.

because wages in the periphery, which as we mentioned before are established at subsistence level, are always dragging behind productivity increases. This latter assumption, however, is rather restrictive in that it allows for only one wage, the subsistence wage, at the periphery (FitzGerald, 1981).

Contrary to the views of Emmanuel and Braun, Amin rejects the idea that unequal exchange can automatically benefit the workers at the centre, though no reasons are given for this rejection. Unequal exchange, he argues, can only benefit the centre workers to the extent that it allows for a much speedier development of productive forces at the centre.[51] But, as Braun points out, despite the fact that the working class at the centre cannot directly extract surplus from the periphery by acting on the commodity markets (i.e., the terms of trade), there is no reason why it should not benefit indirectly from the low prices which the capitalists of the centre can impose on the exporters at the periphery, in the same way that it benefits indirectly from the stronger development of the productive forces at the centre.

There are, however, some shortcomings in Amin's model. As Evans (1981d) and FitzGerald (1981) have pointed out, there seems to be an internal inconsistency in Amin's accumulation model in as far as his theory of peripheral accumulation implies that savings (or the remaining surplus) determine investment, while the opposite would seem to hold at the centre, according to his model. Another weakness of Amin's model is that, as it assumes nonspecific goods in world trade, it is not clear why capitalists do not shift from the high-wage centre to the periphery and produce all the goods there at lower cost and export them to the centre. This is only understandable if one accepts Amin's conclusion that "unequal exchange" is a trade régime imposed on the periphery by the centre through the assumed operation of extramarket forces. In other words, Amin's model works if one accepts his suggestion that capitalists are in a position to adopt certain measures to impose their price on the pre-capitalist economy (the periphery) and thereby prevent the periphery from sharing the benefits of increased productivity generated in the centre. As prices of goods exported by peripheral countries are kept low, so the conditions for accumulation and reproduction are maintained in the centre. In the end, what we have is a theory of imperialist domination of the "peripheral" states by the imperialist "centre" —to use Evans's words— which enforced unequal exchange through extra-market forces, whereas Emmanuel's unequal exchange is the result of the imperialism of free trade (Evans, 1981d).

[51] *Ibid.*, p. 219.

At this stage of the discussion we can bring in ECLAC's cycle analysis and try to extend it to a long-term framework of analysis and contrast it with the various positions in the unequal exchange debate. Although not explicitly stated in the Commission's writing, ECLAC's model retained Ricardo's assumption of national mobility and international immobility of capital and labour.[52] Thus, we now have $r_c \neq r_p$ and therefore have an additional variable in our set of equations. The rate of profit at the centre (r_c) is exogenously determined by the accumulation process (which can be thought of as a "Cambridge closure" of the Sraffian system), while centre wages are determined by the class struggle at the centre. We would still have three variables (r_p, w_p, T) to be solved with two equations. If we go back to our equation (5) of the degree of monopoly, and standardize the price of manufactures as $p_c = 1$, we would have the third equation required

$$r_c = \frac{1}{T\, a_{21}^{p} + w_c\, a_1^{c}} \qquad (10)$$

so that the accumulation process and the class struggle at the centre determine the terms of trade, and consequently the wages and the rate of profits, at the periphery.

Before continuing with our discussion on unequal exchange, we need to make a parenthe-

[52] Although the conclusions of the ECLAC model will not change if one assumes that capital has ***incomplete mobility*** rather than ***absolute immobility***.

sis to explain the use of a short-run concept such as the degree of monopoly in a long-run argument. While it is true that the cost-price relations that define the degree of monopoly are derived initially from short-run considerations, the analysis, as Kalecki himself argues,[53] is also applicable in the long run.[54] The only parameters which enter the equation (3) are m and n, and these may, but need not necessarily, change in the long run (Kalecki, 1971, p. 52). If the two parameters are constant in the long run, then the only influence on price would come from changes in unit prime costs, as long as the capacity constraint is not reached (Kriesler, 1987, p. 77). The starting point in Kalecki's analysis of price determination (and consequently of the share of profits in national income) is that firms operating outside the primary product sector do so in conditions of imperfect competition and at levels of output below the limits of physical capacity, with average costs of materials and manual labour approximately constant. Therefore, the factors which influence the degree of monopoly, and thereby the mark-up, are not likely to vary substantially with respect to demand and output changes. There are two additional relevant points in Kalecki's writing. The first is that the long run is merely a collection of short runs. Thus, the economy is always operating in some short-run situation, and in that sense short-run factors determine the outcome of employment, income distribution or any other variable. The second is that he argues that the portrayal of economies as being in equilibrium is unrealistic, given that imperfect competition is "deeply rooted in the nature of the capitalist system".[55] Under those conditions, Kalecki maintains, his analysis of the degree of monopoly has long-run validity.

The choice of variables in the ECLAC model would present various advantages over the rest of the "unequal exchange" choices. First, we maintain Ricardo's assumption of the international immobility of capital, at least between centre and periphery. This would take care of Braun's criticism of Emmanuel on the absence of capital flows from the centre to the periphery in his scheme, as well as of the shortcomings of Amin's model on this same point. The assumption can be lifted for capital mobility between centre countries (i.e., international equalization of r_c) without altering the conclusions of the model. Secondly, the model determines the wage of the modern sector (i.e., export enclave) in the periphery, so that the "subsistence" wage of the "traditional" sector (peasant agriculture) could also be incorporated into the system, thus enabling us to deal with the problems of dualism and internal migration in the periphery.[56] Finally, it accommodates the dependent character of the periphery's accumulation process.

Evan's criticism of Emmanuel to the effect that "the many mechanisms by which highly mobile finance capital in the short-run and productive capital in the long-run can and do operate to prevent any national money wage bargains from stepping outside acceptable bands of profitability for international capital, destroys any basis for considering wages as the independent variable"[57] no longer holds good in the case of the ECLAC model. To begin with, ECLAC does not assume "highly mobile" capital, but even if we accept this mobility between centre countries, capitalists at the centre can allow national wage bargains to step out of line as long as they can compensate this by reducing the other component of unit costs, i.e., the price of the raw materials imported from the periphery.

[53]See Kalecki (1969), Chapters 14 and 15, and Kalecki (1971), Chapter 5.

[54]For a full discussion on the long-run validity of a short-run concept such as the degree of monopoly and on the limitations of the concept, see Kriesler (1987) ad Sawyer (1985).

[55]Kalecki (1939), p. 41, as quoted in Kriesler (1987), p. 101.

[56]FitzGerald (1981), p. 3.

[57]Evans (1980), p. 25.

V

ECLAC's elasticity of demand argument

In the early 1950s,[58] an additional explanation of the decline of the periphery's terms of trade was incorporated, based on both the lack of dynamism of food demand, invoking Engel's law, and the relative decline in demand for new materials as a result of technological innovations. Although this idea was developed only in later works, it became the central argument in the interpretation of the trend towards the deterioration of the periphery's terms of trade (as well as in the justification of protection for import-substituting industrialization).[59]

In general terms, ECLAC argued that technical progress reduces the share of the value of primary products in the total value of finished goods. This phenomenon takes place as a result of i) the creation of new products which require a progressively more complex or refined elaboration of raw materials, consequently leading to a lower contribution of the latter to the value of the finished good; ii) better utilization of raw materials and intermediate goods, resulting in a proportionately higher value of finished product per unit of raw material or intermediate good than before; and iii) the replacement of natural products by cheaper man-made inputs in the production process of manufactured goods.[60] Moreover, these increases in productivity, and the resulting increment in income which they entail, led to changes in demand which have affected the terms of trade of the periphery. "It is a well known fact a) that when the level of income rises, demand is diversified, and whilst there is only a relatively small increment of the demand for ordinary foodstuffs, the demand for various articles created by modern technical inventions rises sharply after a certain point and b) that within the tendency of total demand to diversify, the demand for personal services increases, therefore lowering the proportion of primary products in the supply of concerted demand of the population."[61] Although in theory one could argue that the relative decline in demand for foodstuffs could be more than offset by the relative increase in demand for raw materials resulting from increased demand for manufactured goods as incomes rise, thus leaving the periphery better off than before, in practice the opposite is true. Because of the raw material-saving character of technological innovations, the increment in demand for inputs by manufacturing industries is likely to reinforce rather than offset the decline in the growth rate of demand for foodstuffs and consequently lead to a relative decline in the overall demand for primary products.

The combination of input-saving technologies and an extended interpretation of Engel's Law causes imports of primary products by the industrial centres to expand at a lower rate than real income. In other words, technological inventions and changes in demand brought about by increased income result in an income-elasticity of primary imports which is less than unity in the centres (Prebisch, 1951). Income-elasticity of demand for imports by the periphery, on the other hand, is seen as extremely high (at least potentially), given the high import content of new investments and the demonstration effect of the centre on the consumption patterns of the high-income groups in peripheral countries. Hence, if peripheral countries had to rely only on their primary exports for the expansion of their economies, as was the case before the Great Depression and as orthodox theory suggests they should do, their rate of economic development would be considerably lower than in the industrial centres. Moreover, these differences in income-elasticities have impaired the position of primary products on the world market and strengthened that of manufactured goods, thus affecting both the periphery's terms of trade and the possibility of a more even distribution of

[58]See Prebisch (1951).
[59]See, for example, Prebisch (1959).
[60]Prebisch (1951), p. 29.
[61]*Ibid.*, p. 30.

benefits from productivity gains.[62] Under those circumstances, the long-term trend of the gap between the two poles of the world capitalist system would be to widen rather to narrow.

At about the same time as Prebisch, but independently, Singer developed a similar argument based on the nature of demand for primary and manufactured goods to explain fluctuations of the terms of trade (Singer, 1950). This has led many writers to lump both theories together under the common label of "Prebisch-Singer Theory",[63] despite the fact that Singer's theory includes only one element of Prebisch's analysis, namely, the differences in import demand elasticities. Although Singer recognizes that "technical progress in manufacturing industries showed in a rise in incomes, while technical progress in the production of food and raw materials in underdeveloped countries showed in a fall in prices",[64] he does not explain why and how this takes place and prefers to emphasize the differences in the nature of demand for manufactures and primary products at the centre and the periphery to explain the worsening trend of the latter's terms of trade.

By wrongly combining both theories in one, ECLAC's explanation of the fluctuations of the terms of trade was effectively reduced to only one of its elements (that related to the elasticity of import demand), while over-shadowing what was probably the most important contribution of Prebisch's analysis, namely, the relationship between the different behaviour of wages and profits at the centre and periphery during the economic cycle and the fluctuations in the terms of trade. It also meant that early critics of ECLAC's views, such as Viner (1953), for example, concentrated their attacks on the demand element. This, however, can also be attributed to the neo-classical economists' inability to cope with institutional problems.[65] Viner argued, following the orthodox line of thought, that the consequences of Engel's Law would not necessarily have a negative effect upon the economic development of peripheral countries. In his view, the effect of Engel's Law would be a relative rather than a absolute decline in demand for agricultural products,[66] and therefore it would not prevent but would only lessen the rate of progress in per capita agricultural incomes. Moreover, he argues that, if a relative shift in demand makes employment in agriculture less productive than other employment, resources should be guided out of agriculture to these superior uses. According to ECLAC's analysis, however, this is not feasible precisely because of the characteristics acquired by the structure of production in the periphery during the uneven development of the capitalist world system under free trade.

VI

The "built-in" balance-of-payments disequilibrium

Given the unequal distribution of benefits from technological progress and international trade, the maintenance of the prevailing system of specialization along the lines of static comparative advantages would necessarily lead to a still wider disparity between the levels of development of the centre and the peripheral countries. Since demand for industrial goods increases more rapidly than that for primary goods, it is inevitable that economies specializing in the

[62]As Prebisch would rightly argue in a later paper, this difference in income elasticity of demand is frequently accentuated by measures to protect primary commodities in the centres. See Prebisch (1959). This was a central point in Braun's argument, for whom, as we saw earlier, unequal exchange comes about as a result of the imposition of tariffs by the centre and its monopolistic bargaining power.

[63]See, for example, Hirschman (1961).

[64]Singer (1950), p. 311.

[65]Additionally it led to involuntary unfair criticism by later commentators, such as Emmanuel for example, as rightly pointed out by Amin. See Emmanuel (1972), pp. 80 *et. seq.*, and Amin (1974), p. 83.

[66]Viner seems to have understood that ECLAC's analysis was based, *inter alia*, on the "dogmatic identification of agriculture with poverty" (Viner, 1953, p. 44); the argument does not change, however, if one substitutes primary products for agricultural products.

production of industrial goods will develop faster than those which continue to be dependent upon primary products. Consequently, in absolute terms, the gap between the central and peripheral countries will widen in time unless the original production structure that resulted from the international division of labour is modified.[67]

In addition to this trend towards increasingly unequal development implicit in a system of relationships between centre and periphery based on the traditional international division of labour, ECLAC argues that there is a "built-in disequilibrium" in the balance of payments of peripheral countries. The combination of the two elements described in the previous section, namely i) the failure of primary product prices to keep pace with price increases of manufactured goods, in a world where industrialization of the periphery depends on the import capacity generated by its exports; and ii) the decline (in relative terms) in the demand for primary products exported by the periphery, results in a persistent disequilibrium in the balance of payments of peripheral countries:[68] a phenomenon which ECLAC considers to be generally inherent in the process of economic development of these countries (ECLAC, 1951). The foreign exchange earnings of a peripheral economy depend mainly on exports of primary products, and therefore the flagging growth of demand for the latter means that export receipts are insufficient to create the import capacity needed to supply the economy with the capital goods required for its rapid development.

This tendency towards a persistent disequilibrium of the periphery's balance of payments is explained in terms of the decline in the import coefficient of the principal centre in the midst of worsening terms of trade of peripheral countries. The lower the import coefficient, the lower the centre's capacity to transmit the impulses received from abroad during the cycle. During the nineteenth century, when Great Britain acted as the principal cyclical centre of the capitalist world economy, the function of exports in the economic life of that country and its high import coefficient rendered it highly sensitive to any external stimuli, and these were therefore returned to the rest of the world relatively quickly. There was thus no manifest tendency to a chronic unfavourable balance.[69] Moreover, fluctuations are assumed to have been greater in the principal centre than in the peripheral countries during the last century. Consequently, during the downswing phase of the cycle, the fall in national income, assumed to be larger in the centre than in the periphery, led to a fall in imports of the principal centre which was relatively larger than the decline in imports experienced by the periphery. During this depression period Britain would attract the gold from peripheral countries, since the balance[70] was unfavourable to the latter. Conversely, during the upswing of the cycle Britain would release gold, which would flow back to the periphery, as a result of the relatively greater increase in Britain's national income and the consequent larger expansion of its imports in relation to increased imports by the periphery.[71] Consequently, "a centre like Great Britain, which through its exports and foreign investments during the cyclical upswing restored a large part of the gold accumulated during the downswing, was bound to contribute greatly to the smooth working of the monetary system in other countries".[72]

During the twentieth century, but particularly after the Great Depression, Great Britain was replaced by the United States as the principal centre of the capitalist world economy, and the system lost its symmetry. This was a direct result of the fact that the import coefficient of the United States was relatively small and declining, while that of Great Britain remained more or less stable.[73] The relatively closed market of the United States economy, together with the decline in its import coefficient, caused the effects of the depression to be felt even more acutely in the rest of the world than would other-

[67]ECLAC (1970), p. xviii.

[68]Di Marco (1972), p. 7.

[69]ECLAC (1951), p. 39.

[70]Assumed to be in equilibrium throughout the cycle as a whole.

[71]An argument taken up also by Amin (1974), p. 566.

[72]ECLAC (1951), p. 41.

[73]The average import coefficient of the United States fell from 3.7% in 1935-1939, while the corresponding coefficient for Great Britain declined from 19.4% to 17.7% over the same period. See ECLAC (1951), pp. 29-33.

wise have been the case. Moreover, unlike Britain, the new cyclical centre did not possess the same power to release gold, as it was less sensitive to an external stimulus than was the British centre, and far slower in transmitting it to the rest of the world by means of increased imports. The tendency of the United States to concentrate and retain gold hampered the reconstruction of the monetary reserves of the rest of the world. Consequently, it resulted in an international monetary system working on lines very different from those followed before the First World War (ECLAC, 1951), and to an increasing shortage of dollars.

As Amin explains, for the system to retain its original symmetry it would have been necessary for the ratio of fluctuations at the centre to fluctuations in the periphery to increase regularly in proportion to the decline in the import coefficient of the principal centre.[74] However, what accounts for the chronically unfavourable balance of payments of peripheral countries is the way the respective propensities of the principal centres and the periphery evolve. The general propensity to import displayed by the developed countries (principal centres) increases regularly owing to the increasing trade among themselves. For its part, the propensity to import of the peripheral countries also increases, but as the trade among these countries can be assumed to be marginal, this propensity is equivalent to their propensity to import from the centre. Altogether, the propensity of the periphery to import from the centre has increased more than the propensity of the centre to import from peripheral countries. Therefore, it would seem that the balance-of-payments difficulties of peripheral countries have not occurred because the centre's propensity to import has fallen, but because it has increased less rapidly than that of the periphery.[75] In ECLAC's terminology of the time, the volume of gold that leaves the underdeveloped periphery for the centre during the depression exceeds the volume that flows in the opposite direction during prosperity, thus resulting in a chronic balance-of-payments deficit of peripheral countries.

The original development of ECLAC's centre-periphery system was carried out from the standpoint of commercial transactions, i.e., from the viewpoint of specialization (in primary and manufactured goods) either imposed by or derived from the unequal spread of economic and technical progress. Consequently, the characteristics and implications of financial links established by foreign credit and investment were not incorporated into the initial analysis.[76] Given that foreign credit and investment was small in amount and significance during the 1930s and 1940s, one can understand why ECLAC neglected the international movement of capital in its analysis. This simplifying assumption, however, deprived ECLAC of an additional element to help explain the trend towards a chronic deficit in the periphery's balance of payments during the second and third quarters of the twentieth century. In theory, the chronic tendency of peripheral countries towards balance-of-payments disequilibrium can be offset by the influx of foreign capital. However, inherent in this inflow of capital is the implication that there will be an eventual backflow of profits that must exceed it in volume. Therefore, it is really the combination of this increasing backflow of profits, together with the movement in the trade balance discussed above, that explains the present chronic of balance-of-payments deficit of the periphery: a much-debated subject these days, particularly in Latin America.

[74]Amin (1974), p. 566.

[75]*Ibid.*, p. 568.

[76]These factors were included afterwards, but the main emphasis still remained on their importance for the balance of payments and the saving-investment process. See Pinto and Kñakal (1972), pp. 100-108, and Pinto (1965).

VII

Policy implications of ECLAC's model

Economic growth in a peripheral country could be said to depend basically on the increase of per capita income and on population growth. In turn, increase in per capita income in a peripheral economy can be achieved in only two ways: first, through an increase in productivity; and second, if one assumes a certain level of productivity, through an increase in income per person engaged in primary production.[77] When per capita income rises, imports likewise tend to rise at a greater rate than population. If exports do not follow suit, the peripheral country will face a disequilibrium in its balance of payments, as discussed above. Furthermore, the introduction of technological innovations in the primary sector will result in a steady increase in production with a proportionally lower increase in employment. Consequently, given a certain rate of growth of production, the primary sector will be in a position to absorb a decreasing proportion of the increase in the labour force. Furthermore, since we concluded before that there is a decreasing rate of growth of demand for primary products in the world market, the periphery's possibilities of expanding primary production to absorb the increasing labour force are really marginal. Under those conditions, increased productivity in primary production in peripheral countries will lead to surplus labour in these countries unless other activities offer new employment opportunities. In ECLAC's view, it would be difficult to say what productive activities, other than industry, could absorb the increase in population of peripheral countries.

Let us take, for a moment, the world as a whole and assume that industries or other activities are not developed in the periphery. They would have to be developed in the centres, if we were to absorb not only the surplus labour force of the periphery but also that part of the natural increase in population which could not be absorbed in the centre's own primary production. This would require complete mobility of population: in other words, it would mean not only that the unemployable surplus of the population must be willing to emigrate from the periphery, overcoming a rooted unwillingness, but also that the countries of the centre must be prepared to admit large masses of immigrants who, accustomed to relatively low wages, would compete to their advantage with the workers of the centre.[78] This type of mobility of factors of production, which according to Prebisch is one of the essential assumptions of the classical theory,[79] does not materialize in practice,[80] however. If the gainfully employed population were perfectly mobile and did not show any reluctance or deliberate opposition to migration, there would be a market tendency towards a levelling of primary and industrial wages and of the distribution of benefits from increased productivity. Under the present structure of the world economy, however, the principal centres limit the process to their own populations. Within their frontiers, industry and its associated activities do not develop in such a way as to absorb the surplus labour of the periphery, and, therefore, "the peripheral countries have no means of absorbing the surplus of their gainfully employed population except by developing their own industrial activity".[81]

Hence the fundamental significance of peripheral industrialization in ECLAC's model. Industrialization, however, was not considered

[77]Prebisch (1950), p. 43.

[78]ECLAC (1951), p. 13.

[79]Prebisch (1950), p. 16, though presumably he meant neo-classical rather than classical theory.

[80]As Love (1980) has pointed out, Prebisch's argument "burst upon the scene just after Samuelson (1948, 1949) had raised neo-classical trade theory to new heights of elegance" with his formal demonstration that free commodity trade could be considered a perfect substitute for free international factor movements from one country to another. This argument was certainly ignored by ECLAC, which is not difficult to understand if one takes into account that the assumptions made by Samuelson were, as Haberler says, "so restrictive and so unrepresentative of actual reality that the theory can be said to prove the opposite of what it seems to purport to say —namely, that there is no chance whatsoever that factor prices will ever be equalized by free commodity trade" (Haberler, 1961, p. 13).

[81]ECLAC (1951), p. 49.

an end in itself, but the principal means at the disposal of peripheral countries to obtain a share of the benefits of technical progress and to raise the standard of living of the masses.[82] Improved productivity resulting from the process of industrialization, together with the increased productivity that results from technological innovations in primary production, was expected to increase per capita income and lead to a growing demand for services, which in turn would create new sources of employment (Prebisch, 1951). Consequently, industrialization was seen not just as a means of changing the production structure of peripheral countries with a view to reducing their dependence on the external sector, but also as an essential means of acquiring a fair share of the benefits from technical progress, on the one hand, and absorbing the surplus labour force in productive activities on the other. As such, industrialization could be considered as the cornerstone of ECLAC's development policy, even if there were no restrictions or deficits in foreign trade.[83]

Had the conclusions of the neo-classical theory of international trade materialized, then the benefits from technical progress would have been distributed alike throughout the world, in accordance with the implicit premise of the scheme of the international division of labour. None of the problems discussed above would have been present, and peripheral countries would have had no economic advantage in industrializing: indeed, they would have suffered a definite loss, at least so long as they did not achieve the same productivity and efficiency as the industrial countries (Prebisch, 1950). However, since reality has proved the neo-classical assumptions to be wrong, the peripheral countries, in ECLAC's view, must change their pattern of growth from the "outward-directed" development followed in the past, based on the expansion of primary exports, to an "inward-directed" development based on the expansion of industrial production.[84] In other words, according to ECLAC the development of peripheral countries necessarily involves substituting one focal centre of dynamic development for another.[85] Basically, it implies developing an activity in the periphery that will generate technical change and absorb the excess supply of labour. By doing so the remuneration of labour will increase and the periphery will be able to retain the benefits of technical change. From what was discussed above, it is clear that, from ECLAC's viewpoint, this activity is industrialization. Rather than concentrating on internal demand for the development of industrial production as in the 1950s and 1960s, however, peripheral countries should put the emphasis on an "outward-looking" industrialization process, if they seriously intend to change the present structure of the world economy.

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[82]Prebisch (1950), p. 2.

[83]ECLAC (1970), p. xxi.

[84]Rodríguez (1977), p. 204.

[85]ECLAC (1970), p. xx.

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